Siena, Rocca Salimbeni,
sede storica della Banca Monte dei Paschi di Siena

MPS
CAPITAL SERVICES
GRUPPOMONTEPASCHI

FINANCIAL STATEMENTS 2019

FINANCIAL STATEMENTS AT 31 DECEMBER 2019

Index

Company Profile

Name	**MPS Capital Services Banca per le Imprese S.p.A.** "Monte dei Paschi di Siena" Banking Group
General Information	MPS Capital Services Banca per le Imprese SpA (MPSCS) is the Corporate & Investment Bank of the Monte dei Paschi di Siena Banking Group (MPS Group), specialised in financial support and advice to the Corporate, Public Bodies and Institutional segment. It is registered as a Joint Stock Company in the Florence Companies Register from 4 September 2007, with No. 00816350482, Registered in the Bank of Italy List of Banks with No. 4770, a subscriber to the Interbank Deposit Protection Fund and to the National Guarantee Fund. It is a signatory to the Banking and Financial Sector Code of Conduct. It also participates in the Banking and Financial Ombudsman (ABF) through the Bank of Italy, and the Financial Dispute Arbitrator (ACF) through CONSOB, and the Italian Bank Reconciliation Body. It is subject to the direction and coordination of Banca Monte dei Paschi di Siena SpA (BMPS). In particular the Bank is obliged to observe the rules that the Parent Company issues for the execution of the instructions provided by the Bank of Italy in the interest of the group's stability. The duration of the company is until 31 December 2050. As of 20 December 2019, it became a single share holder company, BMPS.
Year of constitution	**1954** as Mediocredito Regionale della Toscana
Share Capital	**€ 1,669,516,282.10** fully paid-up.
Registered Office	**Florence** - Via Pancaldo, 4 - 50127
General Management	**Florence** - Via Panciatichi, 48 - 50127 Telephone +39 055 2498.1 – Fax +39 055 240826 Website www.mpscapitalservices.it
Other General Management Offices	**Siena** – Viale G. Mazzini, 23 - 53100 Telephone +39 0577 209111 – Fax +39 0577 209100 **Rome** – Via Salaria, 231 (villino 2) - 00199 Telephone +39 06 42048325 – Fax +39 06 42016914 **Milan** – Via Ippolito Rosellini, 16 – 20124 Telephone +39 02-69705571 - Fax +39 02-88233205

Market Supervisory Structures

Milan – Via Ippolito Rosellini, 16 – 20124
Telephone +39 02 888 91941/30 – Fax +39 02 882 33206 (electronic channels, e-trade)
Telephone +39 02 888 91945/43/31/28/24/21 Fax +39 02 882 33205 (Financial Institutions)
Telephone +39 02 888 91934 – Fax +39 02 88233205 (Corporates) Ref. NORTH WEST Territorial Area

Siena – Viale G. Mazzini, 23–53100
Telephone +39 0577 537326 – Fax +39 0577 209505 (electronic channels, execution)
Telephone +39 0577 537150 – Fax +39 0577 209505 (Corporates) Ref. TUSCANY Territorial Area
Telephone +39 0577 537151/56/62 – Fax +39 0577 209505 (Entities and Institutional Bodies)

Rome – Via Salaria, 231 (Villino 2) - 00199
Telephone +39 06 424 50714 - Fax +39 06 420 48337 (Corporates) Ref. CENTRE AND SARDINIA Territorial Area, SOUTH AND SICILY Territorial Area

Padua – Piazzetta Turati, 2 (Torre Est) – 35131
Telephone +39 049 804 6106 – (Corporate)
Ref. NORTH EAST Territorial Area

Territorial Centres

North West

Milan (**head office**)
c/o Banca Monte dei Paschi di Siena
Largo Cairoli, 1 – 20123
Telephone +39 02 882 33210 - Fax +39 02 882 33233

Turin - c/o Banca Monte dei Paschi di Siena
Corso Filippo Turati, 43 - 10128
Telephone +39 011 192 17629 - Fax +39 055 240826

Mantua - c/o Banca Monte dei Paschi di Siena
Via Vittorio Emanuele II°, 30 - 46100
Telephone +39 049 699 2067

North East

Padua (head office)
c/o Banca Monte dei Paschi di Siena
Piazzetta Turati, 2–35131
Telephone +39 049 699 1513 – Fax +39 049 699 2195

Bologna c/o Banca Monte dei Paschi di Siena
Viale della Repubblica, 23 – 40127
Telephone +39 049-6991659 - Fax +39 055-240826

Tuscany

Florence (head office)
Via Panciatichi 48 – 50127
Telephone +39 055 2498.111 – Fax +39 055 240826

Siena -Viale G. Mazzini, 23 – 53100
Telephone +39 0577-209111 – Fax +39 055-240826

Centre and Sardinia

Rome (head office)
Via Salaria (villino 2) 231 – 00199
Telephone +39 06 673 45313 – Fax +39 06 673 45330

Ancona - c/o Banca Monte dei Paschi di Siena
Via 1° Maggio, 70/d - 60131
Telephone +39 071-2912735 – Fax +39 055-240826

Perugia – c/o Banca Monte dei Paschi di Siena
Via Pietro Cestelini, 13 - 06135
Telephone +39 06 673 45313 – Fax +39 06 673 45330

South and Sicily

Naples (head office)
c/o Banca Monte dei Paschi di Siena
Via Cervantes de Savaedra, 55/14 – 80133
Telephone +39 081-7785243 - Fax +39 055-240826

Bari - c/o Banca Monte dei Paschi di Siena
Via Nicolò Dall'Arca, 22 - 70121
Telephone +39 080-5226244 - Fax +39 055-240826

Catania - c/o Banca Monte dei Paschi di Siena
Piazza della Repubblica, 32/38 - 95131
Telephone +39 081-7785243 - Fax +39 055-240826

Other administrative offices

Rome c/o Banca Monte dei Paschi di Siena
Via Pedicino, 5 - 00156
Telephone +39 06 42048320 – Fax +39 06 42016914

Padua - c/o Banca Monte dei Paschi di Siena
Piazzetta Turati, 13 - 35131

Corporate Officers and Auditing Company

BOARD OF DIRECTORS

Chairperson	Mario COMANA
Deputy Chairperson	Angelo BARBARULO
Director	Aleardo ADOTTI
Director	Mariangela BONFADINI
Director	Paola DEMARTINI
Director	Fabiano FOSSALI
Director	Renzo Filippo Riccardo QUAGLIANA
Director	Lucia SAVARESE
Director	Riccardo TISCINI

BOARD OF STATUTORY AUDITORS

Chairman	Franco GHIRINGHELLI
Regular Auditor	Loredana Anna CONIDI
Regular Auditor	Antonella GIACHETTI
Alternate Auditor	Michele APRILE
Alternate Auditor	Aian ABBAS HAGI HASSAN

GENERAL MANAGEMENT

General Manager	Emanuele SCARNATI

AUDITING COMPANY

ERNST & YOUNG S.P.A.
Via Lombardia, 31
00187 ROME
VAT No. 00891231003

Ratings

The following ratings were assigned to the Bank by Moody's Investors Service Ltd for financial year 2019:

- LONG-TERM DEPOSITS RATING: **B1**
- SHORT-TERM DEPOSITS RATING: ***Not Prime***
- FINANCIAL STRENGTH RATING: **caa1 (B3** as of the beginning of 2020**)**

with **negative outlook (positive** as of the beginning of 2020**)**.

The international rating agency **Moody's** decided, in its first Credit Opinion of 2019, to modify the Bank's outlook from stable to **negative**, following the lowering of the credit rating for the Italian sovereign entity, aligning it with that recorded by the parent company at the end of 2018.
At the end of 2019 **Moody's**, appreciating both the reduction of the non-performing portfolio, as well as containing the risk level which made it possible to maintain equity ratios well above regulatory requirements, raised the rating for the parent company's financial solidity from caa1 to **B3** with an overall **positive** outlook. This development also benefited the Bank which, as of the beginning of 2020, saw its rating for financial solidity and outlook fall in line with that of the parent company.

Shareholding Structure

In execution of the resolution made by the Shareholders' Meeting of MPS Capital Services S.p.A., at its extraordinary meeting on 9 December 2019 (registered with the Florence Companies Register on 11 December 2019), on 20 December 2019 a reverse stock split of ordinary MPSCS shares began, at a ratio of 1 (one) new ordinary share for every 50 (fifty) shares held.
Following the cancellation of 1 (one) share held by the parent company Banca Monte dei Paschi di Siena S.p.A., in order to allow for overall squaring of the transaction, on 20 December 2019 a reverse stock split was carried out for the 802,550 (eight hundred and two thousand five hundred and fifty) existing ordinary shares, without nominal value and with regular dividends (ISIN IT0005210726), coupon no. 2, converting them to 16,051 (sixteen thousand fifty one) new ordinary shares, without nominal value and with regular dividends (ISIN IT0005393597) coupon no. 1.
With regards to holders of non-digital shares, the parent company Banca Monte dei Paschi di Siena S.p.A. made itself available to acquire old paper securities from all holders of at least 1 or more ordinary MPSCS shares (ISIN IT0005210726) corresponding to 10,000 or multiples of 10,000 of old MPSCS shares prior to the reverse stock split of 2016, for those making such request within five business days prior to the execution of the 2019 reverse stock split (and hence from 15 December 2019 to 19 December 2019) at the price, approved by the MPSCS Shareholders' Meeting of 9 December 2019, of € 1,599.13 per share, calculated on the basis of MPSCS shareholders' equity as at 30 June 2019.
Following the share capital reverse stock split, totalling € 1,669,516,282.10 only one shareholder, Banca Monte Dei Paschi di Siena S.p.A._is registered, with the consequent assignment of 1 share to the same, to allow for squaring of the equity due to the grouping of fractions deriving from remaining old non-digital shares.
Taking into account that shares of MPS Capital Services S.p.A. are currently without nominal value, below is a summary of the shareholding structure after the above reverse stock split, indicating only the number of shares held:

Shareholder	*Number of shares*	*Percentage*
Banca Monte dei Paschi di Siena SpA	16,051	100.00%
Total	**16,051**	**100.00%**

REPORT ON OPERATIONS

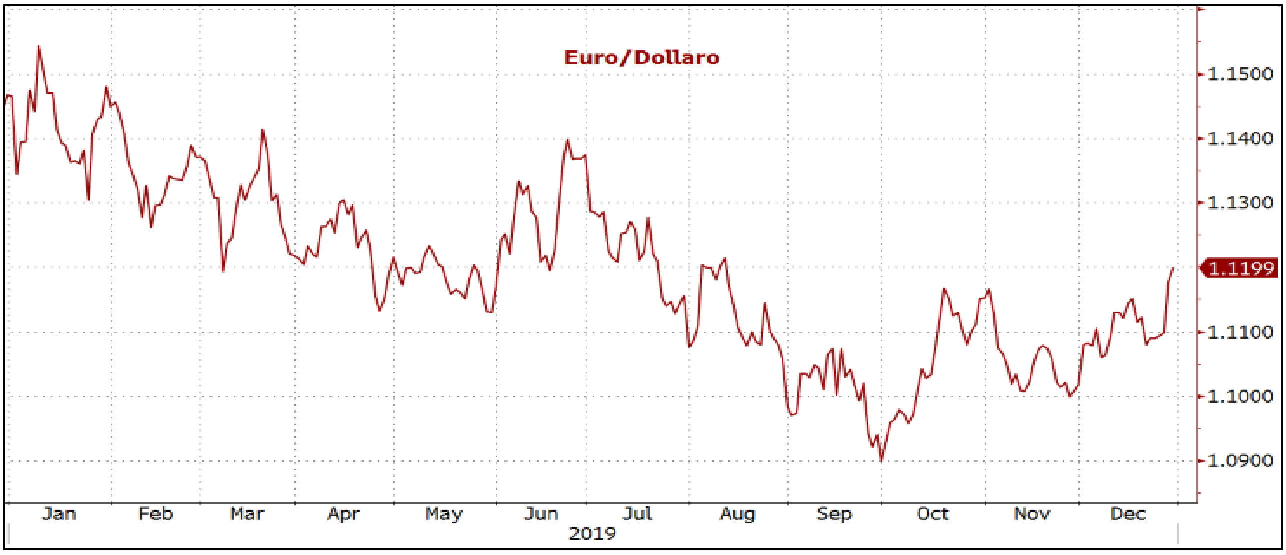
Reference Context

In the year just ended, the dispute over tariffs between the United States and China led to a decrease in global trade and a collapse in manufacturing indexes, above all in areas and countries with export-based economies, such as the Eurozone and Germany, in particular. The consequent slowdown in economic growth and the simultaneous slowing of inflation led central banks to reverse the direction of monetary policy, rapidly moving from normalisation to the introduction of new accommodating measures.

Specifically, the **ECB**, in addition to reducing rates (deposit rate at -0.4%) and introducing a tiering mechanism and new TLTRO operations, also began a securities purchasing plan for € 20 billion per month. At the same time, the **Fed**, beyond reducing rates by 75 basis points, bringing them to 1.5%-1.75%, in order to calm tensions on the interbank market, introduced daily and 14-day repo and reverse operations (at least through January 2020), as well as beginning a T-Bill purchase plan which will remain active at least through June 2020.

On the **macroeconomic front**, based on IMF estimates 2019 should show global GDP growth of 3%, compared to 3.6% in 2018. In the USA, growth should come out at 2.4% from the 2.9% of 2018 and in the euro area at 1.2% from 1.9%. In terms of **inflation** in the euro area, 2019 ended with overall inflation of 1.2%, compared to 1.8% in 2018, much lower than the 2% target. **Government rates** saw significant reductions, especially during the first part of the year, culminating in historic minimums for the *bund* (-0.74%) in September. Treasury returns also fell sharply, registering the lowest figure since 2016 on the ten-year versions, also in September, falling below 1.50%. In **Italy**, the rate for ten-year government securities, in addition to benefiting from the above trends, also saw positive impacts from the more European-focussed path taken by the new government, falling from 3% at the beginning of the year to 0.75% in September, stabilising at 1.41% at the end of the year. During the final part of the year, due to the combined effects of new dialogue between the US and China (which led to an initial trade agreement known as Phase 1), the elimination of fears of a hard Brexit after Johnson's win in the December elections and stabilisation in certain economic indicators, a gradual recovery of rates was seen, moving away from the minimums seen during 2019, even if they remained below the levels recorded at the beginning of the year.

In terms of **currency**, 2019 was a fairly anomalous year: on one hand, tensions in terms of commerce which kept attention focussed for most of the year led the **yen** to a position as one of the best currencies globally in terms of developed economies, together with the **pound**, which benefited from the elimination of the fears of a hard Brexit; on the other, emerging currencies ended the year overall positively, thanks to expansive policies implemented not only by the respective central banks, but also by the Fed and the ECB. A special case was the **yuan**, used by the China as a defence tactic, to compensate for the effects of duties imposed by the American government. The **dollar** remained strong against the euro, with an exchange rate that fell from around 1.15 at the beginning of the year to around 1.09, then stabilising during the final months of the year in a range of 1.10 - 1.12.



Euro/dollaro	euro/dollar

With reference to **stock markets**, 2019 was the year for new records. In the euro area, the **FTSE MIB** index was one of the best (up by over 30%), even if first place went to the Swiss market with a performance of around 50%. At the sector level, within the euro Stoxx index, the technological sector saw good results, followed by construction. The very positive performance from the tech sector ensured that **Nasdaq** (35%, approximately) was the best performing index in the US, but the **Dow Jones and S&P** also recorded performances exceeding 20%. In Asia, the **Nikkei** grew by over 18%, while the emerging **MSCI EM** index gained over 15%. Despite peaks of volatility during the summer and in May, the USA VIX index recorded an average value of 15.39, lower than the 16.6 seen in 2018. A similar trend was seen for the European volatility index (Vstoxx), which had an average of 15.1 in 2019, compared to 16.30 in 2018.

Significant Aspects of Operations

The Business Units (hereinafter BUs) were unchanged with respect to the previous year and serve as the basis of supervision and operational monitoring of the Bank's business. They are listed below:

Ordinary Finance BU
Corporate Finance BU
Global Markets BU
Investment Banking BU

Ordinary Finance BU

As regards the Ordinary Finance BU, both agreements and customer loans rose (by 345.9% and 28.6%, respectively) compared to the previous year, even if in absolute terms this type of transaction is continuing to fall, due to the by now well established strategic repositioning of the Bank to structured, extraordinary and project financing.

(amounts in millions of euro)

Ordinary Finance	*Final value as at 31/12/2019*	*Final value as at 31/12/2018*	*Percentage change*
Transactions agreed	16.5	3.7	345.9%
Transactions disbursed	9.0	7.0	28.6%

Relative to the Subsidised Finance segment, during 2019, the Bank continued administrative activities to serve the public administration in managing the main types of national business assistance, on the basis of agreements signed with the Italian Ministry of Economic Development (MED): the Sustainable Growth Fund, Technological Innovation Fund, Italian Law 488/92, Territorial Agreements and the SME Guarantee Fund.
In this context, note in particular investigation activities relative to 36 research and development projects, as well as significant promotion and assistance relative to the SME Guarantee Fund carried out with regards to banks and credit consortia, trade associations and businesses.
Additionally, during the year investigation activities were completed for 2 supply chain contracts in the agriculture and food sector, as the bank authorised by the Ministry of Agricultural, Food, Forestry and Tourism Policies.

Corporate Finance BU

During 2019, the activity of the Corporate Finance BU showed a trend marked by volumes of both agreements and disbursements which grew compared to the levels of the previous year, recording 2.9% for transactions agreed and 7.1% for issued loans.
It is clear that all of the Bank's lending activities have by now switched to an operating focus which is almost exclusively project and structured finance, transactions that are increasingly involving high amounts and related to initiatives of particular interest and importance, with top level clients.
Another aspect of particular interest is the interaction between the internal sales department and that of the parent company, a process which continued through the year and led to Banca MPS strengthening its position as the main vehicle for the lending operations of MPS Capital Services both with regards to transactions agreed and for issued loans, recording a value of over 69% of the total for the former and over 63% for the latter.

(amounts in millions of euro)

Corporate Finance	*Final value as at 31/12/2019*	*Final value as at 31/12/2018*	*Changes percentage*
Transactions agreed	1,204.0	1,170.4	2.9%
Transactions disbursed	1,088.4	1,016.0	7.1%

A summary of the activities performed by the single departments into which the Corporate Finance BU is divided is presented below:

- ***Project Financing & Real Estate Finance*** – In 2019 the Bank was among the leading banks in Italy for project financing loans, both for the renewable energy sector and for infrastructure. In the real estate sector, actions aimed at institutional customers prevailed (real estate funds reserved for professional investors), generally to restore real estate complexes located in historic areas and/or areas of commercial prestige in the most important cities of the country, to be used for various types of activity (offices, hotel/tourism, residential, etc.).
  In consideration of their complexity, the structuring of loans require medium-long finalisation times. Consequently, the closings of the operations involve both mandates acquired during the year and those acquired previously.

  We can note, with reference to financial year 2019, the following most significant operations:
  - refinancing of 5 photovoltaic plants already connected to the national electricity grid, held by 3 project companies, controlled by an important German company in the renewable energy sector, Encavis AG, for 12.4 MWp of power, located in the provinces of Turin and Arezzo. The loan project, involving a total of € 24.4 million, was fully subscribed by MPS Capital Services (MPSCS);
  - refinancing of cash exposure granted previously to the project company Brebemi, the holder of a concession to build and manage the Brescia/Milan motorway, in a mixed form consisting of new project financing credit lines and the issuing of a bond loan in the form of a project bond, until the expiration of the concession (2040). The refinancing project saw the participation of Cassa Depositi e Prestiti (CDP) and other major national banks for a total of € 1,440 million (MPSCS share, € 61 million) relative to the credit lines; the bond loan has a total subscription value of € 558 million (MPSCS share, € 38.2 million) and a repayment value at maturity of € 1,205 million (MPSCS share, € 82.55 million);
  - refinancing of 2 wood biomass power plants located in Calabria for 78 MW of power, held by two subsidiaries of the EP *Power Europe* energy group, with registered offices in the Czech Republic. The loan project totalling € 159 million was financed by 5 domestic banks, with MPSCS participating as the MLA, for a portion of € 20 million;
  - financing for the purchase of a 35 MW solid biomass powered power plant located in the province of Cosenza by F2i, a major Italian institutional investor active in both the infrastructure and renewable energy sectors. The loan project totalling € 112.4 million was financed by 6 domestic banks, with MPSCS participating as the MLA, for a portion of € 23.3 million;
  - financing to support the requirements needed for the project company Monita Interconnector to purchase a portion of electricity interconnection infrastructure between Italy and Montenegro from the Terna Group (classified as nationally strategic infrastructure), operating with direct current with a nominal power of 200 MW. The purchase cost amounts to € 338 million, including transaction costs and was financed by a pool of domestic and international banks, as well as with the participation of CDP, for a total of € 231 million (MPSCS share, € 25.7 million);
  - refinancing to enlarge and remodel two hospitals in Verona, with the relative completion of investments made by the company Arena Sanità. The project, in which MPSCS participated for a share of € 22.9 million, totalled € 45.8 million and was financed in cooperation with another bank;
  - refinancing of 3 wind power plants for a total of 52.5 MWe, located in the municipalities of Butera (prov. Caltanisetta), Siculiana (prov. Agrigento) and Cerignola (prov. Foggia), undertaken by the Tozzi Green Group through its subsidiary Cerignola Wind. The financing project totalling € 67.4

million was financed together with 2 other banks and MPSCS, as the MLA, participated with a share of € 22.5 million.

- **Corporate Finance –** The loan granting activity regarded support to important operators of the Integrated Water Service (IWS), services to businesses (payment system; telecommunications; construction), the industrial sector (food), tourism-accommodation, the real estate and construction sector and media/entertainment sector. In particular, the Bank consolidated its portfolio relative to the Integrated Water Service (IWS) sector through the issuing, among others, of three important finance operations (serving as the MLA in a pool with other banks) to support the IWS concessionaire companies operating in the regions of Tuscany, Campania and Friuli Venezia Giulia. Among the lending operations completed during the year to support other sectors, note in particular: the pool financing operation in favour of Fileni Alimentare S.p.A. (poultry/food), in which the Bank served as the MLA together with another bank—a significant lending operation (as the MLA in a pool with other banks) with a major Italian telecommunications company—as well as two financing operations (sole leader) in support of major operators in the hotel sector. Also worthy of note were ten lending operations to support the same number of research and development projects, relative to the FRI ("Sustainable Industry" and "Digital Agenda" tenders), promoted by major industrial groups operating in Italy.
- **Acquisition Financing** – Again in 2019, MPSCS confirmed its competitive position relative to acquisition & leveraged finance in the Mid Corporate segment, with transactions mainly involving industrial companies and with significant commercial impacts for the MPS Group.
  MPSCS in fact continued the activity of origination and structuring of acquisition operations in support of counterparties of leading standing, focusing on industrial integrations carried out by corporate operators and maintaining also a strong presence on the leverage market promoted by the main private equity operators in Italy.
  Among the most important acquisition finance transactions organised and financed - as the MLA - we can note the following:
  - acquisition of CBG Acciai - a major Italian company and leader in the market for production and sales of high precision steel blades for the cutting of various materials - by the private equity operator Xenon (Leverage Buy Out - LBO);
  - acquisition of Dolciaria Acquaviva - major Italian company in the production and sales of high quality frozen backed goods - by the private equity operator Ergon Capital (LBO);
  - acquisition of De Wave - major Italian company and global market leader in the "naval interiors" sector (design, production and installation of bathrooms, cabins and public areas, primarily in new or already operating cruise ships) - by the private equity operator Platinum (LBO);
  - acquisition of L&S Group - major Italian company and market leader in the design, creation and distribution of LED lighting systems for the residential, commercial and industrial sectors - by the private equity operator Clessidra (LBO);
  - acquisition of Calzaturificio Claudia by River Group (previously a Consilium portfolio company), with the aim of creating a major Italian industrial hub for the production of sneakers for major luxury brands (Corporate Acquisition);
  - acquisition of Kickoff - company which produces and sells beachwear and sportswear under the Sundek brand - by the entrepreneur Tiziano Sgarbi, already active in the fashion/clothing sector (Corporate Acquisition).

Global Markets BU

During 2019, activities with customers and markets for the Global Markets and Sales and Financial Solutions Departments saw excellent results, both in terms of risk management and in commercial flows, both captive and extra captive.

Relative to government securities, during the year amounts held in proprietary portfolios were managed, working to optimise the nominal amount of government securities held with the carry matured, within the risk limits granted. With reference to the activity of Italian Treasury Specialist also in 2019 the activity that in the last few years has brought the Bank into a position of absolute pre-eminence continued. This element made it possible, among other things, to perform also in 2019 important roles in primary syndicate operations.
The "credit" segment also saw an increase in volumes compared to the previous year, both with markets and clients, as well as good performance in the management of warehousing positions. In reference to structuring activities, satisfactory results were seen in the placement of funds with structured investment strategies through a sales agreement with Anima SGR, a partnership which since 2018 has seen developments in the relative family of funds. In addition, the production of protected unit link products with Axa MPS Financial continued.
The increase in structured products placed had a positive effect on the Equity and Fixed Income segments, which benefited from a considerable increase in volumes on retail hedging, in addition to the excellent results coming from trading. The Sales & Financial Solutions Department continued to perform its activity of channelling flows coming from institutional and corporate customers to the entire array of the Bank's business lines. In terms of institutional clients, a positive trend in auctions was seen, as well as in securities trading (both for the government and credit segment) and in primary syndicate, with significant increases with respect to the previous year. Relative to corporate clients, a general decline in hedging volumes was seen with MPS clientèle, in particular in the interest rate segment, consequent to the reduction in MLT loans by the parent company, while volumes of interest rate hedging with direct Bank clients saw a significant increase with respect to the previous year.

Investment Banking BU

With regards to the bond market, during 2019 MPSCS served as the Joint Lead Manager and Bookrunner in the following main bond issues: a 5-year Preferred Senior Bond, 2 Covered Bonds with 5 and 7-year maturity and a 2-10 year Subordinated Tier Bond issued by the parent company; 20-year nominal BTP; Cassa Depositi e Prestiti SpA 7-year Social Bond; 5-year Nexi Bond; ACEA SpA 9-year bond and Anima Holding 7-year bond.
Also note participation as the Joint Bookrunner in the bond issue carried out by Fileni Alimentare SpA for € 20 million with a 7-year maturity and the Class A3 issue of the Zero Coupon Bond by Società di Progetto Brebemi SpA.
In addition to these operations, MPSCS participated as the Co-Lead Manager in numerous bond issues by Italian and foreign financial institutions, among which we note the 3-year Senior Preferred Bond issued by the parent company, and the following government issues: 15 and 30 year BTPs, BPTei maturing in 2030, issue of multi-tranche Global Bonds in US dollars, with maturity at 5, 10 and 30 years, as well as the reopening of the 50-year nominal BTP.
With regards to the stock market, during the same period MPSCS served as the Joint Bookrunner in Nexia SpA's IPO.
The Subsidiary continued to work as Nominated Advisor on behalf of Poligrafici Printing SpA, listed on Borsa Italiana's AIM Italia market.

Credit Aggregates

Commercial flows

In Italy, the macroeconomic situation in 2019 continued to register levels close to zero in terms of GDP growth. The prospects for 2020 remain discouraging, with a trend that on the basis of recent OECD and IMF forecasts will not exceed 0.5% in terms of annual growth.
Nonetheless, despite an economic situation of stagnation, the Bank's business has allowed it to record significant volumes, up with respect to the figures achieved the previous year, both in terms of stipulations and disbursements.
Below are tables which summarise commercial volumes achieved in 2019, compared with the previous year and broken down into transactions submitted, approved, signed and disbursed.

- **Loan applications submitted**

(amounts in millions of euro)

	2019	2018	Changes	
			absolute	percentage
Number	226	172	54	31.4
Amount	2,098	2,181	(83)	(3.8)

- **Loans approved**

(amounts in millions of euro)

	2019	2018	Changes	
			absolute	percentage
Number	193	144	49	34.0
Amount	1,551	1,895	(344)	(18.2)

The following table shows the trend in recent years for the ratio between loans agreed (approved) and applications submitted:

	2019	2018	2,017	2,016
Number	85.4%	83.7%	83.0%	90.4%
Amount	73.9%	86.9%	73.6%	85.7%

- **Loan contracts signed**

(amounts in millions of euro)

	2019	2018	Changes	
			absolute	percentage
Number	278	230	48	20.9

Amount	1,221	1,174	47	4.0

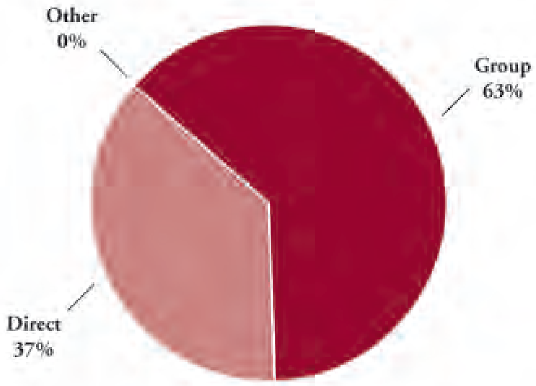
- **Loans disbursed**

(amounts in millions of euro)

	2019	*2018*	*Changes*	
			absolute	*percentage*
Number	437	473	(36)	(7.6)
Amount	1,097	1,023	74	7.2

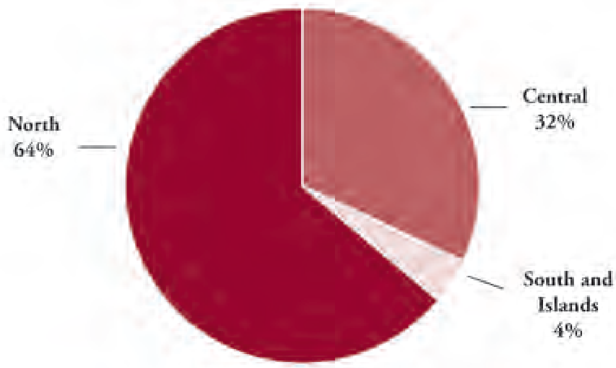
During financial year 2019, the Bank disbursed a total of € 1,097 million. This result also includes disbursements linked to investments made over a multi-year period, in accordance with precise terms for implementation set at the time in the production development plans. In these cases, the disbursements are made in several tranches, according to the "state of progress" of the projects financed.
As can be seen from the chart below, 63% of the amounts disbursed in the year refer to applications channelled through the Group network, a percentage which is stable with respect to the previous year.

LOANS ISSUED 2019 - Breakdown by Channel



As regards the geographical distribution of the commercial flows, the next chart demonstrates that 89% of the amounts disbursed in the year were channelled to Northern and Central Italy. Comparing the 2018 figures with those of the previous year, it can be noted that the North's portion rose from 55% to 64%, while disbursements allocated to Central Italy remained substantially unchanged, going from 26% in 2017 to 25% in the year just ended. The South and the Islands decreased from the 15% of 2017 to 10% in financial year 2018, while foreign transactions became even more marginal, going down from 4% in 2017 to 1% today.

BREAKDOWN OF FINANCING DISBURSED 2019 - Geographical Breakdown



Loans to customers

Loans to customers amount to € 10,612,332 at 31 December 2019, with an increase of € 878,331 with respect to the previous year. This increase is concentrated in the sub-item "Repurchase agreements", which are commented on in the paragraph below "Main financial aggregates". The component relative to loans to customers, almost entirely represented in the sub-item "mortgages", instead shows a progressive decrease in recent years, with a further decrease of € 245,562 thousand in 2019. This is attributable, beyond early repayments and the normal repayment of capital due to amortisation, to disposals of bad loans and probable default exposures completed during the year, further detailed below, due to which loans in stage 3 decreased by € 314,663 thousand. New disbursements during the period were insufficient to compensate for the decrease in loans.

(amounts in thousands of euro)

Loans to customers	*31/12/2019*	*31/12/2018*	*Change*	
			absolute	*%*
Current accounts	1	2	(0)	(26.0)
Loans	5,069,842	5,315,404	(245,562)	(4.6)
Other loans	588,423	442,488	145,934	33.0
Reverse repurchase agreements	4,434,020	3,394,929	1,039,091	30.6
Loans represented by securities	520,046	581,177	(61,131)	(10.5)
Total	**10,612,332**	**9,734,001**	**878,331**	**9.0**
of which Stage 1	*7,628,297*	*6,007,209*	1,621,088	27.0
of which Stage 2	*2,159,886*	*2,587,979*	(428,093)	(16.5)
of which Stage 3	*824,149*	*1,138,812*	(314,663)	(27.6)

The table below breaks down loans to customers at amortised cost, represented in item 40 b) of the Assets, by credit quality stage:

(amounts in thousands of euro)

Customer loans at amortised cost	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross exposure	8,153,369	1,683,021	1,492,108	11,328,498
Value adjustments	(5,026)	(43,180)	(667,959)	(716,165)
Net exposure	8,148,343	1,639,841	824,149	10,612,333
Coverage ratio	0.06%	2.57%	44.77%	6.32%
% of total loans to customers at amortised cost	76.78%	15.45%	7.77%	100.00%
% of total loans to customers at amortised cost, previous year	*67.68%*	*20.62%*	*11.70%*	*100.00%*

Impaired assets

The tables below show the distribution of impaired assets at 31 December 2019 by portfolio (amounts in thousands of Euro).

(amounts in thousands of euro)

On balance sheet exposure 31/12/2019	*Gross exposure*	*Specific adjustments*	*Net exposure*
Financial assets measured at amortised cost	1,492,108	(667,959)	824,149
Financial assets measured at fair value through other comprehensive income	4,041	(3,212)	829
Other financial assets obligatorily measured at fair value	122,731	(73,800)	48,931
Financial assets held for sale	42,038	(25,307)	16,731
Total 31/12/2019	**1,660,918**	**(770,278)**	**890,640**
Total 31/12/2018	**2,502,850**	**(1,243,816)**	**1,259,034**
Off-balance sheet exposure 31/12/2019	*Gross exposure*	*Specific adjustments*	*Net exposure*
Guarantees given	650	(530)	120
Commitments to disburse funds and other commitments	6,085	0	6,085
Total	**6,735**	**(530)**	**6,205**

Impaired assets are broken down by type below:

(amounts in thousands of euro)

Type of impaired on-balance-sheet assets	*Gross exposure 2019*	*Specific adjustments 2019*	*Net exposure 2019*	*Net exposure 2018*
Bad loans	922,702	(496,599)	426,103	508,369
Probable defaults	726,702	(272,294)	454,408	744,080
Impaired past-due exposures	11,514	(1,385)	10,129	6,585
Total	**1,660,918**	**(770,278)**	**890,640**	**1,259,034**

With reference to the loan exposures to customers presented in table A.1.7 of the Notes to the Financial Statements, the balance of on-balance sheet impaired assets, net of value adjustments and discounting, came out at € 891 million. The decrease, compared to the amount at 31 December 2018 (€ 1,259 million), was € 368 million (-29%).
This reduction is in large part attributable to the program to dispose of impaired assets, established in the MPS Group Restructuring Plan approved on 4 July 2017 by the European Commission, which continued to be implemented during the year with the goal of improving credit quality. Total gross exposure for UTP positions disposed of and cancelled during the year amounts to € 456.8 million, of which € 105.6 million due to single name disposals and the remaining associated with portfolio disposals (transactions known as *Papa*, *Lima*, *Québec* and *Cuvee*, in terms of the most significant), for a total of € 351.2 million.
Relative to Bad Loans, gross exposures totalling € 243.9 million were disposed of and cancelled, again in this case with both single name and portfolio disposals. The latter including the *Sunrise* and *Ismea* transactions for a total of € 169 million in gross exposure and the *Race* transaction for a total of € 66.4 million in gross exposure.
Portfolio disposals also involved the parent company. In particular, with the cited *Race* transaction, completed at the end of 2019, the Group achieved the derisking objectives established in the 2017-2021 Restructuring Plan, in compliance with the commitments made with the European Commission.
Note that impaired loan disposal transactions in which the MPS Group participated during the past three years have generally required that the banks carrying out the disposals provide the purchasers with a series of

guarantees regarding the quality of information and documents relative to the transferred loans. For example, this may involve ownership and transferability of the loan, the validity of guarantees supporting the loans (in particular, mortgages), the regularity of real estate involved in the guarantee and the accuracy of data. If the purchasers hold that there are flaws for any of the loans and hence violations of the declarations and guarantees, the banks carrying out the disposals must indemnify the relative purchasers. The most significant contract involving this type of indemnity involves the disposal of the portfolio of bad loans carried out by the Group in December 2017 as part of a loan securitisation operation, in favour of Siena NPL S.r.l. This contract establishes that in no case shall the indemnities due by any bank based on violation of declarations and/or guarantees exceed 28% of the purchase price of the relative portfolio (indemnities also inclusive of the price of the "flawed" loan, in the case of repurchase by the originally disposing banks). Violation of declarations and guarantees for this portfolio may be claimed by the purchaser through 31 July 2021.
For other disposal operations for which declarations and guarantees still exist, specifically *Ismea* and *Race*, the expiration dates are set between the end of the first quarter 2020 and 30 April 2021.

Bad loans went from € 508 million at 31 December 2018 to € 426 million at 31 December 2019, a reduction of € 82 million (-16%). The average write-down of bad loans came out at 53.82% (55.65% at 31 December 2018). Gross and net bad loans represent 5.16% and 2.50%, respectively, of total gross and net exposures to customers shown in table A.1.7 in part E of the Notes to the Financial Statements (7.05% and 3.41% at 31 December 2018).
Probable defaults went from € 744 million at 31 December 2018 to € 457 million at 31 December 2019, a reduction of € 287 million (-38.5%). The average write-down of probable defaults came out at 37.47% (44.85% at 31 December 2018). Gross and net probable defaults represent 4.06% and 2.28%, respectively, of total gross and net exposures to customers shown in table A.1.7 in part E of the Notes to the Financial Statements (8.30% and 4.99% at the end of 2018). The reduction seen is in large part due to the programme to deleverage Unlikely to Pay exposures undertaken by the Group in 2018, which continued throughout 2019.
Impaired past-due loans increased slightly, going from € 6.5 million at 31 December 2018 to € 6.9 million at 31 December 2019, an increase of € 0.4 million (0.06%). The average write-down of past-due loans was 12.03% (12.82% at 31 December 2018). Gross and net past-due receivables represent 0.064% and 0.059% respectively of total gross and net exposures to customers shown in table A.1.7 of part E of the Notes to the Financial Statements (0.04% and 0.47% at the end of 2018).
Below are certain indices which offer an overview of the Bank's credit quality.

Credit quality indices	*31/12/2019 %*	*31/12/2018 %*	*Changes*
Net impaired loans/Loans to customers	8.3	11.7	(3.4)
Gross NPL ratio [(1)]	14.4	22.3	(7.9)
Coverage of impaired loans [(2)]	46.4	49.7	(3.3)
Net non-performing loans/Loans to customers	4.0	4.8	(0.8)
Coverage of non-performing loans [(2)]	53.8	55.6	(1.8)
Net value adjustments on loans/Loans to customers [(3)]	0.0	(0.2)	0.2
Texas Ratio [(4)]	82.7	102.4	(19.7)

[(1)] Gross NPL ratio: ratio between gross impaired loans to customers and gross loans to customers.

[(2)] Coverage: the coverage ratio on impaired loans and on bad loans is calculated as the ratio between the related provisions for impairment and the corresponding gross exposures.

[(3)] Net value adjustments on loans/Loans to customers (provisioning): this is the ratio between net value adjustments on loans and loans to customers.

[(4)] Texas Ratio: this is the ratio between gross impaired loans and the sum, as denominator, of tangible shareholders' equity (that is net of goodwill and other intangibles) and the provisions allocated to cover the impaired loans.

Deposits

The table below shows the breakdown of deposits (item 10 of Liabilities) by type and by operating segment at 31 December 2019, compared with the previous year.

At the end of the year, the amount of deposits and loans payable existing with the parent company relative to lending business was up by € 727 million. This trend, which appears to be inconsistent with the decrease in loans to customers which continued during the year, can be explained by the establishment of three long-term deposits payable for a total of € 900 million, intended to rebalance temporal mismatching between loans and funding. These deposits are counterbalanced by deposits receivable for the same amount but with a shorter duration. Net of the three cited deposits, funding with the parent company dedicated to lending business decreased by around € 173 million with respect to the previous year, settling at € 6,035 million (€ 6,208 million at 31 December 2018), broken down as follows: € 171 million on-demand and short-term (€ 875 million at 31 December 2018), and € 5,864 million medium- and long-term (€ 5,333 million at 31 December 2018).

Funding to cope with the typical activities of the "Global Markets" BU consists both of deposits made by the Parent Company and of repurchase agreements. In particular, on-demand and short-term deposits associated with financial trading business amounted to € 3,059 million (€ 2,290 million at 31 December 2018), of which € 1,825 million (€ 1,549 million at 31 December 2018) relative to a time deposit made by the Bank with the parent company to guarantee its clientèle for securities loan transactions. Long-term deposits amount to € 400 million (€ 677 million at 31 December 2018).
For comments on trading operations, please see the paragraph "Main financial aggregates" below.

(amounts in millions of euro)

	31/12/2019	*31/12/2018*
Loans from the Parent Company for Lending activities:	**6,935**	**6,208**
- on-demand and short-term against loans to clients	171	875
- medium and long-term against loans to clients	6,764	5,333
of which: medium and long-term to rebalance mismatching	*900*	*-*
Loans from the Parent Company for Global Markets activities:	**3,459**	**2,967**
- on demand and short term	3,059	2,290
- medium and long term	400	677
Funding in repurchase agreements:	**11,092**	**10,429**
- of which with Parent Company	*4,765*	*5,482*
Subordinated bonds:	**456**	**457**
Other payables to Banks and Customers:	**709**	**897**
Total	**22,651**	**20,958**

Main financial aggregates

The main trends that characterised the activity of the Global Markets BU in financial year 2019 are illustrated below:

- the volumes deriving from hedging of interest rate risk with corporate customers, followed by the Corporate Sales Office, were € 1,140 million compared to € 1,448 million in 2018, a decrease of approximately 21% due to the decline in medium/long-term loans disbursed by the parent company;
- the volume of interest rate derivatives with institutional counterparties was € 1,277 million (-31% compared to the previous year);
- the volume deriving from hedges of exchange rate risk with corporate customers totalled € 1,782 million, down by approximately 7% compared to 2018. A similar reduction was seen in operations connected to flexible terms, with volumes down by around 11% with respect to the previous year;
- the volume of hedges on commodities with corporate customers totalled € 525 million, a decrease of 14% compared to 2018;
- the result of equity hedges for institutional customers was satisfactory, with volumes of € 174 million;
- the volumes deriving from repos increased by 260% compared to the previous year;
- the volumes traded on the secondary credit market of securities with institutional customers - Over The Counter and via platforms - showed an increase of approximately 3.6% compared to 2018 (€ 5,175 million compared to the € 4,996 million of the previous year, combining “secondary credit” with “secondary digital channels”);
- the volumes coming from the secondary market for government securities - OTC and via platforms - and from auctions amounted to € 41,754 million compared to € 30,645 million the previous year, showing a significant increase of more than 36%;
- a similar increase (over 36%) was seen in volumes of placements of primary market securities with institutional investors (€ 4,713 million against € 3,456 million the previous year).

PRODUCT	*31/12/2019*	*31/12/2018*	*Percentage changes*
Corporate Sales interest rate hedging	1,140	1,448	(21)
Institutional interest rate hedging	1,277	1,847	(31)
Corporate Sales exchange rate hedging	1,782	1,910	(7)
Corporate Sales commodity hedging	525	610	(14)
Corporate Sales flexible term	1,867	2,095	(11)
Flexible term institutional	-	26	(100)
Institutional interest rate hedging	-	147	(100)
Institutional equity hedging	174	11	1,482
Repos	15,164	4,208	260
ETF	22	3	633
Secondary credit+Sup/Sov	1,106	1,265	(13)
Secondary government and auctions	12,121	9,555	27
Primary	4,713	3,456	36
Gov. electronic channels (BET+Vison Bond+TB	29,633	21,090	41
Secondary Credit digital channels (Credit Bet+TB)	4,069	3,731	9
Total	**73,593**	**51,402**	**43**

Note: these are commercial volumes determined according to operating criteria, aimed at representing the trend of the volumes moved during the year.

Moving on to examine changes in equity aggregates within the Global Markets BU, note that with respect to 2018, net amounts in securities held for trading showed an increase of € 672,459 thousand, almost entirely concentrated within the government security segment.

(amounts in thousands of euro)

Trading portfolio: long positions in securities	*31/12/2019*	*31/12/2018*	*Changes*	
			absolute	*percentage*
Government and public entity securities (*)	5,742,086	4,488,961	1,253,125	27.92%
Other	1,489,042	1,507,629	(18,587)	(1.23%)
Total	**7,231,128**	**5,996,590**	**1,234,538**	**20.59%**

(amounts in thousands of euro)

Trading portfolio: short positions in securities	*31/12/2019*	*31/12/2018*	*Changes*	
			absolute	*percentage*
Government and public entity securities (*)	(2,422,100)	(1,831,646)	(590,454)	32.24%
Other	(13,938)	(42,314)	28,376	(67.06%)
Total	**(2,436,038)**	**(1,873,960)**	**(562,078)**	**29.99%**

(amounts in thousands of euro)

Trading portfolio: net long positions in securities	*31/12/2019*	*31/12/2018*	*Changes*	
			absolute	*percentage*
Government and public entity securities (*)	3,319,986	2,657,315	662,671	24.94%
Other	1,475,104	1,465,315	9,789	0.67%
Total	**4,795,090**	**4,122,630**	**672,460**	**16.31%**

(*) For a detailed analysis of "Sovereign Risk", please see Part E, section 1 "Credit Risk" part A "Credit Quality", of the Notes to the Financial Statements.

The net long position in securities is financed for 83% (90% at the end of the previous year) through repurchase agreements. The residual amount is covered with short term deposits payable taken out with the parent company.

(amounts in thousands of euro)

Repurchase agreements	*31/12/2019*	*31/12/2018*	*Changes*	
			absolute	*percentage*
repurchase agreements	7,112,552	6,742,719	369,833	5.48%
reverse repurchase agreements	(11,091,958)	(10,428,713)	(663,245)	6.36%
Net repurchase agreements	**(3,979,406)**	**(3,685,994)**	**(293,412)**	**7.96%**

The other segment in which the Global Markets operates is derivatives, both credit and financial.

With regards to credit derivatives, a comparison between notional values at 31 December 2019 and those for the previous year shows an increase of € 837 million in terms of notional values, substantially due to protection sales on the Italian state. Existing single name transactions are exclusively carried out with banking counterparties or with financial companies. On the other hand, index exposures are carried out with the central counterpart ICE Clear Europe (ICE).

(nominal amounts in thousands of euro)

Credit derivatives	*31/12/2019*	*31/12/2018*	*Changes*	
			absolute	*percentage*
Protection purchases	781,558	802,952	(21,394)	(2.66%)
Protection sales	3,861,888	3,003,679	858,209	28.57%

Single-name credit derivatives mainly refer to government issuers. For more details on the contraction of protection purchases with Sovereign underlyings, please see the analysis of "Sovereign Risk" presented in Part E, section 1 "Credit risk" part A "Credit Quality", of the Notes to the Financial Statements.

Credit derivatives with single name underlyings	*Protection purchases %*	*Protection sales %*
Sovereign	95.46%	100.00%
Banking - Insurance	4.54%	0.00%

For additional quantitative information, please see Section 3.1 of Part E of the Notes to the Financial Statements.

As regards financial derivatives, below we offer a breakdown expressed both in notional and fair values:

(notional amounts in thousands of euro)

Financial derivatives	*31/12/2019*	*31/12/2018*	*Changes*	
			absolute	*percentage*
Over the counter	389,990,411	381,358,712	8,631,699	2.26%
Organised markets	222,353	43,080	179,273	416.14%
Total	**390,212,764**	**381,401,792**	**8,810,972**	**2.31%**

OTC financial derivatives are represented for 96.77% by instruments with underlying "debt securities and interest rates" (96.13% at 31 December 2018). Derivatives on Organised Markets were those taken out with Cassa di Compensazione e Garanzia (CC&G) for 88.74%, relative to equity/stock indices as underlyings.
The carrying amounts at 31 December 2019 are presented below, compared with the previous year. Obviously, listed future-style agreements, whose marginalisations are included directly in the total treasury balances as offset entries in the income statement, are excluded.

(amounts in thousands of euro)

Financial derivatives (fair value)	*31/12/2019*	*31/12/2018*	*changes*	
			Absolute	*percentage*
Positive market value (item 20 of the Assets)	3,250,410	3,339,709	(89,299)	(2.67%)
Negative market value (item 20 of the Liabilities)	(1,703,462)	(1,537,614)	(165,848)	10.79%

Total	**1,546,948**	**1,802,095**	**(255,147)**	**(14.16%)**

We must stress that, in line with application of IAS 32, paragraph 42, both active and passive exposures with "direct" central counterparties (only CC&G) and with "indirect" access (LCH - London Clearing House, ICE – ICE Clear Europe and central counterparties related to foreign markets which the Bank accesses through Merrill Lynch), are subject to offsetting and the net balance is hence shown in the financial statements. For more information on clearing, please see section 2.1 in part B of the Notes and the comments found in paragraphs 5 and 6 of the "other information" section in part B of the Notes to the Financial Statements.
OTC derivatives, which represent the largest proportion of total exposure, are almost exclusively traded with banks and financial companies.

For additional quantitative information on the disaggregation of the fair values of OTC derivatives by counterparty and by underlying, please see Section 3.1 of Part E of the Notes to the Financial Statements. In particular, in the section referred to, the amounts by type of OTC derivative contracts, whether subject to netting agreements or not, are illustrated. Note that the Bank has signed netting agreements with almost all counterparties with which it works. These agreements, linked to the ISDA Master Agreement, provide for the reciprocal depositing of collateral to mitigate risks deriving from the net exposure.

Equity investments

The amount of equity investments in stocks or those similar to equity securities, classified in the balance sheet under the items: 20 c). "financial assets necessarily measured at fair value through profit or loss", 30. "financial assets measured at fair value through other comprehensive income" and 70. "Equity investments", total € 45.4 million, of which € 23.0 million for investments in UCITS units and € 22.4 million for equity investments in stocks (investments in stocks at 31 December 2018 totalled € 24.8 million).
Changes in equity investments in stocks are mainly due to the € 1.4 million writedown on parent company shares (acquired in 2017 following the conversion of BMPS subordinate securities as part of "burden sharing"), as well as the € 0.6 million writedown on the equity investment in Jackerson SpA and the € 0.3 million writedown on the value of the SFP Mednav SpA.
In 2019, as a consequence of loan disposal transactions, new units of UCITS were acquired, bringing the value of this segment to € 23.0 million, with a net increase of around € 9.8 million with respect to the previous year (€ 13.1 million at 31 December 2018). In particular, units of the Back2Bonis fund, acquired in December, were measured at around € 16.1 million, while the already existing investments in the Idea CCR I and II, Rainbow and Cosimo I funds were written down for a total of € 6.3 million.

(amounts in thousands of euro)

Company/type	*% Stake*	*Book value*
Investments in cinema productions		367
Investments in UCITS		23,003
Other		918
20 c. Financial assets necessarily measured at fair value through profit or loss		**24,288**
Parent Company shares		20,647
Other		458
30. Financial assets measured at fair value through other comprehensive income		**21,105**
Interporto Toscano Amerigo Vespucci S.p.A.	19.00%	0
Terme di Chianciano S.p.A.	26.81%	0
Other		-
70. Equity investments		**0**
TOTAL		**45,393**

A few brief notes on the investee companies included in item 70 of Assets are presented below:

Interporto Toscano Amerigo Vespucci S.p.A. – Leghorn. This is a company responsible for the construction and management of the logistics centre located on the Guasticce plain, in the municipality of Collesalvetti (Leghorn). The majority of share capital is held by public entities and administrations (Tuscany Regional Authority, Provincial Authorities and local municipalities, Chambers of Commerce (CCIAA) of Leghorn and Pisa). The Bank and parent company respectively hold approximately 19% and 21.8% of the capital.

Terme di Chianciano S.p.A. – Chianciano Terme. The company manages for commercial purposes the spa located in Chianciano Terme, owned by Terme di Chianciano Immobiliare (a government entity). The main shareholders are: Terme di Chianciano Immobiliare, which holds 30.19% and the MPS Group with 45.63% (26.81% the Bank and 18.82% BMPS).

After it was ascertained that the significant influence previously held in Sviluppo Imprese Centro Italia S.G.R. S.p.A. – Florence was lost, the equity investment in this company was reclassified from item "70. Equity investments" to item "20 c) Financial assets necessarily measured at fair value through profit and loss".

Income Statement and operating indicators

The Bank closed the financial statements at 31 December 2019 with a profit of € 36.6 million. The main aggregates from the operating income statement, reclassified using management criteria, are shown below compared with the figures for the previous year.

Operating Income Statement	2019	2018	Absolute change	% Change
Net interest income	**126**	**136**	**(10)**	**(7.34%)**
Net fee and commission income	**20**	**10**	**10**	**97.73%**
Dividends, gains (losses) from equity investments and similar income	2	1	1	49.57%
Net profit (loss) from trading/valuation at fair value	35	(20)	55	269.74%
Net hedging gains (losses)	0.0	-	-	0.00%
Gains (losses) from sale or repurchase	2	0	2	445.70%
Net gains (losses) on assets/liabilities carried at fair value	(2)	(15)	13	88.25%
Other revenues/expense from financial operations	**37**	**(34)**	**71**	**210.29%**
Other charges/other operating income	**(0)**	**1**	**(1)**	**(110.48%)**
Total revenues	**183**	**113**	**69**	**61.28%**
Administrative expenses	(63)	(62)	(1)	(2.10%)
- personnel costs	(26)	(27)	1	*2.69%*
- Other administrative expenses	(36)	(34)	(2)	*(5.53%)*
Net value adjustments on property, plant and equipment	(2)	(1)	(2)	(335.36%)
Net value adjustments to intangible fixed assets				
Operating costs	**(65)**	**(62)**	**(3)**	**(4.34%)**
Gross operating profit	**118**	**51**	**67**	**130.13%**
Net value adjustments for impairment	3	15	(11)	(77.01%)
- on loans	*4*	*17*	*(13)*	*(74.85%)*
- on other assets	*(1)*	*(2)*	*1*	*58.04%*
Gains (losses) on contractual changes without cancellations	(0)	(5)	5	98.89%
Net operating profit (loss)	**121**	**62**	**60**	**97.16%**
DTA fee	(6)	(6)	-	0.07%
Provisioning for commitments and guarantees given	1	3	(1)	(51.19%)
Other net provisions	2	(1)	3	224.80%
Risks and charges related to SRG, DGS and similar	(14)	(18)	4	23.61%
Restructuring charges	(1)	(2)	1	63.78%
Gains (losses) on disposal of investments	0.0	-	-	0.00%
Profit (loss) before taxes	**104**	**37**	**67**	**179.85%**
Income taxes on current operations	(67)	44	(111)	(253.93%)
Profit (loss) for the year	**37**	**81**	**(44)**	**(54.67%)**

Differences with respect to the official income statement schedule were motivated by the reclassifications indicated below:

- management net interest income differs from the statutory amount by € 0.5 million, which refers to interest payable relative to previous years which, for management purposes, is transferred to "Other operating expense/income";

- costs related to early retirement of € 0.7 million were deducted from "personnel expenses". These costs were then transferred to the item "restructuring charges";
- € 0.7 million was deducted from "other operating expenses/income" in relation to recoveries of expenses which for management purposes are recognised to the reduction of "Other administrative expenses";
- "Other administrative expenses" were reduced by the amounts of certain items restated in specific items placed under Net operating profit/(loss) (DTA fee of € 6.2 million; SRF expenses of € 13.6 million);

Net interest income fell by around 7% with respect to the previous year, due to the decrease in the amounts of loans to customers and the continuation of very low interest rates, which reduce profitability margins. In particular, the completion of the "Casaforte" securitisation at the end of September 2018 contributed significantly to the trend, for which in the previous year the notes had contributed to the margin with high returns.

On the other hand, the **Net commissions** aggregate increased by around 98% with respect to the previous year, rising from a balance of € 10.3 million in 2018 to € 20.3 million in 2019. This trend saw positive repercussions from improved commission performance both in the context of lending and in the Investment Banking and Global Markets sectors as an effect, in particular, to the recovery of placement of third party paper.

The **Other revenues/expense from financial management** aggregate showed significant growth, increasing from € -33.5 to € 37 million. The component which accounted for most of the result was trading which, in 2018, had instead suffered negatively from market tensions, above all in the sovereign segment. More details on these trends can be found in the section "Significant aspects of operations" relative to the Global Markets BU.

As a result of the trend in these components, **Total Revenues** came out at approximately € 182.8 million, up by € 69.4 million or 61.28% compared to the result of the previous year.

Operating costs, an aggregate which for management purposes includes, in addition to other operating costs in the strict sense, costs relative to write-downs on tangible and intangible assets while excluding certain items not directly pertaining to the operating management of the Bank and are represented in specific items included under "net operating profit" (DTA fee, SRG contributions and similar, restructuring charges), saw an increase of around € 2.7 million or 4.34%.
Examining the individual components in detail, note that Other administrative expenses, after the previously noted removal of components which are not strictly operational, increased by € 1.9 million with respect to 2018 (5.53%). This trend is in large part due to management of collection activities for defaulted loans. On the other hand, relative to the Personnel expenses component, this did not see any appreciable changes, with a marginal decrease of € 0.7 million.
Costs for adjustments for impairment of tangible assets saw an increase of over € 1.5 million, due to the reclassification within this item of rent relative to property and vehicle leases, after IFRS 16 "Leasing" took effect, previously allocated under other administrative expense.

As a result of the trends just illustrated, **Gross Operating Profit (EBIT)** amounted to € 118.1 million, up by over € 66.8 million or 130% compared to the previous year.
The cost of credit, limited to the effects registered within item 130 a) Net value adjustments for credit risk of financial assets measured at amortised cost, shows a positive contribution of € 4.2 million, down by € 12.5 million with respect to the previous year.

Net operating profit hence comes to € 121.4 million, up by € 59.8 million (97.16%) with respect to the previous year.
As highlighted above, certain items which are not strictly linked to the bank's "core" operations were presented separately under Net Operating Profit. In particular, these included: (i) costs relative to the DTA fee equalling around € 6.2 million, unchanged compared to the previous year; (ii) net provisions for risks and charges, almost

entirely related to legal disputes, with a positive contribution of € 1.5 million compared to costs of € 1.2 million in 2018; (iii) contributions to the Resolution Funds (SRF) for around € 13.6 million, down by around € 4.2 million with respect to the previous year; (iv) restructuring charges for € 0.7 million (against € 1.8 million the previous year), almost entirely due to early retirement of employees as part of the MPS Group restructuring plan.

Profit before taxes (EBT) amounts to € 103.7 million, up by € 66.7 million (179.85%) with respect to the result in the previous year.
This amount was significantly decreased by the negative € 67.2 million contribution made by the item "Income taxes for the year on current operations" which, due to the probability test,[1] incorporates the writedown of the € 40.7 million receivable due from the consolidating entity, partially mitigated by revaluation of deferred tax assets for € 5.2 million.

Due to the above illustrated components, **Profit for the year** comes to € 36.6 million, down by € 44.1 million with respect to the previous year.

To conclude the review of the performance of income statement components, below are the main management indices, calculated using the reclassified income statement:

Profitability indices (%)	*31/12/2019 %*	*31/12/2018 %*	*Changes*
Net interest income / Operating revenues *(1)*	68.73	119.61	(50.88)
Net fees / Operating revenues *(1)*	11.14	9.06	2.08
Cost/Income ratio *(2)*	35.45	54.73	(19.28)
R.O.E. *(3)*	3.04	6.65	(3.61)
R.O.A. *(4)*	0.13	0.31	(0.18)

Note:

(1) Operating revenues: equal to "total revenues" from operating management in the reclassified income statement.
(2) Cost/Income: the ratio between operating costs and "total revenues" in the reclassified income statement.
(3) Return On Equity: the ratio between the result for the period and the average of shareholders' equity (including gains/losses) at the end of the previous year and that of the year in question.
(4) Return On Assets: the ratio between the net result for the period and total assets at period end.

[1] For more information, please see point 16. "Use of estimates and assumption sin preparing the statutory financial statements", paragraph "Methods of determining deferred tax assets (probability test)", in Part A.2 of the Notes to the Financial Statements.

Risk governance

The risk governance strategies are defined in keeping with the Group's business model, with the medium-term objectives of the Restructuring Plan and with the external constraints of a legislative and regulatory nature.
The policies regarding the assumption, management, hedging, monitoring and control of risks are defined by the Parent Company's Board of Directors. In particular, this body defines and approves periodically the strategic guidelines on the subject of risk governance and expresses quantitatively the overall level of risk propensity of the whole Group, through the Risk Appetite Framework (RAF) and, at least once a year, through approval of the Group Risk Appetite Statement (RAS).
The governance process relative to the RAF is centralised within the parent company, which outlines the scope of interest at the Group level and defines the structure at the level of the subsidiaries, as a function of risks taken on and the overall size and complexity of each entity. The RAF defines the roles of bodies and company departments involved in defining "risk appetite", as well as the procedures to be activated in the case it is necessary to return the risk level to the objective or within pre-established limits.

The RAS is fundamental in terms of defining the Group's risk strategy. The RAS is a formal document which contains an explicit declaration of risk/return objectives and limits (overall, by type and broken down by individual companies/business units) which the bank intends to take on to pursue its strategies. Therefore, the RAS identifies risk objectives/constraints, outlining the indicators for Business Units/Legal Entities as well (known as "cascading down"). This moves in the direction of increasing the Group's Risk Culture and making all relevant Organisational Units fully responsible all the relevant Organisational Units in terms of observing and pursuing the risk appetite targets, as required by the legislation and suggested also by the best practices.

The Risk Appetite Process is structured in such a way as to be consistent with the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP) and with the Planning and Budget and Recovery processes, and in terms of governance, roles, responsibilities, metrics, stress test methods and monitoring of the key risk indicators.

The prudential supervisory rules for banks, in line with the indications of the Basel Committee guidelines and the best practices, envisage that credit institutions carry out appropriate stress testing.
The Group conducts stress tests regularly on all risk factors. Stress tests make it possible to assess the ability of the Group to absorb sizeable potential losses upon the occurrence of extreme but plausible market events, in order to identify the measures to take to reduce the risk profile and preserve the capital.
The Group's methodological approach to stress tests is based on the identification of the main risk factors, for both First and Second Pillar, with the objective being the selection of events and combinations of events (scenarios) that highlight special vulnerabilities at the Group level.
The results of the stress tests are brought to the attention of Top Management and the Parent Company's Board of Directors. The Board of Directors formally examines them in the context of the approval of the Annual ICAAP/ILAAP Report, with an eye to self-assessing the current and prospective capital and liquidity adequacy of the Group.

The Group's risk governance is guaranteed in a centralised manner by the Board of Directors of the Parent Company, which is also responsible for supervising the updating and issuing of internal policies and regulations, with a view to promoting and guaranteeing an ever-increasing and more capillary diffusion of risk culture at all levels of the organisational structure. Awareness of risks and correct knowledge and application of the internal processes and models overseeing these risks - primarily those validated for regulatory purposes - constitute the fundamental prerequisite for effective, healthy and prudent business management.

The Risk Control Unit is tasked in particular with carrying out the quarterly monitoring of the Key Risk Indicators (KRI), preparing a periodic report to the Board of Directors and activating the escalation/authorisation processes if a position goes over the limit.

The incorporation in the remuneration and bonus policies for the personnel of the macro-indicators of risk and risk-adjusted performance, in keeping with the RAF, represents a further lever for promoting awareness of the appropriate behaviour by all resources and the growth of a healthy risk culture.

In terms of promoting a risk culture within the Group, during 2019 initiatives aimed at the administrative bodies (board induction programs on specific issues) continued, as did general training initiatives aimed at all personnel (online courses) on the subject of risk management and mitigation for all employees, as well as other targeted classroom training courses. Additionally, a training programme for Area Managers was carried out to develop knowledge about credit risk, wealth risk management issues and prevention of money laundering. Monthly meetings were held with ratings agencies and the managers for the Territorial Areas for the Chief Lending Officer and Chief Commercial Officer, to constantly monitor the credit risk in the respective portfolios. In cooperation with the Chief Human Capital Officer Department, the Chief Risk Officer Department carried out a project aimed at all Group personnel on the issue of Risk Culture, through a series of e-Learning appointments which demonstrated typical situations within the Bank which generate specific risks.

During 2019, internal initiatives continued, aimed at guaranteeing continuous compliance with national and international regulatory provisions. 2019 saw the execution of the 2019 LiST exercise (Sensitivity analysis of liquidity risk – stress test), proposed by the ECB to assess bank resilience to idiosyncratic liquidity shocks. Additionally, the definition of the framework to manage reputational risk was finalised and an early warning system was added to the credit process with regards to PD and LGD parameters, with the aim of implementing the new Definition of Default (new DoD), which is expected to be completed by the end of 2020.

Sending of the ICAAP and ILAAP packages to the Regulator was carried out in compliance with ECB regulatory provisions on the "Technical implementation of the EBA Guidelines on ICAAP/ILAAP information for SREP Purposes", and in compliance with the guidelines contained in the "ECB Guide to the Internal Capital/Liquidity Adequacy Assessment Process (ICAAP/ILAAP)" of November 2018.

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

The equity position

Below is a breakdown of Regulatory Capital, compared with the previous year:

(amounts in thousands of euro)

Own funds	31/12/2019	31/12/2018	Changes absolute	Changes %
Common Equity Tier 1 (CET1)	1,237,282	1,200,688	36,594	3.05
Tier 1 (T1)	1,237,282	1,200,688	36,594	3.05
Tier 2 (T2)	395,698	458,300	(62,602)	(13.66)
Total own funds	**1,632,980**	**1,658,988**	**(26,008)**	**(1.57)**

The table below summarises the categories of risks to which the Bank is exposed and the level of capital ratios compared to the previous year:

Capital requirements	Unweighted amounts 31/12/2019	Unweighted amounts 31/12/2018	Weighted amounts/ requirements 31/12/2019	Weighted amounts/ requirements 31/12/2018
A. RISK ASSETS				
A.1 Credit and counterparty risk	**15,899,797**	**25,383,644**	**5,602,889**	**5,997,208**
1. Standardised approach	9,424,703	18,484,139	1,317,145	1,661,022
2. Internal ratings-based approach	6,451,607	6,884,112	4,248,293	4,305,701
2.1 Basic				
2.2 Advanced	6,451,607	6,884,112	4,248,293	4,305,701
3. Securitisations	23,487	15,393	37,451	30,485
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			**448,231**	**479,777**
B.2 Credit valuation adjustment risk			**17,728**	**23,283**
B.3 Regulatory risk				
B.4 Market risks			**207,949**	**188,954**
1. Standard approach			207,949	188,954
2. Internal models				
3. Concentration risk				
B.5 Operational risk			**48,144**	**45,367**
1. Basic approach				
2. Standardised approach				
3. Advanced approach			48,144	45,367
B.6 Other calculation elements				
B.7 Total prudential requirements			**722,052**	**737,381**
C. RISK ASSETS AND SUPERVISORY RATIOS				
C.1 Risk-weighted assets			**9,025,639**	**9,217,266**
C.2 Common Equity Tier 1/Risk-weighted assets (CET1 capital ratio)			**13.71%**	**13.03%**
C.3 Tier 1 Capital/Risk-weighted assets (Tier 1 capital ratio)			**13.71%**	**13.03%**
C.4 Total own funds/Risk-weighted assets (Total capital ratio)			**18.09%**	**18.00%**

Note: The amount of the risk-weighted assets as per item C.1 is determined as the product of the total prudential requirements (item B.7) and 12.5 (inverse of the minimum mandatory ratio of 8%).

Total risk-weighted assets (RWAs) at 31 December 2019 amounted to € 9,026 million, down p compared to the previous year, and were distributed as follows: 62.08% represented by credit and counterparty risk (65.06% at 31/12/2018), 28.80% by market risk (25.63% at 31/12/2018) 6.67% by operational risks (6.15% at 31/12/2018) and 2.46% by the risk of Credit Value Adjustment (3.16% at 31/12/2018).

Comparing Own Funds, of € 1,633 million (€ 1,659 million at 31/12/2018), to risk weighted assets (RWAs), the Common Equity Tier 1 ratio (Common Equity Tier 1 Capital/Risk-weighted assets) came out at 13.71% compared to a minimum regulatory level of 7%; the Tier 1 ratio (Total Tier 1 Capital/Risk-weighted assets) came out at 13.71% compared to a minimum regulatory level of 8.50%; while the Total Capital Ratio (Total Own Funds/Risk-weighted assets) was 18.09% compared to a minimum regulatory level of 10.50% (the minimum levels include the percentage of the capital conservation buffer, of 2.50%).

As required by the ninth recital of Regulation (EU) 2017/2395, disclosure is provided below of the level of Own Funds and of the capital ratios without application of the transitional arrangements applied to adjustments recorded on FTA of the accounting standard IFRS9.
In the event of non-application of the transitional arrangements, the amount of "full application" Tier 1 CET1 and regulatory capital would be lower by € 51 million. The CET1 ratio and the Tier 1 ratio would come out at 13.15% (-56 basis points), and the Total Capital Ratio at 17.53% (-56 basis points).

Human Resources

Staff trend

The Bank's staff at 31 December 2019 is shown in the tables presented below:

	(a) MPSCS employees	*(b) MPSCS employees at Group companies or subsidiaries*	*(c) Group company employees at MPSCS*	*Work force (a-b+c)*
Executives	25	13	6	**18**
Managers	272	117	31	**186**
Professionals	194	93	14	**115**
Total	**491**	**223**	**51**	**319**

Work force Comparison 2019/2018	*31/12/2019*	*31/12/2018*	*Changes*	
			Absolute	*percentage*
Executives	18	19	(1)	(5.26)%
Managers	186	193	(7)	(3.63)%
Professionals	115	118	(3)	(2.54)%
Total	**319**	**330**	**(11)**	(3.33)%

The changes in the workforce in the year are presented below:

Workforce trend	*2019*	*2018*
Opening balance	**330**	**338**
Increases	**11**	**17**
due to hiring	6	5
due to ceased secondments to the Group	3	10
due to secondments from the Group	2	2
Decreases	**22**	**25**
due to resignations	8	8
due to access to the Solidarity Fund	7	2
due to secondments in the Group	7	15
Closing number	**319**	**330**

Distribution by age

The following information pertains to the workforce situation at 31 December 2019:

	Age group in years					*Age average*
	up to 30	*30-40*	*41-50*	*over 50*	*Total*	
Women	4	19	57	33	113	46.0
Men	6	27	80	93	206	48.8
Total 2018	**10**	**46**	**137**	**126**	**319**	**47.8**
Proportion:	*3.13%*	*14.42%*	*42.95%*	*39.50%*		

Personnel training

The training activity for 2019, in keeping with the scheduled plans, was characterised by specialist and/or obligatory actions aimed at all categories of employees or at specific proficiencies (320 employees involved), structured as follows:

-	training in business, legal and organisational matters	hours	915
-	training in compliance matters	hours	255
-	training in safety matters	hours	182
-	training on credit matters	hours	244
-	training on development matters	hours	145
-	on-line and web session training	hours	4,359

Employment and trade union relations

The Bank favours a model of trade union relations oriented towards transparency, reciprocal respect and sense of responsibility in order to safeguard a corporate climate of positive collaboration and to promote an increasingly active involvement of the trade unions.
The introduction as of the beginning of 2019 of smart working for employees of MPSCSC, due to the implementation of policies aimed at furthering the value of resources, in compliance with the need to balance the ratio between work and private life, saw significant adherence (133 employees).

Organisational and Technological Trends

Financial year 2019 saw strategic technological and organisational developments, which were guided both by the introduction of new external regulations and the stabilisation projects for the Montepaschi Group.
In particular, during the year guidelines for a temporary Development Plan were refined and consolidated, aligned with the schedule for the Risk Appetite Statement, intended to establish a process which can ensure ambitious yet sustainable growth for the Bank. These activities, which in terms of extent had originated through the combined efforts of all company departments, will structure the execution phase, between 2020 and 2024.

In terms of new regulatory reporting requirements for intermediaries, in effect as of 2021, as part of initiatives coordinated by the parent company the Bank will participate in two working groups with the aim of: a) assessing organisational impacts and applications needed to guarantee compliance with the regulatory requirements deriving from Regulation EU 2365/2015 on securities financing transparency (effective as of April 2020); b) definition of the organisational and application effects required by Regulation EU 648/2012 on margins for derivatives not subject to clearing, with specific reference to the exchange of initial margins.

The financial year saw constant level of insecurity regarding the method which would be used to implement the United Kingdom's exit from the EU and the possible implications of a "Hard Brexit". This made it necessary to assess and undertake actions aimed at guaranteeing operational continuity in a situation in which the United Kingdom no longer had access to the European market. With the European Banking Authority (EBA), companies considered the options for extending existing entities or creating new ones within the EU, endowed with adequate capacities for management, governance, personnel and infrastructure. This was in order to overcome the uncertainties still existing around the nature of the possible restrictions in future relations between the United Kingdom and the EU (payments, rules for access to the Central Counterparties recognised by the EU, etc.). In the second half of the year the Bank - as part of a group project – launched the on-boarding activities with the market counterparties, in relation to the offices of the same identified within the EU.

With regards to control activities to monitor money laundering and the fight against terrorism, the analysis and strengthening of processes as well as the implementation of systems continued, based on the introduction of the IV EU Anti-Money Laundering Directive (Directive 2015/849, implemented through Italian Legislative Decree 90/2017), with the consequent issuing of updated regulations.

Other widespread initiatives with significant impacts on Bank and Group activities included those relative to the process to deleverage non-performing loans, with the objective of reducing the number of positions classified as bad or probable default within the assets. During 2019, a number of credit disposal transactions were completed of various sizes. Among the most important in terms of exposures were the "Ismea" and "Race" disposals, both of which dealing with bad loans, for total gross exposures of around € 171 million.

The "new DoD" project was also significant, consisting in the implementation of the new Default Classification Guidelines issued by the European Banking Authority (EBA) in 2017 with the objective of harmonising the recognition of non-performing loans within the EU. Following initial assessment activities, with the aim of assessing the impacts deriving from the introduction of the new rules, software design and development began, which will continue through the initial part of 2020. In fact, the Group has decided upon a gradual process with progressive releases, in order to anticipate adoption of the new standards before the final deadline of 31/12/2020.

Among more strictly operational innovations, note the introduction of the requirements for obligatory digital invoicing between private entities and relative to consumers, in effect as of 1 January 2019. Digital invoicing involves a digital issuing systems which, through the "Interchange System" allows for the sending and conservation of invoices, making it possible to eliminate paper invoices and all the relative costs associated with printing, mailing and filing.

Organisationally speaking, actions aimed at optimising business units and rationalising support units continued, so as to better satisfy requirements coming from the market as well as internal operating needs.

Internal Audit

The Internal Audit Office constitutes, within the Bank, the Internal Audit Unit, as defined in the section on the Internal Controls System of Bank of Italy Circular No. 285/2013 and subsequent amendments and additions.

The Internal Audit Unit, which reports directly to the Board of Directors (the Body with the Function of Strategic Supervision), has the task of independently verifying the regularity of operations and the trend in risks and of assessing the functioning of the overall internal control system, in order to pursue also the improvement of the effectiveness and efficiency of the organisation. It also provides advice to the other corporate units where a prior analysis, on the subject of legislation or development of planning activities is considered worthwhile, with the aim of improving the governance, risk management and control processes, in keeping with the evolution of the Bank, the Group and the external legislative framework, bringing to the attention of the Corporate Bodies the possible improvements.

The Internal Audit Unit, in keeping with the Group's organisational model, is an independent structure, free of hierarchical relationships with the managers of the operating structures. The structure of the Internal Control System (I.C.S.) and the regulation of the activity of the Internal Audit Unit, the contents of which must be compliant with the rules of the law and the Supervisory Authorities, are defined observing the guidance provided by the Parent Company's Internal Audit Unit and approved by the Bank's Board of Directors, which is responsible for the entire I.C.S.

The Unit operates, also, in coordination with the equivalent Unit of the Parent Company (the Chief Audit Executive Department), in observance of the "Auditing Standards of the Montepaschi Group" and of the related "Code of Conduct", in accordance with a specific Annual Audit Plan (agreed with the said Chief Audit Executive Department) approved by the Board of Directors, after examination by the Auditing Body (Board of Statutory Auditors). The Plan, in addition to establishing strategic objectives for multi-year activity to be carried out within three years, takes into account the need to carry out the audits provided for in specific external and/or internal prescriptions, the indications of the Board of Auditors, of the Oversight Committee pursuant to Italian Legislative Decree. 231/2001 and, if expressed and agreed, of the Bank's other Audit Units. Actions on significant components in the area of operations and corporate structures, on compliance with internal and external regulations, on subjects of a transversal nature or with a view to assurance of the Top Management and Auditing Bodies are obviously also planned, depending on the resources available.

For the performance of its tasks, the Unit may accede to all the corporate information, the outsourced activities and the Company's structures (on-site audits).

The Internal Audit Unit reports the activities carried out systematically through a Reporting System consistent with the provisions of the Auditing Standards and current laws, describing the results of the audits performed, the process of analysis followed, the main critical issues that have emerged and the "grade" assigned to the action. Notes containing the criticisms and observations formulated are transmitted to the structures audited, ensuring that over time the anomalies found are removed (follow-up activity).

Quarterly reports on the work done are prepared for the Top Management and Auditing Bodies, while the report relating to the assessment of the Internal Control System, including also an overall final report on the activities carried out, is presented to the Board of Directors on an annual basis. The Office also prepares specific reports for the Oversight Committee pursuant to Italian Legislative Decree 231/2001, at least once a year, on the auditing activity carried out on current operations exposed to the "231 risk".

During financial year 2019, the Internal Audit Office carried out its duties according to the schedule found in the 2019 Audit Plan approved by the Board of Directors, performing also a number of unplanned actions on the basis of new needs that emerged and/or were requested by the top management bodies and the authorities.

In accordance with the pre-set objectives, the audit activities performed in financial year 2019 made it possible to ascertain the substantial regularity of the corporate operations. Areas for improvement found were considered such as not to significantly affect the Bank's overall risk profile. The Bank's Internal Control System is considered substantially adequate, in terms of both design (Control Design) and effective operation (Test of Effectiveness).

Compliance

Given that the previous "Common Compliance Model" had become obsolete and the MPSCSC Department had been centralised within the parent company's Compliance Department and given the restructuring of the same department as of 24 September 2019, the Structure for the Areas and the regulatory scopes were reorganised based on the new Group Rule Map, updating both the applicability and relevance for MPSCS of the areas monitored and the relative inherent and residual risks.

The work done by the Compliance Unit in 2019 had the main goal of completing the actions described in the 2019 Compliance Plan, as well as implementing the main legislative changes within company regulations and processes.

Special attention was paid to monitoring activities and safeguards established in relation to:

- ICT Compliance (Bank of Italy Circular 285)
- Combating Usury, updating and aligning regulations to those of the parent company, with regards to first and second level controls, information and accounting flows and remedial actions.
- Protection of personal information (Privacy), with the closure of the 7 GDPR worksites and finalisation of the necessary IT implementation to manage consent and the new Processing Registry digital tool and the DPIA.
- Investment services, with participation in requirements associated with the closure of the MiFID 2 project "Investor protection".

With regard to Customer complaints, during the year, 33 claims were made regarding banking services (some of which with regards to multiple issues), broken down as follows:

- 17 relative to usury and compound interest. Of these, 10 were still being processed as they were presented on 31/12/2019. Of the remaining 7, 4 were rejected as they derived from erroneous application of interest on arrears calculation by the client and 3 were accepted given that, based on checks carried out with the involvement and assistance of the Business Departments and Credit Department, it was ascertained that when the forbearance measures were applied, interest due and unpaid had been capitalised;
- 3 regarding notifications made to the Central Credit Register, of which two accepted;
- 15 regarding the validity of sureties, relative to which legal investigations are still under way;
- 2 regarding issues relative to the granting of credit, one of which was rejected and the other still under investigation.

No complaints were received by the Investment Services Complaint Department.

Environmental Issues

The Bank's operations have always included attention to environmental issues. In fact, during the year, activities to maintain the Environmental Management System (EMS) continued. This system is compliant with the new international standard of reference, ISO 14001:2015. The EMS includes management of the direct and indirect impacts of the Bank's activities. Direct impacts are linked to operations, and relate to consumption of paper, water and energy, and to the production of waste and greenhouse gases, while indirect impacts are attributable to activities of suppliers and customers, to the environmental risk of activities financed, to the improvement in ecological efficiency encouraged through specific financing and to polluting activities of suppliers or of the products purchased.

The ISO standard also envisages maintaining an adequate level of training as well as increasingly significant involvement of top management, including the Board of Directors. All personnel are periodically informed through various initiatives and specific continuing education courses.

With regards to operational aspects relative to certification, in August and September 2019 internal audits were carried out in preparation for verification by the external entity, at the offices in Florence, Siena and Padua.
In September 2019, the RINA Services Certification Agency carried out its usual annual visit to maintain certification. The scope of application of the management system remained unchanged and includes loan disbursement, corporate finance and structured finance services, investment services and activities on the capital market, consultancy and services to the Public Administration for the concession of public subsidies.
The audit was completed positively with the notification of only two recommendations for improvement, which are currently being managed.

Relations with Group companies

Transactions carried out with the Parent Company Banca Monte dei Paschi di Siena and with the other MPS Group Companies were numerous and significant throughout the financial year. Part H "Transactions with Related Parties" in the Notes to the Financial Statements gives a breakdown of the existing relations with Group companies as of 31 December 2019. The most important aspects are commented on below.

Given that the guidance, control and support provided by the Parent Company over the Bank's operations was focused on the areas of planning and control, legal and compliance, corporate identity and oversight of relations with supervisory authorities, these relations were characterised by proactive, constant and constructive cooperation, in accordance with the guidelines (directives, policies, process regulations) issued by the Parent Company and promptly brought to the attention of the Bank's Board of Directors, which ensured they were implemented.

The outsourcing of specific activities to other MPS Group organisations and companies has enabled the Bank to continue upon its own path to maximise synergies and economies. Services outsourced to and financial transactions carried out with MPS Group counterparties, summarised below, are as a rule settled on the basis of ordinary market conditions regulated by dedicated agreements between the Parties (called Service Level Agreements - SLAs).

As regards relations with the Parent Company and its subsidiaries, the following is specifically noted:

- operations on the financial markets carried out as part of the Bank's strategic mission, set forth in detail in the paragraphs above;
- the agreement on the subject of regulating relations with other Group companies regarding the repurchase on the secondary market of innovative finance products designed by MPSCS and placed with customers through the Group's commercial networks;
- the granting of short and medium/long-term loans by Banca MPS aimed at funding the Bank's normal activity; all carried out in keeping with and observing the objectives and limits set by the Parent Company in the context of the centralised management of liquidity risk and interest-rate risk;
- non-performing loan recovery activities and the delegated management of the related expense items, entrusted to the Parent Company's Workout Area, and governed by specific SLAs;
- the presence of personnel seconded from the Parent Company and other Group entities to the Bank;
- the secondment of Bank employees to the Parent Company and its subsidiaries, including the Consorzio Operativo Gruppo MPS (MPS Group Operational Consortium);
- the centralised supervision of Risk Management by the Parent Company's Risks Department;
- the activities of monitoring advertising, communication and the image at the External Relations Area of Banca MPS;
- the centralised monitoring of the Compliance activity at the Parent Company's Compliance Area;
- technological supervision, maintenance and development of the IT system assigned to the MPS Group's Operational Consortium, with which a specific SLA has been defined;
- the Back Office and Middle Office administrative activities of the finance area centralised respectively at the Operations Department and at the Finance, Cash and Capital Management Area of the Parent Company;
- the purchases of goods and services in amounts exceeding the specific thresholds by Parent Company structures, in the function of the Centralised Group Procurement and Supplier Management Service;
- conferment to the Parent Company's CFO Department - Equity investments and Extraordinary Operations Area - Real Estate Investments and Disinvestments Staff of the activities connected to the disposal/sale of properties still owned by the Bank;
- conferment of the delegated management of the expense items of the real estate sector to the Parent Company's Real Estate Maintenance Service;
- the support provided by the Parent Company's Prevention, Protection and Environment Service, regarding workplace health and safety, as well as the sustainable development of the Bank's activities, with reference to the possible consequences in terms of the environment;
- the lease of premises owned by the Group.

Significant Events During 2019, Significant Subsequent Events and Business Outlook

No significant changes in the Bank's operations were noted during the year and also in the first few months of 2020 activities continued as in the past and in line with the current business plan.
At the beginning of 2020, Moody's improved the financial solidity rating for the Bank, making it the same as the parent company's and thereby bringing it from **caa1** to **B3** with an overall positive outlook.

Accounting estimates at 31 December 2019 were made on the basis of a series of macroeconomic and financial indicators foreseen as of that date. The coronavirus epidemic (Covid-19) began to spread throughout continental China from the beginning of January 2020 and, subsequently, in other countries including Italy, locally causing slowdowns or the complete stoppage or certain economic and commercial activities. The Bank, in line with the rules adopted at the Group level, considers the epidemic to be an event that occurred after the reporting date, which does not require adjustments. Given that the situation is still ongoing and rapidly developing, a quantitative estimate of the potential impacts of the event on the Bank's economic and equity situation cannot be provided. Therefore, the impact will be considered in the Bank's accounting estimates made during 2020, including those relative to writedowns on loans.

Proposals to the Shareholders' Meeting

Dear Shareholders,

We ask that you approve the 2019 separate Financial Statements, comprising the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity with the related movements in reserves, the cash flow statement and the Notes to the Financial Statements, as well as the related attachments and Report on Operations, as a whole and in their individual items, as presented by the Board of Directors, and to allocate the profit recorded for the year of € 36,562,187.47 to reducing the loss carried forward from financial year 2017.

FINANCIAL STATEMENTS

BALANCE SHEET - ASSETS

	Asset items	31 12 2019	31 12 2018	Changes absolute	Changes %
10.	Cash and cash equivalents	54	7	47	-
20.	Financial assets measured at fair value through profit or loss	10,578,554,732	9,454,408,788	1,124,145,944	11.89%
	a) financial assets held for trading	10,484,213,962	9,350,369,189	1,133,844,773	12.13%
	b) financial assets designated at fair value	-	-	-	-
	c) other financial assets obligatorily measured at fair value	94,340,770	104,039,599	(9,698,829)	(9.32%)
30.	Financial assets measured at fair value through other comprehensive income	105,872,568	95,303,214	10,569,354	11.09%
40.	Financial assets measured at amortised cost:	16,877,686,198	15,403,344,128	1,474,342,070	9.57%
	a) loans to banks	6,265,354,006	5,669,343,391	596,010,615	10.51%
	b) loans to customers	10,612,332,192	9,734,000,737	878,331,455	9.02%
70.	Equity investments	1	779,480	(779,479)	(100.00%)
80.	Property, plant and equipment	21,213,514	11,909,099	9,304,415	78.13%
100.	Tax assets	477,420,055	510,168,963	(32,748,908)	(6.42%)
	a) current	313,266,891	331,333,529	(18,066,638)	(5.45%)
	b) prepaid	164,153,164	178,835,434	(14,682,270)	(8.21%)
110.	Non-current assets held for sale and discontinued operations	27,099,494	52,745,788	(25,646,294)	(48.62%)
120.	Other assets	148,899,299	201,056,943	(52,157,644)	(25.94%)
	Total assets	**28,236,745,915**	**25,729,716,410**	**2,507,029,505**	**9.74%**

** The Bank utilised the option not to redetermine on a uniform basis the comparative data of the year of first application of IFRS 16.*

BALANCE SHEET - LIABILITIES

				Changes	
	Liabilities items	**31 12 2019**	**31 12 2018**	***absolute***	***%***
10.	Financial liabilities measured at amortised cost	22,650,748,001	20,957,254,853	1,693,493,148	8.08%
	a) due to banks	15,716,169,019	15,900,331,577	(184,162,558)	(1.16%)
	b) due to customers	6,478,223,561	4,600,384,217	1,877,839,344	40.82%
	c) outstanding securities	456,355,421	456,539,059	(183,638)	(0.04%)
20.	Financial liabilities held for trading	4,264,214,278	3,467,476,962	796,737,316	22.98%
70.	Liabilities associated with assets held for sale	-	25,000	(25,000)	(100.00%)
80.	Other liabilities	57,897,714	70,480,464	(12,582,750)	(17.85%)
90.	Employee severance indemnities	2,287,182	2,525,691	(238,509)	(9.44%)
100.	Provisions for risks and charges:	23,182,779	30,458,514	(7,275,735)	(23.89%)
	a) commitments and guarantees given	1,165,935	2,409,694	(1,243,759)	(51.61%)
	b) pensions and similar obligations	4,039,034	4,107,980	(68,946)	(1.68%)
	c) other provisions for risks and charges	17,977,810	23,940,840	(5,963,030)	(24.91%)
110.	Valuation reserves	(141,062,509)	(141,440,939)	378,430	(0.27%)
	of which relative to discontinued operating activities	-	-	-	-
140.	Reserves	(326,599,999)	(407,279,882)	80,679,883	(19.81%)
150.	Share premiums	-	-	-	-
160.	Capital	1,669,516,282	1,669,516,282	-	-
180.	Profit (Loss) for the year (+/-)	36,562,187	80,699,465	(44,137,278)	(54.69%)
	Total Liabilities and Shareholders' Equity	**28,236,745,915**	**25,729,716,410**	**2,507,029,505**	**9.74%**

* *The Bank utilised the option not to redetermine on a uniform basis the comparative data of the year of first application of IFRS 16.*

INCOME STATEMENT

Items		31 12 2019	31 12 2018	Changes absolute	Changes %
10.	Interest and similar income	300,385,688	303,094,890	(2,709,202)	(0.89%)
	of which interest income calculated with the effective interest rate method	162,832,729	238,365,148	(75,532,419)	(31.69%)
20.	Interest expense and similar charges	(175,240,433)	(167,471,906)	(7,768,527)	4.64%
30.	**Net interest income**	**125,145,255**	**135,622,984**	**(10,477,729)**	**(7.73%)**
40.	Fee income	49,407,282	45,650,327	3,756,955	8.23%
50.	Fee expense	(29,104,024)	(35,581,539)	6,477,515	(18.20%)
60.	**Net fee and commission income**	**20,303,258**	**10,068,788**	**10,234,470**	**101.65%**
70.	Dividends and similar income	1,693,308	1,129,901	563,407	49.86%
80.	Net trading gains (losses)	34,601,983	(20,356,118)	54,958,101	-
90.	Net hedging gains (losses)	(66,201)	-	(66,201)	-
100.	Gains (losses) on disposal or repurchase of:	2,427,689	445,304	1,982,385	-
	a) financial assets measured at amortised cost	2,426,903	(130,668)	2,557,571	-
	b) financial assets measured at fair value through other comprehensive income	786	575,972	(575,186)	(99.86%)
	c) financial liabilities	-	-	-	-
110.	Net gains/(losses) on financial assets and liabilities measured at fair value through profit or loss	(1,727,120)	(14,517,721)	12,790,601	(88.10%)
	a) financial assets and liabilities designated at fair value	-	-	-	-
	b) other financial assets obligatorily measured at fair value	(1,727,120)	(14,517,721)	12,790,601	(88.10%)
120.	**Operating income**	**182,378,172**	**112,393,138**	**69,985,034**	**62.27%**
130.	Net value adjustments for credit risk of:	3,397,932	14,552,146	(11,154,214)	(76.65%)
	a) financial assets measured at amortised cost	4,195,316	16,458,532	(12,263,216)	(74.51%)
	b) financial assets measured at fair value through other comprehensive income	(797,384)	(1,906,386)	1,109,002	(58.17%)
140.	Gains (losses) on contractual changes without cancellations	(45,535)	(4,515,016)	4,469,481	(98.99%)
150.	**Net income from financial management**	**185,730,569**	**122,430,268**	**63,300,301**	**51.70%**
160.	Administrative expenses:	(83,979,556)	(88,904,813)	4,925,257	(5.54%)
	a) personnel expenses	(27,173,953)	(28,573,545)	1,399,592	(4.90%)
	b) other administrative expenses	(56,805,603)	(60,331,268)	3,525,665	(5.84%)
170.	Net provisions for risks and charges	2,782,611	1,306,363	1,476,248	-
	a) commitments and guarantees given	1,243,759	2,540,363	(1,296,604)	(51.04%)
	b) other net provisions	1,538,852	(1,234,000)	2,772,852	-
180.	Net value adjustments on property, plant and equipment	(1,967,160)	(452,487)	(1,514,673)	334.74%
190.	Net value adjustments on intangible assets	-	-	-	-
200.	Other operating income/charges	1,063,330	2,690,098	(1,626,768)	(60.47%)
210.	**Operating costs**	**(82,100,775)**	**(85,360,839)**	**3,260,064**	**(3.82%)**
220.	Profit (loss) from equity investments	(1)	-	(1)	-
230.	Net result from property, plant and equipment and intangible assets at fair value	-	-	-	-
240.	Goodwill value adjustments	-	-	-	-
250.	Gains (losses) on disposal of investments	89,692	-	89,692	-
260.	**Profit (Loss) from continuing operations before tax**	**103,719,485**	**37,069,429**	**66,650,056**	-
270.	Income taxes for the period on profit from continuing operations	(67,157,299)	43,630,036	(110,787,335)	-
280.	**Profit (Loss) from current operations net of taxes**	**36,562,187**	**80,699,465**	**(44,137,278)**	**(54.69%)**
290.	Gains (losses) on discontinued operations net of taxes	-	-	-	-
300.	**Profit (Loss) for the year**	**36,562,187**	**80,699,465**	**(44,137,278)**	**(54.69%)**

* *The Bank utilised the option not to redetermine on a uniform basis the comparative data of the year of first application of IFRS 16.*

BASIC AND DILUTED EARNINGS PER SHARE

		31 12 2019	31 12 2018
	Basic earnings per share		
-	from current operations	2,277.87596	100.55369
-	on discontinued operations		
	Diluted earnings per share		
-	from current operations	2,277.87596	100.55369
-	on discontinued operations	-	-

Note: during the year a reverse stock split was carried out at a ratio of one new ordinary share for every 500 existing ordinary shares (see "*Section 14 – The Bank's capital*"); the data shown in the table are therefore not comparable.

COMPREHENSIVE INCOME STATEMENT SCHEDULE

	Items	31 12 2019	31 12 2018
10.	**Profit (Loss) for the year**	**36,562,187**	**80,699,465**
	Other income components after tax without transfer to income statement	**(1,786,095)**	**(35,917,551)**
20.	Equity securities designated at fair value through other comprehensive income	(1,434,095)	(35,950,439)
30.	Financial liabilities designated at fair value through profit or loss (changes in own creditworthiness)	-	-
40.	Hedging of equity securities designated at fair value through other comprehensive income	-	-
50.	Property, plant and equipment	-	-
60.	Intangible assets	-	-
70.	Defined benefit plans	(352,000)	32,888
80.	Non-current assets held for sale and discontinued operations	-	-
90.	Portion of equity investment valuation reserves measured at equity	-	-
	Other income components after tax without transfer to income statement	2,144,943	(1,871,583)
100.	Foreign investment hedging	-	-
110.	Exchange differences	-	-
120.	Cash flow hedging	-	-
130.	Hedging instruments (undesignated elements)	-	-
140.	Financial assets (other than equity securities) measured at fair value through other comprehensive income	2,144,943	(1,871,583)
150.	Non-current assets held for sale and discontinued operations	-	-
160.	Portion of equity investment valuation reserves measured at equity	-	-
170.	**Total other income components net of taxes**	**358,848**	**(37,789,134)**
180.	**Comprehensive income (Item 10+170)**	**36,921,035**	**42,910,331**

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY 31/12/2018 - 31/12/2019

				Allocation of previous year's results		Changes during the period									
						Shareholders' Equity transactions									
	Balances as at 31/12/2018	Changes in initial balances	Balances as at 31/12/2019	Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary dividend distribution	Change in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity investments stakes	Comprehensive income 31/12/2019	Total shareholders' equity 31/12/2019
Capital:	1,669,516,282	-	1,669,516,282	-	-	-	-	-	-	-	-	-	-	-	1,669,516,282
a) ordinary shares	1,669,516,282		1,669,516,282	-											1,669,516,282
b) other shares	-	-	-	-											-
Share premiums	-	-	-	-											-
Reserves:	(407,279,882)	-	(407,279,882)	80,699,465	-	(25,464)	-	-	-	-	-	-	-	5,882	(326,599,999)
a) of profits	(407,279,882)	-	(407,279,882)	80,699,465		(25,464)								5,882	(326,599,999)
b) other	-	-	-	-											-
Valuation reserves	(141,440,939)	-	(141,440,939)	-		25,464								352,966	(141,062,509)
Equity instruments	-	-	-	-											-
Treasury shares	-	-	-	-											-
Profit (Loss) for the year	80,699,465	-	80,699,465	(80,699,465)										36,562,187	36,562,187
Total shareholders' equity	1,201,494,926	-	1,201,494,926	-	-	-	-	-	-	-	-	-	-	36,921,035	1,238,415,961

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY 31/12/2017 - 31/12/2018

				Allocation of previous year's results		Changes during the period										
						Shareholders' Equity transactions										
	Balances as at 31/12/2017	Changes in initial balances	Balances at 01/01/2018	Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary dividend	Change in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity investments stakes	Comprehensive income 31/12/2018	Shareholders' equity at 31/03/2018
Capital:	1,669,516,282	-	1,669,516,282	-	-	-	-	-	-	-	-	-	-	-	1,669,516,282
a) ordinary shares	1,669,516,282		1,669,516,282	-											1,669,516,282
b) other shares	-	-	-	-											-
Share premiums	161,445,808	-	161,445,808	(161,445,808)											-
Reserves:	110,426,756	(46,215,048)	64,211,708	(471,491,590)	-	-	-	-	-	-	-	-	-		(407,279,882)
a) of profits	76,641,913	(46,215,048)	30,426,865	(437,706,747)											(407,279,882)
b) other	33,784,843	-	33,784,843	(33,784,843)											-
Valuation reserves	(2,241,702)	(101,410,103)	(103,651,805)	-										(37,789,134)	(141,440,939)
Equity instruments	-	-	-	-											-
Treasury shares	-	-	-	-											-
Profit (Loss) for the year	(632,937,398)	-	(632,937,398)	632,937,398										80,699,465	80,699,465
Total shareholders' equity	1,306,209,746	(147,625,151)	1,158,584,595	-	-	-	-	-	-	-	-	-	-	42,910,331	1,201,494,926

CASH FLOW STATEMENT (indirect method)

The cash flow statement was prepared following the indirect method, whereby flows deriving from operating activities are represented by the profit/loss for the year rectified of effects due to operations of a non-monetary nature.

A. OPERATING ACTIVITIES	31 12 2019	31 12 2018
1. Operations	**481,963,732**	**450,305,804**
Profit (loss) for the period (+/-)	36,562,187	80,699,465
Gains/losses on financial assets held for trading and on financial assets/liabilities at fair value through profit and loss (-/+)	110,098,042	146,383,934
Capital gains/losses on hedging activities (-/+)		
Net value adjustments for credit risk (+/-)	(5,178,174)	46,375,589
Net value adjustments/write-backs to property, plant and equipment and intangible assets (+/-)	1,967,160	452,487
Net provisions to risks and charges and other costs/revenues (+/-)	(2,081,898)	530,056
Tax, duties and tax credits not liquidated (+)	67,157,299	(43,630,036)
Net value adjustments of discontinued operations net of the tax effect (+/-)	-	-
Other adjustments	273,439,116	219,494,309
2. Cash flows generated/absorbed by financial activities	**(2,646,160,288)**	**2,817,350,094**
Financial assets held for trading	(1,229,412,161)	996,973,444
Financial assets designated at fair value	-	-
Other financial assets obligatorily measured at fair value	7,703,744	12,989,311
Financial assets measured at fair value through other comprehensive income	(8,229,751)	(217,284,213)
Financial assets measured at amortised cost	(1,427,764,737)	2,022,512,160
other assets	11,542,617	2,159,392
3. Cash flows generated/absorbed by financial liabilities	**2,164,079,358**	**(3,266,903,257)**
Financial liabilities measured at amortised cost	1,708,153,930	(1,884,877,255)
financial liabilities held for trading	788,815,765	(1,333,684,071)
Financial liabilities designated at fair value	-	-
other liabilities	(332,890,337)	(48,341,931)
Net cash flows generated/absorbed by operating activities	**(117,198)**	**752,641**

B. INVESTMENT ACTIVITIES		
1. Cash flows generated by	**720,308**	**(752,965)**
Sales of equity investments		-
Dividends from equity investments	-	-
Sales of property, plant and equipment	720,308	(752,965)
Sales of intangible assets	-	-
Sales of business units	-	-
2. Cash flows absorbed by	**(603,063)**	**-**
Purchase of equity investments	-	-
Purchase of property, plant and equipment	(603,063)	-
Purchase of intangible assets	-	-
Purchases of business units	-	-
Net cash flows generated/absorbed by investing activities	**117,245**	**(752,965)**
		-
C. FUNDING ACTIVITIES		
Issue/purchase of treasury shares	-	-
Issue/purchases of equity instruments	-	-
Distribution of dividends and other purposes	-	-
Net cash flows generated/absorbed by funding activities	**-**	**-**
NET CASH FLOWS ABSORBED/GENERATED during the yea	**47**	**(324)**

* *The Bank utilised the option not to redetermine on a uniform basis the comparative data of the year of first application of IFRS 16.*

Reconciliation

Items	31 12 2019	31 12 2018
Cash and cash equivalents at the beginning of the year	7	331
Total net cash flows generated/absorbed during the year	47	(324)
Cash and cash equivalents: effect of changes in exchange rates		-
Cash and cash equivalents at the end of the period	**54**	**7**

* *The Bank utilised the option not to redetermine on a uniform basis the comparative data of the year of first application of IFRS 16.*

NOTES TO THE FINANCIAL STATEMENTS

Part A - Accounting Policies

A.1 - General information

Section 1 – Statement of compliance with the International Accounting Standards

These separate Financial Statements, in application of Italian Legislative Decree No. 38 of 28 February 2005, have been drawn up according to the International Accounting Standards issued by the International Accounting Standards Board (IASB) and the related interpretations by the IFRS Interpretations Committee endorsed by the European Commission, as established by EU Regulation No. 1606 of 19 July 2002, and in force at 31 December 2019.

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 2019 or those endorsed in previous years, the application of which is provided for in financial year 2019 (or future years), please see "Section 4 – Other Information" below.

In the Report on Operations and in the Notes to the Financial Statements, all the information required under the international accounting standards and by the Regulatory Bodies (Bank of Italy, CONSOB and ESMA) has been provided, as well as non-required information deemed necessary to provide a full, correct, relevant, reliable, comparable and comprehensible representation of the Bank's equity and financial situation and its economic results.

Section 2 - General principles for preparation of the financial statements

The separate Financial Statements are made up of the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the cash flow statement and the notes to the financial statements and are accompanied by the directors' report on operations, on the economic results achieved and on the Bank's financial situation and capital.

The Bank, controlled by the Parent Company Banca Monte dei Paschi di Siena S.p.A., which draws up consolidated financial statements compliant with the IAS/IFRS for public use, presents its own separate financial statements as its sole annual financial statements.

The Consolidated Financial Statements are drawn up by the Parent Company Banca Monte dei Paschi di Siena S.p.A. – with registered office in Piazza Salimbeni No. 3 – Siena, enrolled in the Banking Register and the Banking Groups Register with No. 5274 - and are made available to the public at the said registered office.

The separate Financial Statements at 31 December 2019 were prepared on the basis of the provisions contained in Circular no. 262 of 22 December 2005 issued by the Bank of Italy "Banking Financial Statements: Formats and Rules for Compilation", as amended by the fifth update of 30 November 2018.

The Financial Statements were prepared with the view of the company as a going concern, in accordance with the accruals concept, observing the principles of the importance and significance of information, and of the prevalence of substance over form, as well as in order to favour consistency with future presentations.

The Financial Statements were prepared with clarity and truly and accurately represent the economic and financial situation, the economic result for the year, changes in shareholders' equity and cash flows.

If the disclosures required by the International Accounting Standards and the provisions contained in the cited Circular are not deemed sufficient to provide a true and accurate representation, then supplementary information required for this purpose is provided in the Notes to the Financial Statements.

If, in exceptional cases, the application of a provision of the International Accounting Standards were to be incompatible with the true and accurate representation of the equity and financial situation and the economic result, this provision would not be applied. The Notes to the Financial Statements provide explanations for these derogations and their influence on the presentation of the equity/financial situation and the economic result.

The prior-year balance has also been reported for each item of the balance sheet, income statement and statement of comprehensive income, unless the accounting standard or interpretation does not allow this or establishes otherwise. This latter circumstance occurred at first time application of accounting standard IFRS 16. Specifically, the Bank made use of the right to apply the standard with the modified retrospective option, on the basis of which it does not need to redetermine comparison information for the 2018 financial statements. Therefore, with specific reference to leasing contracts, the equity and economic balances for accounting items from the previous year, prepared in compliance with the previous standard IAS 17 (the standard in effect as of 31 December 2018, used to prepare the Financial Statement as of that date, to which the reader is referred), are not fully comparable to those relative to 31 December 2019. Note that, at first time application of standard IFRS 16, an increase in the assets and liabilities of the balance sheet equal to € 17.7 million was recognised at the Bank level, with no impact on opening shareholders' equity at 1 January 2019.

The section "Transition to new accounting standard IFRS 16" contains the reconciliation schedules for equity balances at 31 December 2018 (IAS 17) and the equity balances at 1 January 2019 pursuant to IFRS 16, as well as the reconciliation of the scopes of future leasing commitments under IAS 17 with leasing liabilities recognised pursuant to IFRS 16 as of 1 January 2019.

Assets and liabilities and costs and revenues are not offset, except where allowed or required by the International Accounting Standards or the provisions of Bank of Italy Circular no. 262.

In the tables of the balance sheet, income statement and statement of comprehensive income items with a zero balance for the year and for the prior year are not presented. If an asset or liability can be booked to more than one balance sheet item, the Notes to the Financial Statements provide an explanation of its referability to accounts other than the account in which it is recognised, if necessary, for the purpose of understanding the financial statements.

Revenues are reported in the income statement, the statement of comprehensive income and the related section of the Notes to the Financial Statements without a +/- sign, while costs are indicated in brackets.

The statement of comprehensive income, starting from the profit (loss) for the year, presents the income components recognised against the valuation reserves, net of the related tax effect, in accordance with the international accounting standards. Comprehensive income is presented providing separate evidence of the income components which will not in future be recognised in the income statement and of those which, on the contrary, may subsequently be reclassified in the profit (loss) for the period if certain conditions are fulfilled.

The statement of changes in shareholders' equity shows the breakdown of and changes in shareholders' equity during the reporting and previous periods, divided into share capital (ordinary shares), capital and profit reserves, reserves from the valuation of accounting assets and liabilities, equity instruments and operating results. Treasury shares in the portfolio are recognised as a reduction of shareholders' equity.

The cash flow statement was prepared following the indirect method, whereby flows deriving from operating activities are represented by the income/loss for the year rectified by the effects of operations of a non-monetary nature. Cash flows are divided into those deriving from operating activities, those provided by investing activities and those produced by funding activities. In the statement, cash flows provided during the year are indicated without a sign, while those used are indicated in brackets.

In compliance with Article 5 of Italian Legislative Decree No. 38 of 28 February 2005, the financial statements have been prepared using the Euro as the functional currency. In particular, the balance sheet, the income statement, the statement of comprehensive income and the statements of changes in shareholders' equity are prepared in Euro units, whilst the Notes to the Financial Statements are in Euro thousands. Tables that do not contain any figures were omitted in the Notes to the Financial Statements.

Items with different natures or purposes have been presented separately, unless the related amounts were considered immaterial. When necessary, the amounts indicated in the Financial Statements were adjusted to reflect events subsequent to the reporting date which, pursuant to the standard IAS 10, involve the obligation of making an adjustment (adjusting events). Subsequent events that do not involve adjustments and that hence reflect circumstances that occurred after the reporting date (non-adjusting events) are disclosed in section 3 of this Part A below when relevant and able to influence the economic decisions of users.

Transition to new accounting standard IFRS 16

Introduction

International accounting standard IFRS 16 "Leasing" was published by the IASB on 13 January 2016 and it was approved in the EU, through the publication in the Official
Journal of the European Union of Regulation EU 2017/1986 of 9 November 2017.
As of 1 January 2019, the standard replaces the pre-existing combination of accounting standards and interpretations relative to leasing contracts:

- IAS 17 "Leasing";
- IFRIC 4 "Determining whether a contract contains a lease";
- SIC 15 "Operating leases - Incentives";
- SIC 27 "Evaluating the substance of transactions involving the legal form of a lease".

This section was prepared to illustrate the process of transitioning from international accounting standard IAS 17 "Leasing" and its relative interpretations, the provisions of which were applied through 31 December 2018, to international accounting standard IFRS 16.
For the sake of completeness, recall on the domestic front, due to an express provision of Italian Legislative Decree 38/2005, Bank of Italy, which had maintained its powers in terms of defining accounting schedules and the Notes to the Financial Statements, had issued the 6th update to Circular 262/2005 on 30 November 2018 "262/2005 "Banking Financial Statements: Formats and Rules for Compilation"[1].

The legislative provisions

The standard IFRS 16 introduces a new definition of a lease, based on control (right of use) in the use of an identified asset (underlying asset) for an established period of time in exchange for a payment, identifying as discriminating factors: identification of the asset, the lessor's right not to replace the same, the right to obtain substantially all the economic benefits deriving from use of the asset and the right to manage the use of the asset underlying the contract.
The definition of "lease contracts" includes, besides leasing contracts in the strict sense, also, for example, rental and hire contracts for a consideration.
Among aspects excluded from the scope of application of the standard are:

- intellectual property licences granted by the lessor under the terms of IFRS 15 "Revenue from Contracts with Customers";
- the rights held by the lessee on the basis of licence agreements under the terms of IAS 38 "Intangible Assets".

For a contract that contains a lease component and additional non-lease components, (such as the lease of an asset and the provision of a maintenance service), the standard prescribes accounting for each lease component separately with respect to the non-lease components. The consideration payable must therefore be allocated to the different components on the basis of the related stand-alone prices, following the logic of IFRS 15 envisaged for service contracts. Nonetheless, in cases in which separation of components not leased from components

[1] The update, which consists of a full revision of the Circular, applies to financial statements for periods ending or in course as of 31 December 2019.

leased may not be simple, as a practical expedient a lessee may choose, based on the class of underlying asset, to not do so and account for all the components as a lease.
The standard introduces a single model for the lessee in terms of recognising leasing contracts, regardless of whether they are operating or financial, generally requiring respective recognition in the balance sheet liabilities and assets of:

- a right of use on the asset (hereinafter RoU), equal to the lease liability plus any initial direct costs, the estimate for dismantling and net of incentives;
- a lease liability, equal to the present value of the future payments determined using the discount rate defined as of the start date of the leasing contract;

The lessee must measure the asset consisting of the RoU applying the cost model. The income statement is impacted essentially for the portion of depreciation of the right of use, recognised among operating expenses, and for interest accrued on the lease liability, recognised in net interest income.
Exceptions to these rules include short term leases with a duration of 12 months or less and leases in which the underlying asset of modest value (low value asset), for these it is possible to substantially continue the accounting treatment established under IAS 17 for operating leases, attributing leasing fees to the income statement on an accrual basis.
For the lessor, the new provisions substantially maintain the accounting treatment for leases established in IAS 17, maintaining the distinction between financial and operating leases.

The project for transition to IFRS 16

During financial year 2018, the MPS Group carried out a project in order to analyse the scope of contracts which would be subject to the rules of IFRS 16, to define the relative accounting treatment (both at first time application and subsequently) and to identify necessary IT and organisational actions. This project, led by the Financial Statements department, saw the involvement of company departments involved, for various reasons, in contract management, in defining company processes and in selecting IT solutions.

More specifically, with regards to the area of the project relative to contract management, activities focussed on defining and recognising the perimeter of contracts which contain leasing components, followed by defining and obtaining the set of information needed to calculate the right of use and relative liability.

With reference to company processes, the introduction of IFRS 16 required a revision of the accounts payable cycle, in order to allow for: i) proper identification of leasing contracts at the time of signing; ii) proper insertion of the necessary information during the procedure used to calculate the right of use and relative liability and finally; iii) proper management of accounting for invoices received on the basis of the new accounting rules.

The MPS Group's application decisions

For first time application of IFRS 16, the MPS Group made the following decisions:

- to not exercise the right to apply grandfathering, with the consequent redetermination of the scope of leasing transactions to be subjected to the new standard;
- recognition of the effects of first time application of the standard based on the modified retrospective option, allowed under the transitional provision contained in paragraphs C5(b), C8(b)(ii) of the standard, hence without retrospectively recognising the effects of the application of the same to IAS 8. On the basis of this approach:
    - the right of use is equal to the leasing liability, that is equal to the current value of future fees to be paid during the planned duration of the lease and attributable to the leasing component, net of VAT and discounted on the basis of the incremental borrowing rate as of the date of first time application;
    - the comparative disclosure for the 2018 financial statements does not need to be redetermined;

- leasing contracts with underlying intangible assets on the basis of IFRS 16.4 are not subject to the standard;
- software is excluded from the scope of application of IFRS 16 on the basis of the requirements of the standard and IFRIC clarifications ("Cloud Computing Arrangements" of September 2018).

Additionally, below is a summary of the rules and practical expedients used by the MPS Group at the time of transition for leasing contracts classified as operating under IAS 17:

- for lessors, applying the modified retrospective option does not involve restatement of comparative amounts from 2018, the value of the right of use is calculated as equal to the value of the lease liability, adjusted by the amount of any prepaid or accrued expense relative to the lease;
- the low value contract exemption was applied on a lease by lease basis (the identified value is in line with the € 5 thousand threshold established in accounting standard IFRS 16). In particular, non-proprietary mobile telephones fall into this category;
- the short-term contract exemption was applied, for contracts with a duration of 12 months of less as of first time application. In particular, this includes contracts relative to real estate with natural expirations (including the first renewal) by 31 December 2019, or with a re-issue date set by the same deadline;
- the practical expedient of not separating service components from leasing components, consequently recognising the entire contract as a lease was not made use of;
- for the recognition and measurement of lease liabilities as of 1 January 2019:
    - the discount rate applied was defined, using the practical expedient allowed by the standard, as a range of values for the incremental borrowing rate, on the basis of the duration of the contract as of 1 January 2019. The incremental borrowing rate was determined as the weighted average of the funding curve increased by the base rate linked to funding for corresponding durations;
    - the duration of leases was determined applying the principle of reasonable certainty; in particular, the MPS Group decided to consider only the first renewal period as reasonably certain as of first time application (and as a norm for new contracts), unless there are particular clauses, facts or circumstances that make it appropriate to consider additional renewals for the end of the lease.

Impacts deriving from first time application of IFRS 16

The provisions introduced by IFRS 16 involved, at first time application, recognition of rights of use and corresponding financial liabilities for real estate and vehicle leasing contracts. For these categories of contracts, separation of the "non-lease component" is envisaged, with accounting recognition subject to the provisions of IFRS 15.

Relative to the discount rate, as indicated above, leasing liabilities were discounted at the rate as of 1 January 2019, relative to the expirations of individual contracts. In particular, the weighted average of the marginal weighted financing rate for the lessee, applied to the leasing liability recognised in the statement of financial position as of first time application, was 3.70%.

Quantitative effects recognised at first time application of the standard on 1 January 2019 can be attributed almost entirely to real estate leases and were seen at the Bank level in the form of an equal increase in balance sheet assets and liabilities of € 17.7 million, as a whole irrelevant with respect to total assets/liabilities and CET1.

Therefore, on the basis of that outlined above, as of the transition date no impacts were seen on accounting shareholders' equity. Specifically, the new accounting standard determined, as of 1 January 2019, an increase in assets recognised in the balance sheet (the leased assets), an increase in liabilities (the debt relative to the leased assets), a reduction in administrative expense (leasing fees) and a simultaneous increase in financial expense (remuneration for the debt recognised) and amortisation/depreciation (relative to rights of use).

With reference to the income statement, considering the entire duration of the contracts, the impact does not change over the time horizon of the leases, with both the previous IAS 17 and the new IFRS 16, but it is seen with a different time division. Essentially, it is higher at the beginning of the contract due to greater interest expense accruing on the leasing liability and decreases over the duration of the contract as the rent is paid.
Below is a schedule which reconciles balances at 31 December 2018 (under IAS 17) and balances at 1 January 2019 (under IFRS 16):

BALANCE SHEET - Assets

	Assets items, Circ. 262	31 12 2018 BALANCES amounts in thousands of euro	Transfer, Prepaid expenses @ RoU	Transfer, Accrued expenses @ RoU	Transfer, Lease Liability @ RoU	*Reclassifications and adjustments IFRS 16*	01 01 2019 BALANCES *Amounts in thousands of euro*
40	Financial assets measured at amortised cost	15,403,344	-	-	-	-	15,403,344
	a) loans to banks	5,669,344				-	5,669,344
	b) loans to customers	9,734,000				-	9,734,000
80	Property, plant and equipment	11,909	3,262	-	17,775	21,037	32,946
	Property, plant and equipment used in the business	178	3,262	-	17,775	21,037	21,215
	a) land	6				-	6
	b) buildings	9	3,262		17,661	20,923	20,932
	c) furniture	7				-	7
	d) electronic systems					-	-
	d) other	156			114	114	270
	Property, plant and equipment held for investment purposes	10,981	-	-	-	-	10,981
	a) land					-	-
	b) buildings	10,981				-	10,981
100	Tax assets		-	-	-	-	-
	a) current	*331,334*	-			-	331,334
	b) prepaid	*178,835*	-			-	178,835
120	Other assets	201,057	(3,262)			(3,262)	197,795
			-	-	17,775	17,775	

BALANCE SHEET – LIABILITIES

	Liabilities and shareholders' equity items - Circ. 262	31 12 2018 BALANCES *Amounts in thousands of euro*		Accrued expense	Lease liability	*Reclassifications and adjustments IFRS 16*	01 01 2019 BALANCES Amounts in thousands of euro
10	Financial liabilities measured at amortised cost	20,957,255		-	17,775	17,775	20,975,030
	a) due to banks	15,900,332			-	-	15,900,332
	b) due to customers	4,600,384			17,775	17,775	4,618,159
	c) outstanding securities	456,539				-	456,539
60	Tax liabilities					-	-
	a) current					-	-
	b) deferred					-	-
80	Other liabilities	70,480				-	70,480
100	Provisions for risks and charges:	30,459		-	-	-	30,459
	a) commitments and financial guarantees given	2,410				-	2,410
	b) pensions and similar obligations	4,108				-	4,108
	c) other provisions for risks and charges	23,941				-	23,941
180	Profit (Loss) for the year (+/-)	80,699				-	80,699
			-	-	17,775	17,775	

The total increase in tangible assets of € 17.7 million is almost entirely due to the recognition of rights of use relative to real estate.

Section 3 – Events after the reporting period

IAS 10, "Events after the Reporting Period" expressly governs the treatment to be applied to favourable or unfavourable events occurring between the reporting date and the date on which the Board of Directors authorises the financial statements for publication. The standard distinguishes between events requiring an adjustment to accounting data and events which do not require adjustment but necessitate the provision of disclosure should the events be significant or important. There has been nothing significant to report.

Accounting estimates at 31 December 2019 were made on the basis of a series of macroeconomic and financial indicators foreseen as of that date. The coronavirus epidemic (Covid-19) began to spread throughout continental China from the beginning of January 2020 and, subsequently, in other countries including Italy, locally causing slowdowns or the complete stoppage or certain economic and commercial activities. The Bank, in line with the rules adopted at the Group level, considers the epidemic to be an event that occurred after the reporting date, which does not require adjustments. Given that the situation is still ongoing and rapidly developing, a quantitative estimate of the potential impacts of the event on the Bank's economic and equity situation cannot be provided. Therefore, the impact will be considered in the Bank's accounting estimates made during 2020, including those relative to writedowns on loans.

Section 4 – Other information

Going concern

These financial statements have been drawn up considering appropriate the assumption of the Bank's continuation as a going concern.

With regard to the indications provided within the scope of Document no. 4 of 3 March 2010 issued jointly by Bank of Italy, CONSOB and IVASS, as updated, the Bank has the reasonable expectation of continuing with its operating existence in a foreseeable future and, therefore, it has prepared the Financial Statements in view of its continuation as a going concern.

List of IAS/IFRS international accounting standards and related SIC/IFRIC interpretations whose application is mandatory as from the 2019 financial statements

Accounting standard **IFRS 16 "Leasing**", issued by the IASB in January 2016 and approved by the European Commission with Regulation (EU) 2017/1986 of 31 October 2017, replaced as of 1 January 2019 the previous standard IAS 17 – Leasing, as well as the associated interpretations **IFRIC 4 "Determining whether an Arrangement Contains a Lease"**, **SIC-15 "Operating Leases-Incentives" and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease".**

The standard IFRS 16 introduces a new definition of a lease, based on control (right of use), or the ability to decide the method of use for an identified asset (underlying asset) for an established period of time in exchange for a payment, identifying as discriminating factors: identification of the asset, the lessor's right not to replace the same, the right to obtain substantially all the economic benefits deriving from use of the asset and the right to manage the use of the asset underlying the contract.

On the basis of this definition, all contracts which involve a right of use over an asset fall under the scope of application of IFRS 16, regardless of the legal qualification of the same, hence including rental, hire, leasing or free use contracts, previously not categorised as leasing. Taking into account the requirements established under IFRS 16 and the clarifications provided by IFRIC in September 2018, intangible assets represented by software, acquired by usage licenses or on the basis of "cloud computing" agreements, are excluded from the scope of IFRS 16 and are subject to the regulations established under standard IAS 38, when the requirements are met.

The main change involves representation of leasing contracts in the financial statements of the lessee, introducing a single model for recognising leasing contracts in financial statements which does not distinguish between operating and financial leases. More specifically, the accounting model calls for, respectively in the balance sheet assets and liabilities, recognition of:

- a right of use (RoU) equal to the lease liability, plus initial direct costs and an estimate of costs for removal or restoration of the asset underlying the lease and net of incentives;
- a lease liability, equal to the current value of the future payments determined using the discount rate defined as of the start date of the leasing contract.

After initial recognition, the lessee must measure the asset consisting of the RoU by applying the cost model. The income statement is impacted essentially for the portion of depreciation of the right of use, recognised among operating expenses, and for interest accrued on the lease liability, recognised in net interest income.
Exceptions to these rules include short term leases with a duration of 12 months or less and leases in which the underlying asset of modest value (low value asset), for these it is possible to substantially continue the accounting treatment established under IAS 17 for operating leases, attributing leasing fees to the income statement on an accrual basis.

The distinction between operating and financial leases remains for the lessor, relative to which the IFRS 16 approach does not introduce substantial changes with respect to IAS 17, outside of more comprehensive disclosure requirements. Please see the section "Transition to new accounting standard IFRS 16" above for an examination of the process and impacts associated with first time application.

The interpretation **"IFRIC 23 - Uncertainty over income tax treatments",** published with Regulation (EU) 2018/1595 of 24 October 2018, clarifies how to apply the requirements for measurement and recognition under IAS 12 when there are uncertainties relative to the treatment to be applied to income taxes.

Under these circumstances, the entity must recognise and measure current or deferred tax assets/liabilities by applying the requirements of IAS 12 on the basis of taxable income (tax loss), values for tax purposes, unused tax loses, unused tax credits and tax rates, determined on the basis of the interpretation provided by IFRIC 23.

The entity is required to use its judgement to determine whether an uncertain tax treatment should be considered independently or jointly with other tax treatments around which there is uncertainty. The decision must be based on an approach which best guarantees the resolution of the uncertainty.

The entity must also consider in its assessments whether the relevant tax authority, in the context of examining the data communicated, would accept the application of the tax treatment or group of tax treatments proposed by the entity.
If it is considered likely that a given tax treatment will be accepted by tax authorities, the entity must determine the taxable income (tax loss), the values for tax purposes, unused tax losses, unused tax credits or tax rates in line with the tax treatment included in the tax return.

On the other hand, if it is determined to be unlikely that the tax authorities will accept the uncertain tax treatment, the entity must report the effects of this uncertainty when determining taxable income (tax loss), values for tax purposes, unused tax losses, unused tax credits and tax rates connected to the treatment. To that end, the entity must make use of one of the following methods:

- the "most likely amount", identifying the amount most likely to occur within a range of possible results;
- expected value, based on the sum of various amounts from a range of possible results, weighted by the probability of occurrence.

The decision between the two methods must fall to the method which provides the greatest guarantee of resolving the uncertainty. Additionally, the entity must revise its judgements and estimates if facts and circumstances should change.

IFRIC 23 was endorsed by the European Commission on 24 October 2018 with Regulation no. 2018/1595 and applies as of 1 January 2019. Early application is allowed.
The document **"Amendments to IFRS 9 - Prepayment features with negative compensation"**, published with Regulation (EU) 2018/498 of 26 March 2018, clarifies the classification of certain kinds of financial assets which can be reimbursed in advance when IFRS 9 is applied. Specifically:

- for financial assets, it establishes the possibility of measuring at amortised cost even financing which, in the case of early repayment, envisages payment by the granting entity;
- for financial liabilities, in the case of a change in contractual terms not such as to involve derecognition, establishes that the effect of the change to the amortised cost must be recognised in the income statement as of the date of the change.

These cases do not occur in the Bank's business.

The document "**Improvements to certain IFRS 2015-2017"**, published with Regulation (EU) 2019/412 of 14 March 2019, introduces certain marginal changes to IAS 12 "Income Taxes", to IAS 23 "Borrowing costs", to IFRS 3 "Business combinations" and to IFRS 11 "Joint arrangements". Specifically:

- an entity must recognise the tax effects of dividends for the purposes of income taxes in the profit (loss) for the year, in other components of the comprehensive income statement or in shareholders' equity, based on the recognition of the transactions or past events which gave rise to the distributable profits (IAS 12);
- if a specific loan continues to exist after the corresponding asset is ready for use or sale, this loan is then included in the provisions considered when calculating the capitalisation rate in relation to general loans (IAS 23);
- when an entity obtains control over a business, which was formerly a joint operation, it must redetermine the equity investment held in the said business (IFRS 3);
- when an entity obtains joint control over a business, which was previously a joint operation, the entity does not need to redetermine the equity investment held in the said business (IFRS 11).

On 13 March 2019, the document **"Amendments to IAS 19 – Amendment, curtailment or settlement of pension plans"** was published with Regulation (EU) 2019/402. This document clarifies that after the amendment, curtailment or settlement of a defined benefit plan, the entity must apply updated hypotheses in determining the net liability (asset) for defined benefits for the rest of the reference period.

The document **"Amendments to IAS 28 – Long-term interests in associates and joint ventures"**, published with Regulation (EU) 2019/237 of 8 February 2019, clarifies that provisions regarding writedowns in IFRS 9 apply to long-term receivables due from associates or joint ventures which, in their substance, are part of the net investment in the associate or joint venture (for which the entity does not use the equity method).

With the exception of first time application of accounting standard IFRS 16, for which please see the specific section "Transition to new accounting standard IFRS 16", the other amendments or interpretations did not have a significant impact on the Bank's financial and economic situation.

List of IAS/IFRS international accounting standards and related SIC/IFRIC interpretations whose application becomes mandatory after 31 December 2019

On 29 March 2018, the IASB issued the document **"Amendments to the Conceptual Framework",** published with Regulation (EU) 2019/2075 of 29 November 2019, which aims to update, in various accounting standards and interpretations, existing references to the previous Conceptual Framework, replacing these with references to the revised Conceptual Framework. The amendments come into force on 1 January 2020. Early application is allowed.

On 31 October 2018, the IASB issued the document **"Amendments to IAS 1 and IAS 8 - Definition of Material",** published with Regulation (EU) 2019/2104 of 10 December 2019, with the aim of clarifying the definition of "material", to aid companies in determining what information to include in the financial statements. The amendments apply as of 1 January 2020. Early application is allowed.

On 26 September, the document **"IBOR Reform"** was issued, published with Regulation EU 2020/34 of 16 January 2020, amending IFRS 9, IAS 39 and IFRS 7. The document governs the period prior to replacement of the benchmark, based on the reform of interest rates, introducing a series of simplifications which apply to all hedging relations affected by the reform. Below are the main points contained in the document:

- highly probable requirement for cash flow hedges (IFRS 9 and IAS 39): if the covered element is a planned transaction, the entity must determine whether the planned transaction is highly probable, hypothesising that the benchmark interest rate on which the hedged cash flows are based will not be changed by the reform;
- assessment of the relationship between the hedged element and the hedging instrument (IFRS 9): an entity must assume that the benchmark interest rate, on which the hedged cash flows and/or hedged risk are based, or the benchmark interest rate on which the cash flows for the hedging instrument is based, will not be changed following the reform of the interest rate benchmark;
- prospective and retrospective measurement (IAS 39): an entity must assume that the benchmark interest rate, on which the hedged cash flows and/or hedged risk are based, or the benchmark interest rate on which the cash flows for the hedging instrument is based, will not be changed following the reform. An entity is not required to interrupt a hedging relationship during the period of uncertainty deriving from the reform solely because the effective results of the hedge may not be highly effective, or if it falls outside of the 80-125% range at the time of retrospective measurement. In this situation, to determine whether the hedging relationship must be interrupted, the entity must apply the other conditions (paragraph 88 of IAS 39) which govern hedging relationships, including prospective measurement;
- designation of a risk component as a hedged element (IFRS 9 and IAS 39): for the hedging of a risk element, involved in the reform, an entity must apply the specific provisions of IFRS 9 or IAS 39 to determine whether the risk component can be separately identified only at the beginning of the hedging relationship. If the hedging is dynamic, that is if the entity frequently restructures the hedging relationship, the risk component must be separately identifiable only at the time the hedged element is initially designated. Therefore, no revaluation or redesignation of the same hedging relationship is required.

The simplifications are not intended to mitigate other impacts deriving from the benchmark reform. Therefore, if a hedging relationship no longer meets the requirements for hedge accounting for reasons other than those specified in the amendments, it must be interrupted. Additionally, appropriate disclosures must be provided regarding the degree to which hedging relationships are impacted by the amendments.
The amendments apply as of 1 January 2020, with retroactive effects. The MPS Group will make use of early application.

IAS/IFRS international accounting standards and related SIC/IFRIC interpretations published by the IASB and still awaiting European Commission endorsement

The document **"Amendments to IFRS 3 - Definition of a business"** was issued on 22 October 2018 by the IASB with the objective of providing assistance in determining whether a transaction involves the acquisition of a business or of a group of activities which does not meet the IFRS 3 definition of a business. The amendments apply to acquisitions occurring after 1 January 2020. Early application is allowed.

In September 2019, the IASB began discussion relative to the second phase of the "Interest rate reform" project. Most recently, note that on 18 May 2017 the IASB issued the new accounting standard IFRS 17, which governs policies issue by insurance companies, with application planned as of 1 January 2021. On 14 November 2018, the IASB decided to propose a one year postponement, to 2022. It also decided to extend to 2022 the temporary exemption of application of IFRS 9 granted to insurance companies, so that IFRS 9 and IFRS 17 can be applied at the same time. The proposals are still in the consultation stage. These operations are not of interest to the Bank.

A.2 - Principal financial statement aggregates

Section 1 - Accounting standards

The accounting standards adopted with reference to the principal asset and liability items for the preparation of the Consolidated Financial Statements at 31 December 2019 are described below. The presentation is made with reference to the stages of recognition, classification, measurement and derecognition of the different Asset and Liability items, and to the recognition criteria of revenue components.

1. Financial assets measured at fair value through profit or loss (FVTPL)

a) classification criteria

Financial assets other than those classified among "Financial assets measured at fair value through other comprehensive income" and among "Financial assets measured at amortised cost" are classified in this category. They include:

- debt securities and loans included in a Business Model "Other", that is a method of managing financial assets not aimed at collecting contractual cash flows (Business Model "Held to Collect"), nor at collecting contractual cash flows and selling financial assets (Business Model "Held to Collect and Sell");
- debt securities, loans and UCITS units with contractual terms which do not involve solely payments of principal and interest (i.e. those which do not pass the "SPPI test");
- equity instruments - not classifiable as in subsidiaries, associates and joint ventures - held for trading purposes or for which the option was not taken, on initial recognition, for designation at fair value through other comprehensive income;
- derivative contracts, accounted for among financial assets held for trading, which are presented as assets if the fair value is positive and as liabilities if the fair value is negative.

With reference to the latter it is possible to offset the positive and negative current values deriving from transactions carried out with the same counterparty only if the entity has the legal right to offset the amounts recognised in the accounts and intends to proceed with settlement on a net basis of the positions subject to offsetting.

More detailed information is provided below on the three sub-items that make up the category in question, represented by: "Financial assets held for trading", "Financial assets designated at fair value"; "Other financial assets obligatorily measured at fair value".

a) <u>Financial assets held for trading</u>

A financial asset (debt security, equity security, loan, UCITS unit) is classified as held for trading if it is managed with the objective of realising cash flows through the sale of the same, because:
- it has been acquired or borne mainly in order to sell it or repurchase it soon;
- it is part of a portfolio of financial instruments that are managed uniformly and for which the existence is proven of a strategy aimed at obtaining a profit in the short term;

The sub-item also includes derivatives with a positive fair value not designated as part of an hedge accounting relationship. Derivative contracts include those incorporated in complex financial instruments, in which the primary contract is a financial liability, which are separately recognised in that:
- their economic characteristics and risks are not closely correlated to the characteristics of the underlying contract;
- the incorporated instruments, even if separated, meet the definition of a derivative;

- the hybrid instruments to which they belong are not measured at fair value, with relative changes recognised in the income statement.

b) Financial assets designated at fair value

A financial asset (debt security or loan) may be designated at fair value irrevocably at the moment of initial recognition, only when this designation makes it possible to eliminate or reduce significantly an "accounting mismatch". At the moment this category is not used.

c) Other financial assets obligatorily measured at fair value

Other financial assets obligatorily measured at fair value represent a residual category and include:
- debt securities and loans when i) the related contractual flows do not represent solely payment of principal and interest on the residual principal (– SPPI test not passed), or ii) are not held in the context of a business model the objective of which is to hold assets with the aim of collecting the contractual cash flows ("Held to Collect" business model) or the objective of which is achieved both through collecting the contractual cash flows and through the sale of financial assets ("Held to Collect and Sell" business model);
- UCITS units;
- equity securities held with purposes other than trading for which the option of classification at fair value through other comprehensive income has not been taken.

b) recognition criteria

Initial recognition occurs on the settlement date for debt securities, equity securities and UCITS units, on the disbursement date for loans and on the subscription date for derivative contracts. At the moment of initial recognition, financial assets measured at fair value through profit or loss are recognised at their fair value, which generally corresponds to the price paid, without considering the transaction costs or income directly attributable to the instrument itself, which are instead booked directly to the income statement.

c) measurement criteria

After initial recognition, financial assets measured at fair value through profit or loss are carried at fair value, recording changes as counter-entries in the income statement.
To determine the fair value of financial instruments quoted on active markets, market prices are used. In the absence of an active market, commonly adopted estimation methods and measurement models are used; these take into account all the risk factors related to the instruments and are based on data observable on the market such as: measurement of listed instruments that have analogous characteristics, discounted cash flow calculations, models for determining option prices, figures observed in recent comparable transactions, etc. For equity securities and derivative instruments that regard equity securities, not quoted on an active market, the cost criterion is used as an estimate of fair value only residually and limited to a few circumstances, that is in the case of non-applicability of all the aforementioned measurement methods, or in the presence of a wide range of possible measurements of fair value, in the context of which cost represents the most significant estimate.
For more information on the criteria for determining fair value, please see Section "A.4 Disclosure on Fair Value" in Part A of the Notes to the Financial Statements.

d) income recognition criteria

Interest relative to the three sub-items which make up the category in question are shown in item "10 - Interest and similar income".
Realised gains and losses, including differentials on derivatives, and capital gains and losses from measurement relative to "financial assets held for trading", including derivatives associated with financial assets/liabilities measured at fair value, are recognised in the income statement in item "80 - net gains (losses) on trading activities".

The same income effects relative to "financial assets designated at fair value" and "Other financial assets necessarily measured at fair value" are recognised in the income statement under item "110 - Net gains (losses) on other financial assets and liabilities measured at fair value through profit and loss", respectively in the sub-items "a) financial assets and liabilities designated at fair value"; and "b) other financial assets necessarily measured at fair value through profit and loss".

e) derecognition criteria

Financial assets are derecognised i) when the contractual rights to the cash flows deriving from the assets expire, ii) when the sale of the asset entails the substantial transfer of all the related risks and benefits. On the other hand, if a significant portion of the risks and benefits relative to the disposed of financial assets remains, they continue to be recognised in the financial statements even if legally ownership of the assets themselves has been effectively transferred.

If it is not possible to verify the essential transfer of risks and benefits, the financial assets are derecognised from the financial statements when no type of control is held over them. Conversely, the maintenance of even partial control requires the assets to be kept in the financial statements in an amount equal to the residual involvement, measured by the exposure to changes in the value of the assets transferred and to changes in their cash flows.

Lastly, financial assets transferred are eliminated from the financial statements if the contractual right to receive the related cash flows has been retained, with the concurrent assumption of an obligation to pay said flows, and only said flows, to other third parties without a significant delay.

f) reclassification criteria

According to the general rules laid down in IFRS 9 on the subject of reclassification of financial assets (with the exception of equity securities, for which no reclassification is permitted), reclassifications to other categories of financial assets are not permitted except when the entity changes its business model for managing financial assets. In these cases, which are expected to be extremely infrequent, financial assets can be reclassified from the category measured at fair value through profit or loss to one of the other two categories provided for in 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 moment of reclassification and the effects of the reclassification operate prospectively starting from the reclassification date. In this case, the effective interest rate of the reclassified financial asset is determined on the basis of its fair value at the reclassification date and this date is considered as date of initial recognition for allocation in the different stages of credit risk (stage assignment) for the purposes of impairment.

For more information, please see the paragraph "Classification criteria of financial assets".

2. Financial assets measured at fair value through other comprehensive income (FVTOCI)

a) classification criteria

The present category includes:

- financial assets represented by debt instruments, managed in the context of a "Held to collect and sell" business model[3], the contractual flows of which represent solely payment of principal and interest (SPPI test passed);
- financial assets represented by equity instruments, held in the context of a business model other than trading, for which, at the moment of initial recognition, the option of recognising in other comprehensive income the changes in fair value subsequent to initial recognition in the financial statements (OCI election) has been taken irrevocably.

In particular, this item includes:

- debt securities that are attributable to a "Held to Collect and Sell" business model and that have passed the SPPI test;
- equity interests, not classifiable as in subsidiaries, associates and joint ventures, which are held for trading purposes, for which the option was taken for designation at fair value through other comprehensive income;
- loans that are attributable to a "Held to Collect and Sell" business model and that have passed the SPPI test. These cases are not present.

b) recognition criteria

Financial assets are initially recorded at the settlement date for debt and capital securities, and at the disbursement date for loans.
At the moment of initial recognition, they are accounted for at their fair value, which normally corresponds to the price paid, inclusive of the transaction costs or income directly attributable to the instruments.

c) measurement criteria

Financial assets represented by debt securities and loans, after initial recognition continue to be measured at fair value, with recognition in the income statement of the interest (on the basis of the effective interest rate method), of the expected credit losses (for more details please see the paragraph "Impairment" in the present section) and of any exchange rate effect. Changes in fair value, net of expected credit losses, are allocated to a specific shareholders' equity reserve net of the related tax effect (item "110. Valuation reserves"). At the moment of total or partial disposal, cumulative gain or loss in the valuation reserve is recognised, wholly or in part, in the Income Statement.

Financial assets represented by equity instruments, after initial recognition, continue to be measured at fair value with allocation of the changes in a specific shareholders' equity reserve net of the related tax effect (item "110. Valuation reserves"). The amount recognised as a counter-entry of shareholders' equity (Statement of Comprehensive Income) must not subsequently be transferred to the income statement, not even in the event of sale. In his case, it is reclassified to another shareholders' equity item (item "140. Reserves"). In addition, no write-down in the income statement is envisaged for these assets because they are not subjected to any

[3] The Business Model Held to Collect and Sell is linked to financial instruments held under a business model with the objective of both holding the instruments to collect cash flows and selling the instruments.

impairment process. The only component referable to the equity securities in question which is recognised in the income statement is represented by the related dividends.
For the equity securities included in this category, not listed in an active market, the cost criterion is used as an estimate of fair value only residually and limited to a few circumstances, that is in the case of non-applicability of all the aforementioned measurement methods, or in the presence of a wide range of possible measurements of fair value, in the context of which cost represents the most significant estimate.
For more information on the criteria for determining fair value, please see Section "A.4 Disclosure on Fair Value" in Part A of the Notes to the Financial Statements.

Financial assets measured at fair value through other comprehensive income – in the form of both debt securities and receivables – are subject to verification of the significant increase in credit risk (impairment) provided for in IFRS 9, as are assets at amortised cost, with consequent recognition in the income statement of a write-down to cover the expected losses. In brief, on instruments classified in stage 1 (that is on financial assets at the origination date, if unimpaired, and on instruments for which no significant increase in credit risk has occurred with respect to the date of initial recognition) an expected loss at one year is accounted for, at the date of initial recognition and at each subsequent reporting date. Instead, for instruments classified in stage 2 (performing, for which a significant increase in credit risk has occurred with respect to the date of initial recognition) and in stage 3 (impaired exposures) an expected loss for the entire residual life of the financial instrument financial is accounted for. Vice versa equity securities are not subjected to the impairment process.

For more details, please see point 16 below, "Use of estimates and assumptions in preparing the statutory financial statements" below – paragraph "Methods of determining the impairment of IFRS 9 financial instruments".

d) income recognition criteria

As regards financial assets represented by debt instruments:

- the interest is presented in item "10. Interest and similar income";
- the expected credit losses recognised in the period are accounted for in item "130 - Net value adjustments for credit risk of: b) financial assets measured at fair value through other comprehensive income"; the same applies for recoveries of some or all of the write-downs carried out in previous years;
- at the moment of derecognition, the valuations accumulated in the specific shareholders' equity reserve are transferred to the income statement under item "100 – Gains/losses on disposal/repurchase of: b) financial assets measured at fair value through other comprehensive income".

With regards to financial assets represented by equity instruments, for those for which "OCI election" was selected, only dividends are recognised in the income statement (item "70. Dividends and similar income"). Changes in fair value after initial recognition are recognised in a specific valuation reserve under shareholders' equity (item "110. Valuation reserves"). If assets are derecognised, the cumulative balance of this reserve is not transferred to the income statement, but is reclassified among shareholders' equity profit reserves (item "140. Reserves").

e) derecognition criteria

Financial assets are derecognised i) when the contractual rights to the cash flows deriving from the assets expire, ii) when the sale of the asset entails the substantial transfer of all the related risks and benefits. On the other hand, if a significant portion of the risks and benefits relative to the disposed of financial assets remains, they continue to be recognised in the financial statements even if legally ownership of the assets themselves has been effectively transferred.

If it is not possible to verify the essential transfer of risks and benefits, the financial assets are derecognised from the financial statements when no type of control is held over them. Conversely, the maintenance of even partial control requires the assets to be kept in the financial statements in an amount equal to the residual involvement, measured by the exposure to changes in the value of the assets transferred and to changes in their cash flows.
Lastly, financial assets transferred are eliminated from the financial statements if the contractual right to receive the related cash flows has been retained, with the concurrent assumption of an obligation to pay said flows, and only said flows, to other third parties without a significant delay.

f) reclassification criteria

According to the general rules laid down in IFRS 9 on the subject of reclassification of financial assets (with the exception of equity securities, for which no reclassification is permitted), reclassifications to other categories of financial assets are not permitted except when the entity changes its business model for managing financial assets. In these cases, which are expected to be extremely infrequent, financial assets can be reclassified from the category measured at fair value through other comprehensive income to one of the other two categories provided for in 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 moment of reclassification and the effects of the reclassification operate prospectively starting from the reclassification date. In the event of reclassification from the category in question to that of amortised cost, the cumulative gain (loss) recognised in the valuation reserve is taken to adjust the fair value of the financial asset at the reclassification date. In the event instead of reclassification to the category of fair value through profit or loss, the cumulative gain (loss) previously recognised in the valuation reserve is reclassified from shareholders' equity to profit (loss) for the period.
For more information, please see the paragraph "Classification criteria of financial assets".

3. Financial assets measured at amortised cost

a) classification criteria

The present category includes financial assets represented by loans and debt securities, managed in the context of a "Held to collect" business model[4], the contractual flows of which represent solely payment of principal and interest (SPPI test passed).

The portfolio of financial assets at amortised cost includes:

- the entire portfolio of loans in the various technical forms, which comply with the above requirements (including repurchase agreements), stipulated with both banks and clients;
- debt securities, mainly government securities, which comply with the above requirements;
- operating loans connected with the provision of financial activities and services, as defined under the TUB and TUF (Consolidated Law on Banking and Consolidated Law on Finance), for example distribution of financial products and servicing.

b) recognition criteria

Financial assets are initially recognised at the settlement date for debt securities, and at the disbursement date in the case of loans; more specifically, this item includes:

- due from banks;
- due from customers.

[4] The Held to Collect Business Model includes financial instruments held in the context of a business model the objective of which is to hold the same with the aim of collecting the cash flows.

Initial recognition is determined on the basis of the fair value of the financial instrument, normally equal to the amount disbursed, or the subscription price, including costs/income directly attributable to the individual instrument, which can be defined from the beginning of the transaction, even if settled subsequently. Costs are excluded
which, despite having the stated characteristics, are reimbursed by the debtor counterparty or can be classified as normal internal administrative expenses.

Repurchase agreements with obligation to repurchase are recognised as loan transactions for the spot amount received.

c) income measurement and recognition criteria

After initial recognition, financial assets recognised in this category are measured at amortised cost, using the effective interest rate criteria. This interest is recognised under item "10. Interest and similar income".

The gross book value is equal to the value on first recognition, decreased/increased:

- by repayments of principal;
- by amortisation - calculated with the effective interest rate method - of the difference between the amount disbursed and that repayable on maturity, attributable typically to the costs/income allocated directly to the single loan.

The amortised cost method is not used for short-term loans, for which the effect of application of the discounting logic is negligible, or for loans with a defined maturity date and loans valid until revoked.

For more details on the amortised cost please see point 15) – letter b) "Other significant accounting treatments" – paragraph "amortised cost".

The book value of financial assets at amortised cost is adjusted in order to take into account any provisions to cover expected credit losses. At each annual or interim reporting date the said assets are in fact subjected to an impairment test with the objective of estimating the expected losses in value related to credit risk (so-called "ECLs - Expected Credit Losses"). These losses are recognised in the income statement under item "130. Net value adjustments for credit risk".

More specifically, the impairment model, better defined under point 16 below, "Use of estimates and assumptions in preparing the statutory financial statements" – paragraph "Methods of determining the impairment of IFRS 9 financial instruments", provides for the classification of assets in three distinct "stages" (stage 1, stage 2, stage 3), according to the evolution of the creditworthiness of the debtor, to which correspond different criteria for measuring the expected losses:
- stage 1: this comprises non-impaired (performing) financial assets for which no significant deterioration of credit risk has been observed with respect to the date of initial recognition or the credit risk of which is considered low. The impairment is based on the estimate of expected loss using as reference a time horizon of one year (expected loss that results from default events on the financial asset that are considered possible within one year from the reference date);
- stage 2: this comprises non-impaired (performing) financial assets which have suffered a significant deterioration of credit risk with respect to the initial recognition. The impairment is commensurate to the estimate of expected loss having as reference a time horizon of the entire residual life of the financial asset;
- stage 3: represented by impaired financial assets (100% probability of default), to be measured on the basis of an estimate of the expected loss along the whole life of the instrument.

For performing assets the expected losses are determined according to a collective process based on certain risk parameters represented by Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD), deriving from the internal models for calculating regulatory credit risk opportunely adjusted to take into account the specific requirements laid down in the accounting standards.
For impaired assets, that is for assets for which besides a significant increase in credit risk objective evidence of impairment has been found, the impairment losses are quantified on the basis of a measurement process - analytic or flat-rate on the basis of uniform risk categories - aimed at determining the present value of the forecast recoverable future flows, discounted on the basis of the original effective interest rate, or a reasonable approximation of the same, if the original rate cannot be obtained directly.

The category of impaired assets includes exposures to which has been attributed the status of bad loan, probable default or past-due/over-the-limit for more than 90 days according to the definitions established by the current supervisory regulations (Bank of Italy Circular no. 272 "Accounts Matrix") and referred to in Bank of Italy Circular no. 262, as they were considered consistent with the accounting rules provided for in IFRS 9 in terms of objective evidence of impairment.

In the case of sales scenarios, determination of cash flows is also based, beyond forecasts of flows recoverable through internal management, on the basis of flows which could be obtained through sale on the market, using the approach described in point 16 below, "Use of estimates and assumptions in preparing the statutory financial statements" below – paragraph "Methods of determining the impairment of IFRS 9 financial instruments".

The forecast cash flows also take into account expectations in terms of recovery times and estimated net realisable value of any guarantees, as well as costs associated with obtaining and selling collateral. To that end, in the case in which the Bank makes use of a third party for impaired loan collection activities, the commission paid to the outsourcer for activities closely linked to the collection are considered when estimating impairment losses. These costs are considered both for impaired and non-impaired exposures, if for the latter it is probable that in the case of a transfer to the bad loan category collection activities would be assigned to third parties.

For fixed rate positions, the original effective rate used for discounting the forecast recovery flows, determined as illustrated above, remains unchanged over time even if a change is made to the contractual rate attributable to financial difficulties of the debtor.
For floating interest rate positions, the rate used for discounting the flows is subject to updating in relation to the indexing parameter (for example Euribor), keeping instead constant the spread originally fixed.

The original value of the financial assets is restored in subsequent years, in the event of an improvement in the credit quality of the exposure with respect to the level that entailed the previous write-down. Writebacks are recognised in the income statement under the same item (130. Net value adjustments for credit risk) and, in any case, may not exceed the amortised cost that the asset would have had in the absence of previous write-downs.

For more information on the impairment model, please see that shown in point 16 below, "Use of estimates and assumptions in preparing the statutory financial statements" below – paragraph "Methods of determining the impairment of IFRS 9 financial instruments".

For impaired exposures the interest accruing is calculated on the basis of the amortised cost, that is on the basis of the value of the exposure - determined on the basis of the effective interest rate - adjusted by the expected losses. In the case of improvement in impaired positions, i.e. transfer from stage 3 to stage 2, interest is again calculated on the basis of the gross value of the exposure. The positive difference is recognised, in the case of recovery from previous impairment losses, under item 130 "Net value adjustments for credit risk". The same accounting entry is made in the case in which interest collected exceeds expected cash flows.

Finally, for impaired exposures that do not accrue contractual interest, such as bad loans, the said interest corresponds to the progressive release of discounting for recovery forecasts, as a result of the simple passing of time.

d) derecognition criteria

financial assets are derecognised if one of the following cases occurs:

- The contractual rights to the cash flows deriving from the same have expired;
- the financial asset is sold with substantial transfer of all the risks and benefits deriving from ownership of the same;
- if it is not possible to ascertain the substantial transfer of the risks and benefits, the financial asset is derecognised when no type of control is kept over the same;
- the entity keeps the contractual right to receive the cash flows deriving from the same, but at the same time assumes a contractual obligation to pay the same flows to a third party (pass through arrangements) without delay and only for the amount of those received;
- the asset is subject to a change that can be classified as "substantial", as described in more detail in the paragraph "Renegotiations".

As regards impaired financial assets, the derecognition can occur following acknowledgement of the irrecoverability of the exposure and the consequent conclusion of the recovery process (definitive derecognition), and entails the reduction of the nominal value and gross book value of the receivable. These cases occur in the presence of settlement agreements signed with the debtor that entail a reduction of the receivable (full and final settlement agreements) or in the presence of specific situations, such as:

- a definitive judgement has been handed down which declares extinguished some or all of the receivable;
- Closure of the arrangement or enforcement procedure in relation to both the debtor and the guarantors;
- conclusion of all possible actions in and out of court for recovery of the receivable;
- Completion of a mortgage restriction on an asset in guarantee, with consequent derecognition of the receivable guaranteed by the mortgage subject to restriction, in the absence of further specific guarantees or further feasible actions for recovery of the exposure.

These specific situations may entail total or partial derecognition of the exposure but do not necessarily imply a waiver of the legal right to recover the receivable.

In addition, for impaired financial assets, the derecognition may occur after they have been written off, following acknowledgement of the non-existence of reasonable expectations of recovery, even though actions aimed at their recovery continue. The said write-off is carried out in the year in which the receivable, or part of it, is considered non-recoverable – even without closure of the legal procedure – and may occur before the legal actions brought against the debtor and the guarantors for recovery of the receivable have been definitively concluded. It does not imply the waiver of the legal right to recover the receivable and is carried out if the lending documentation contains reasonable financial information from which the impossibility of the debtor to repay the amount of the debt emerges. In this case the gross nominal value of the receivable remains unchanged, but the gross book value is reduced by an amount equal to the write-off, which may be referred to the entire exposure or to a portion of the same. The amount written off cannot be written back subsequently following an improvement in the recovery forecasts, but only following recoveries involving collection.

In the event of derecognition, the difference between the book value of the asset at the derecognition date and the price received, including any assets received net of any liabilities assumed, must be accounted for in the income statement, under the item "100. a) Gains (losses) on disposal or repurchase of: financial assets measured at amortised cost" in the case of sale and, in all other cases, under the item "130. Net value adjustments for credit risk".

e) reclassification criteria

According to the general rules laid down in IFRS 9 on the subject of reclassification of financial assets, reclassifications to other categories of financial assets are not permitted except when the entity changes its business model for managing financial assets. In these cases, which are expected to be extremely infrequent, financial assets can be reclassified from the category measured at amortised cost to one of the other two categories provided for in 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 moment of reclassification and the effects of the reclassification operate prospectively starting from the reclassification date. The gains or losses resulting from the difference between the amortised cost of the financial asset and the related fair value are recognised in the income statement in the case of reclassification among Financial assets measured at fair value through profit or loss and at equity, in the specific valuation reserve, in the case of reclassification among Financial assets measured at fair value through other comprehensive income.
For more information, please see the paragraph "Classification criteria of financial assets".

4. Hedging transactions

The Group availed itself of the possibility, provided for on first application of IFRS 9, to continue to use fully on the subject of "hedge accounting" the provisions of the international accounting standard IAS 39 (in the carved out version endorsed by the European Commission) for all types of hedging (for both micro- and macro-hedges).

a) classification – hedging type

Risk hedging transactions are aimed at neutralising potential losses recognisable on a certain financial instrument or on a group of financial instruments, attributable to a certain risk, if that particular risk effectively manifests itself.

The following types of hedging are envisaged:

- hedging of fair value, which has the objective of hedging the exposure to a change in the fair value of an accounting item attributable to a particular risk. It includes also macro-hedges of fair value with the objective of reducing the oscillations of fair value, attributable to interest rate risk, of a cash amount, deriving from a portfolio of financial assets and liabilities (including "core deposits"). Net amounts deriving from the balancing of assets and liabilities cannot be the subject of macro-hedging;
- cash flow hedging, which has the objective of hedging exposure to changes in future cash flows attributable to specific risks associated with accounting items or to a highly probable planned transaction;
- foreign investment hedging, which aims at hedging the risks of an investment in a foreign operation in foreign currency.

At the level of the consolidated financial statements, the designation of the derivative as a hedging instrument is possible only if it was entered into in relation to a counterparty external to the Group. Results attributable to internal transactions carried out between different Group entities are eliminated.

For a derivative instrument to be designated as for hedging there must exist formalised documentation of the relationship between the hedged instrument and the hedging instrument and this relationship must be effective at the moment in which the hedging begins and, prospectively, during the whole life of the same. In addition, the hedging transaction must be attributable to a predefined risk management strategy and must be in keeping with the risk management policies adopted.

b) recognition criteria

Hedging derivatives, like all derivatives, are initially recognised at the fair value as of the date the contract is stipulated and are classified, based on the positive or negative value of the same, either under the balance sheet assets in item "50. Hedging derivatives" or in the balance sheet liabilities, in "40. Hedging derivatives".

c) measurement and income recognition criteria

Hedging derivatives are measured at fair value. Specifically:

Fair value hedges

In the case of specific fair value hedges, the fair value change in the covered element (with regards to changes produced by the underlying risk factor) changes the book value of the covered element and is recognised immediately, regardless of the category to which the covered asset or liability belongs, together with the fair value change in the hedging instrument, in item "90 - Net gains (losses) on hedging activities", in the income statement. Any difference, which represents the partial ineffectiveness of the hedging, constitutes its net economic effect. In the case of interruption of the hedging relationship, the hedged instrument, if it is not derecognised reacquires the original measurement criterion of the class it belongs to. More specifically for instruments measured at amortised cost the cumulative write-downs/write-backs recognised as a result of changes in fair value of the risk hedged are recognised in the income statement among interest income and expenses along the residual life of the hedged element, on the basis of the effective interest rate. Instead if on interruption of the hedging there is also derecognition of the hedged element (for example sale or prepayment), the portion of fair value not yet amortised is allocated immediately to the income statement under item "90 - Net gains (losses) on hedging activities".

As regards fair value macro hedging transactions, the changes in fair value with reference to the hedged risk of the assets and liabilities being hedged are recognised in the balance sheet, respectively, under item "60 Value adjustment of financial assets subject to macro hedging" or "50. Value adjustment of financial liabilities subject to macro hedging".
The economic counter-entry of value changes relative to both the covered element and the hedging instrument, as occurs with specific fair value hedges, is made under item "90. Net gains (losses) from hedging" in the income statement. In the case of interruption of a fair value macro hedging relationship, the cumulative write-downs/write-backs recognised in the balance sheet items indicated above are recognised in the income statement among interest income and expenses along the residual duration of the original hedging relationships, after verification of the existence of the basic conditions.

Cash flow hedging

Fair value changes in the hedging instrument are recognised in a specific shareholders' equity reserve (under item "110 Valuation reserves") for the effective portion of the hedge, while fair value changes in the hedging instrument not compensated for by the change in the cash flows of the hedged operation are recognised in the income statement under item "90. Net gains (losses) from hedging". If the cash flow hedging is no longer considered effective, or the hedging relationship has ended, any portion in the reserve is transferred to the income statement when the hedged object, still in being, generates its effects in the income statement. However, if the hedged instrument is derecognised, expires or is extinguished, the reserve is transferred fully to the income statement at the time the hedged element is derecognised.

Hedging of an investment in foreign currency

Foreign investment hedges are accounted for using the same method as for cash flow hedges.
Hedging effectiveness depends on the degree to which the changes in fair value of the instrument hedged or the related expected cash flows are offset by those of the hedging instrument. Consequently, the effectiveness is measured by comparing these changes, taking into account the intended goal of the company at the time the hedge was established.
A hedge is effective when the changes in the fair value (or cash flows) of the hedging financial instrument almost completely neutralise (within the limits established by the range 80-125%) the changes in the hedged instrument, resulting from the risk element being hedged.
The effectiveness of the hedge is assessed at the end of each year or at each interim reporting date, using:

- prospective tests, which justify application of hedge accounting, as they demonstrate its expected effectiveness;
- retrospective tests, which highlight the degree of hedging effectiveness achieved during the related period.

d) derecognition criteria

If the checks do not confirm the effectiveness of the hedging, both retrospectively and prospectively, the hedge accounting is interrupted according to what has been explained above.
In addition, the hedging relationship ceases when:

- the derivative expires, is extinguished or exercised;
- the hedged element is sold, expires or is repaid;
- it is no longer highly likely that the hedged future transaction will be carried out.

The hedging derivative contract, if it has not expired or been extinguished, is reclassified among financial assets held for trading, while the financial instrument being hedged, if it has not been sold or repaid, goes back to being measured according to the criterion of the class it originally belonged to.

5. Equity investments

a) classification criteria

The item includes interests held in subsidiaries, associates or joint ventures, which are accounted for on the basis of the cost method.

Entities are considered subsidiaries when the Bank directly or indirectly holds equity investments or equity securities which represent an absolute majority of voting rights and the rights are substantial, as well as those for which it holds a relative majority of voting rights and the voting rights held by other investors are highly divided. Control may also exist in situations in which the Bank, despite lacking a majority of voting rights, holding sufficient rights to grant it the practical ability to unilaterally direct the relevant assets of the investee, or in the presence of:

- substantial potential voting rights through underlying call options or convertible instruments;

- rights deriving from other contractual agreements which, combined with voting rights, grant the Bank the effective capacity to direct the production processes or other management or financial activities able to significantly impact the returns achieved by the investee;
- the ability to impact, through the Articles of Association or other contractual agreements, governance and methods used to make decisions with regards to significant activities;
- a majority of voting rights through contractual agreements formalised with other holders of voting rights (for example: shareholders' agreements).

With reference to structured entities/investment funds, the Bank has the following positions with regards to the funds:

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

This equivalent to a control relationship, in the presence of the following circumstances:

- the Bank, as a subscriber of units, is able to remove the investment fund manager without just cause or for reasons attributable to the performance of the fund, and these rights are substantial;
- there are provisions in the fund regulations which provide for the establishment of committees within the fund, on which the Bank participates, which intervene in the governance of significant business and have the legal and/or practical ability to control the activities carried out by the fund manager;
- the existence of other relationships with the fund, such as the presence with the fund of personnel with strategic responsibilities linked to the Bank and the presence of contractual relationships which bind the fund to the Bank for the subscription or placement of units.

Finally, with reference to structured entities - special purpose vehicles for securitisation, in determining the presence of the requirements for control over special purpose vehicles for securitisation, the Bank considers both the possibility of exercising to its own benefit the power over significant assets and the ultimate purpose of the operation, beyond the involvement of the investor/sponsor in structuring the operation.

For auto-pilot entities, subscription of the substantial totality of the notes by the Bank is considered an indicator of the presence, during the structuring phase, of the power to manage the significant assets to influence the economic returns achieved by the operation.

Companies that are not controlled but in which notable influence is exercised are considered associates. It is presumed that the company exercises notable influence in all cases in which it holds at least 20% of the voting rights (including "potential" voting rights) and, irrespective of the stake held, if there exists the power to participate in determining management and financial policies for investees, in virtue of particular legal ties, such as shareholders' agreements, with the purpose, for participants in the agreement, to ensure representation in the management bodies and to safeguard uniformity in management guidance, without, however, having control over them.
Entities in which the control is shared between the Bank and one or more other operators on the basis of contractual agreements, on the basis of which the unanimous consent of all parties that share the control is necessary for taking decisions are considered joint ventures.

b) recognition criteria

The initial recognition of financial assets classified in the present category occurs on the settlement date, for an amount equal to the cost, including any goodwill paid on acquisition, which is therefore not the subject of autonomous and separate recognition.

c) income measurement and recognition criteria

Equity investments in subsidiaries, associates and jointly-controlled entities are recognised using the cost method. At each reporting date or interim report, any evidence that the equity investment has undergone impairment is assessed.
If evidence exists that the value of any equity investment may have undergone impairment, steps are taken to estimate the recoverable value of said equity investment represented by the higher amount between the fair value net of sale costs and the value in use. Value in use is equal to the current value of the future cash flows which the investment may generate, including its final disposal value.
If the recovery value is lower than the book value, inclusive of any goodwill, the related difference is stated in the income statement under item "220. Profit (loss) from equity investments". If the reasons for the impairment cease to exist following an event which occurs after the recognition of the impairment, write-backs are made with booking to the income statement under the same item, up to the amount of impairment previously recognised.
Dividends relating to these investments are recorded in the income statement within the Bank's financial statements, regardless of whether they were generated by the investee company before or after the acquisition date. The result of disposals of equity investments is recognised in the income statement under item "220. Profit (loss) from equity investments".

d) derecognition criteria

Equity investments are eliminated when the contractual rights over the cash flows deriving from the assets expire or when they are sold, with substantial transfer of all risks and benefits connected to the same. In the presence of a situation which leads to a loss of significant influence of joint control, any residual equity investment is reclassified to the portfolio ofIFRS 9 financial assets.

6. Property, plant and equipment

a) classification criteria

Property, plant and equipment items include land, properties used for business purposes, investment properties, plant, furniture and furnishings, all kinds of equipment and works of art.
Those held by the Group and used in the production or provision of services or for administrative purposes are defined as instrumental property (classified as "property, plant and equipment used in the business" and recognised according to IAS 16) while those held by the Group in order to collected rents and/or held for appreciation of the invested capital are defined as investment property (classified as "property, plant and equipment used for investment" and follow the rules provided for in IAS 40).
The item also includes property, plant and equipment classified on the basis of IAS 2 – Inventories, related mainly to items acquired with a view to adding value to the investment, perhaps through restoration or renovation work, with the explicit intent of selling them in the immediate future in the context of the normal performance of the business, including assets deriving from the activity of enforcement of guarantees received or from purchase at auction.
Property, plant and equipment includes assets connected with finance lease contracts which have come back into the company's possession, as the lessor, following the termination of the contracts and closure at the same time as the original lending position. This category also includes property, plant and equipment obtained through the enforcement of guarantees received and rights of use acquired through leasing, whether financial or operating, relative to tangible assets which the Bank uses as the lessee, for business or investment purposes. Again relative to third party assets, improvements and incremental expenses paid on third party properties are considered provided they refer to identifiable and separable tangible assets (e.g. ATMs).

b) recognition criteria

Property, plant and equipment items are initially recognised at cost, which comprises both the purchase price and all the possible related charges directly attributable to the purchase and commissioning of the asset.
Extraordinary maintenance costs which involve an increase in the future economic benefits are booked as an increase in the value of the assets, while ordinary maintenance costs are recorded in the income statement.
In the case of real estate withdrawn following the closure of the original lending position (*datio in solutum*), recognition is done at the lower between the value of the gross receivable recognised at the moment of return of the asset and:

- the "market value" resulting from a specific appraisal, if their classification among "assets held for sale" is not foreseeable in a short-term time horizon;
- the "readily realisable value" taken from a specific appraisal, which adjusts the "market value" with the prospect of a sale in a very short time, if at the termination date the subsequent allocation among "assets held for sale" is known;
- at the price being negotiated, if at the moment of initial recognition there are concrete negotiations for the sale, demonstrated by commitments assumed by the parties involved in the negotiation.

With regard to properties, the components referring to land and buildings represent separate assets for accounting purposes and, in virtue of the application of the approach by components, are recognised separately at the time of acquisition. The division between the value of the land and the value of the building is made on the basis of appraisals by independent experts.

Right of use assets ("RoU") acquired through leases are recognised in the financial statements as of the date the contract takes effect, or on the date on which the asset is made available to the lessee and is initially measured at cost. This cost includes:

- the amount of the initial measurement of the leasing liability, including VAT;
- any leasing payments made before the date of effectiveness, net of any leasing incentives;
- any initial direct costs sustained, meaning incremental costs sustained to obtain the lease that would not otherwise have been paid (e.g. brokering fees or success fees);
- estimated costs for restoration or dismantling if the contract provides for these.

Relative to the right of use asset, the lessee recognises a leasing liability under item 10 "Financial liabilities at amortised cost", corresponding to the current value of payments due for the lease. The discount rate used is the implicit interest rate, if this can be determined. If not, the lessee's marginal loan interest rate is used.
When an implicit interest rate is not present in the contract, the Bank uses as its discount rate the curve by maturities aligned to individual leasing contracts, consisting of the Euribor 6M base rate and funding spread blended, the latter equal to the weighted average of funding curves for senior unsecured bonds, protected deposits and privileged deposits.
If a leasing contract contains "non-leasing components" (for example the provision of services, such as ordinary maintenance, to be recognised based on the provisions of IFRS 15), the lessee must separately recognise the "leasing components" and "non-leasing components", dividing up the contract fee between the various components on the basis of the relative individual prices.
The lessee may decide to recognise the payments due for the lease directly as a charge in the income statement, at constant rates throughout the duration of the lease, or use a different systematic method which represents the method of using the economic benefits, in the case of:

- short-term leases (less than or equal to 12 months), which do not include an option to purchase the asset which is the subject of the lease for the lessee;
- leases in which the underlying is a low-value asset.

The Bank has decided to directly recognise the charge in the income statement at constant rates throughout the duration of the lease.

c) income measurement and recognition criteria

Property, plant and equipment, including properties not used for business purposes and with the exception of those governed by the rules of IAS 2, are measured at cost, less any accumulated depreciation and impairment losses.

Property, plant and equipment, whether owned or acquired through rights of use, are systematically depreciated over their useful lives, adopting the straight-line basis as the depreciation method, with the exception of land and works of art which have an indefinite useful life and cannot be depreciated. The useful life of property, plant and equipment subject to depreciation is periodically verified; in case of adjustment of the initial estimate, the related depreciation rate is changed accordingly. For assets underlying leases, determination of the useful life must also take into account the possible transfer of ownership of the asset to the lessee at the end of the lease. If exercising of the option to acquire the asset by the lessee is considered probable, and hence is reflected in the value of the RoU, the useful life considered is that of the underlying asset as of the day the contract took effect. Otherwise, useful life is determined as the shorter of either the useful life of the asset or the duration of the lease. The specific sections of the Notes to the Financial Statements show the depreciation rate and the consequent expected useful life of the main asset categories.

At each annual or interim reporting date, the presence of any signs of impairment - meaning indications which demonstrate that an asset may have undergone a loss in value - must be checked.

In the event of the presence of the said signs, for real estate owned or leased, the book value of the asset is compared to its recoverable value, i.e. the greater of the fair value, net of any costs to sell, and the related value in use of the asset, understood as the present value of the future flows originated by the asset. Any adjustments are recognised in the income statement under item "180. Net value adjustments on property, plant and equipment". Periodic depreciation is recorded in the same item.

If the reasons which led to the recognition of the impairment loss cease to exist, a write-back is made. This must not exceed the value that the asset would have had, net of the depreciation calculated in the absence of prior impairment.

Additionally, during the course of the leasing contract, the book value of the right of use must be adjusted if redetermination of the leasing liability is envisaged. For example, in the case of a change in the duration of the lease or the valuation of an option to purchase the underlying asset in the light of new circumstances.

Tangible assets to which IAS 2 applies are measured in the same way as inventories and therefore at the lower between the cost of accounting recognition and the net realisable value, represented by the estimated selling price less the estimated costs for completion and the other costs necessary to make the sale. Any impairment losses, if they become manifest, are recognised in the income statement under item "180. Net value adjustments on property, plant and equipment". This category is not subject to periodic depreciation.

d) derecognition criteria

Property, plant and equipment is derecognised at the time of disposal or when the assets are permanently withdrawn from use and future economic benefits are not expected from their disposal. Any capital gains and capital losses deriving from disinvestment or disposal of property, plant and equipment are determined as the difference between the net selling price and the book value of the asset and are recognised in the income statement under item "250. Gains (losses) on disposal of investments".

Assets consisting of rights of use, recognised on the basis of IFRS 16, are eliminated at the end of the lease.

7. Intangible assets

a) classification criteria

Intangible assets are non-monetary assets, which are identifiable and lacking a physical presence, held to be used over the long-term or indefinitely. Intangible assets also include goodwill, representing the positive difference between the purchase price and the fair value of the assets and liabilities associated with the acquired company.

b) recognition criteria

They are recognised at cost, as adjusted by any related charges, only if it is probable that the future economic benefits attributable to the assets will arise and if the cost of the assets can be reliably determined. Otherwise, the cost of the intangible assets is recorded in the income statement in the period in which it was incurred.

Goodwill is recognised among assets when it derives from a business combination transaction in accordance with the calculation approach envisaged by the accounting standard IFRS 3, as the residual excess between the cost incurred in total for the transaction and the net fair value of the assets and liabilities acquired constituting companies or business units.

If the cost incurred is instead lower than the fair value of the assets and liabilities acquired, the negative difference (badwill) is booked directly to the income statement.

The Bank does not hold intangible assets.

c) income measurement and recognition criteria

The cost of intangible assets with defined useful life is amortised on a straight-line basis over the related useful life. Assets with undefined useful life are not subject to systematic amortisation, but only periodic assessment of the appropriateness of the relative book value. Intangible assets deriving from software developed internally or acquired from third parties are amortized on a straight-line basis as from the completion and commissioning of the application on the basis of the related useful life. Intangible assets representing relations with customers, which can be recognised at the time of business combinations, are amortised at constant rates.

At each annual or interim reporting date, in the presence of evidence of impairment, steps are taken to estimate the recoverable value of the assets. The amount of the impairment loss, recorded in the income statement, is equal to the difference between the book value of the assets and the recoverable value.
Recorded goodwill is not amortised but subject to periodic checks on its book value, carried out annually or more frequently in the presence of signs of an impairment in value. To this end, the cash generating units to which the goodwill is to be allocated are identified. These units represent the minimum level at which goodwill is monitored for internal management purposes and cannot exceed the operating segment determined in accordance with the standard IFRS 8.

The amount of any impairment is determined on the basis of the difference between the initial recognition value of the goodwill and its recoverable value, if lower. This recoverable value equates to the fair value of the cash generating unit, net of any cost to sell, or the related value in use, represented by the current value of the estimated cash flows for the periods of operation of the cash generating unit, and deriving from its disposal at the end of its useful life, whichever amount is the higher. The consequent value adjustments are recognised in the income statement under item "190 Value adjustments on intangible assets". Periodic depreciation is recorded in the same item. As regards goodwill, recognition of any subsequent write-backs is not permitted.

d) derecognition criteria

Intangible assets are derecognised from the balance sheet at the time of disposal and if future economic benefits are not expected from the same.

8. Non-current assets and asset/liability groups held for sale

a) classification criteria

Classified within asset item "110. Non-current assets and disposal groups held for sale" and liability item "70. Liabilities associated with assets held for sale" are non-current assets/liabilities and asset/liability groups for which book value will presumably be recovered through sale instead of with continuing use.

To be classified in the aforesaid items, the assets or liabilities (or disposal group) must be immediately available for sale and active and concrete plans must be known of, such as to indicate disposal is highly likely within one year of the date they are classified as assets held for sale.

b) measurement and income recognition criteria

After initial recognition, the assets and groups of non-current assets held for sale, with the related liabilities, are measured at the lower between the book value and the fair value net of costs to sell, with the exception of some types of assets - attributable, for example, to all financial instruments falling within the scope of application of IFRS 9 - for which IFRS 5 states specifically that the measurement criteria of the accounting standard of reference must be applied.

At moment of classification of a non-current asset among non-current assets held for sale, any amortisation process is interrupted.

Valuation reserves related to non-current assets held for sale and, recognised as counter-entries to changes in value significant for this purpose, are shown in the statement of comprehensive income.

Income and expenses related to asset and liability groups held for sale, net of the tax effect, in the case they are associated with the discounted operations, are recognised in the income statement under item "290. Gains (losses) on discontinued operations net of taxes". Gains and losses attributable to individual assets held for sale are recognised in the most suitable income statement item.

In the case of discontinued operations, it is also necessary to present the same economic disclosure again in a separate entry, also for the previous periods presented in the financial statements, reclassifying the income statements accordingly.

d) derecognition criteria

Non-current assets and asset/liability groups held for sale are derecognised on disposal.

9. Current and deferred taxation

a) recognition criteria

The effects relating to current and deferred taxes calculated in observance of national tax legislation are recorded on an accruals basis, in line with the methods for recording the costs and revenues which have generated them in the financial statements, applying current tax rates.

Income taxes are recorded in the income statement, with the exception of those relating to items booked or credited directly to shareholders' equity.

The provision for income taxes is determined on the basis of a prudent forecast of the current, prepaid and deferred tax liability.

In particular current taxation includes the net balance between current liabilities for the year and the current tax assets with respect to the Tax Authorities represented by advances, credits deriving from previous tax returns and other tax credits for withholdings made. Current assets also include tax credits a rebate of which has been requested from the competent Tax Authorities. Tax assets transferred to secure own payables also remain recorded in this item.

Deferred tax assets and liabilities are determined on the basis of the timing differences – without time-limits – between the value assigned to an asset or a liability according to statutory criteria and the corresponding values adopted for tax purposes applying the so-called balance sheet liability method.

Deferred tax assets determined on the basis of temporary deductible differences are recognised in the financial statements to the extent that their recovery is probable. This probability is determined through a probability test, on the basis of the Bank's ability to continuously generate positive taxable income or, as a result of exercising the option related to "Tax consolidation", that of all of participating companies.

For a description of the specific methods with which the probability test is conducted please see the Part B of the Notes to the present Consolidated Financial Statements, paragraph 10.7 of Section 10 of the Assets.

The probability of recovering prepaid tax assets relative to goodwill, other intangible assets and writedowns on loans (known as transformable DTAs), must be considered automatically fulfilled as a result of the legal provisions which contemplate their transformation into tax credit in the presence of losses for the period according to civil and/or tax legislation.

In particular, art. 2 - paragraphs 55 and following - of Italian Law Decree no. 225 of 29 December 2010 (as amended) states that:

- in the presence of a statutory loss for the period, prepaid taxes (IRES and IRAP) related to goodwill, other intangible assets and write-downs of receivables can be transformed into tax credit for a portion equal to the ratio between the statutory loss and accounting shareholders' equity gross of the loss itself. The transformation takes effect as of the date of approval, on the part of the shareholders' meeting, of the separate financial statements on which the loss is posted;
- in the presence of a tax loss for the period (that is, for IRAP purposes, of negative value of production), the deferred tax assets related to deductions referred to goodwill, other intangible assets and write-downs of receivables, which have contributed to formation of the aforesaid tax loss (that is of the negative value of production) are transformed into tax credit. The said transformation takes effect as of the date of the presentation of the tax return related to the financial year in which the loss is recorded.

As a result of the provisions contained in Italian Law Decree no. 83 of 27 June 2015, transformable DTAs ceased to increase starting from 2016. Specifically:

1. for deferred tax assets related to goodwill and other intangible assets newly recognised in the financial statements from 2016 onwards exclusion from the rules pursuant to art. 2 - paragraphs 55 and following - of Italian Law Decree 225/2010 was provided for;
2. for deferred tax assets related to write-downs of receivables, from 2016 onwards the accounting condition for the related recognition has ceased as these write-downs have become entirely deductible in the year they are accounted for. We can note that the budget law for 2019 (Italian Law no. 145 of 30 December 2018) made an exception to the full deductibility of write-downs on receivables with reference to those recognised at first time application of IFRS 9, exclusively following the adoption of the recognition model of provisions to cover expected losses (ECLs), providing for the deductibility (IRES and IRAP) of the same in constant instalments over 10 years. It was, however, expressly clarified that the related DTAs consequently recognised, although they are referred to write-downs on loans to customers, do not come within those transformable into tax credit pursuant to Italian Law Decree 225/2010. Also note that the instalment relative to 31 December 2019, following the 2020 Budget Law (Italian Law 160 of 27 December 2019) was deferred to 31 December 2028.

We can note, in addition, that the Bank exercised the irrevocable option pursuant to Italian Law Decree no. 59 of 3 May 2016 (as amended) to keep the right to transform into tax credit the DTAs related to goodwill, other intangible assets and write-downs and losses on receivables; consequently, the related annual fee to be paid with reference to each of the years starting from 2016 and subsequently is payable, if the conditions are met annually, up to 2030. Deferred taxes on tax losses not used are recognised on the basis of the same criteria envisaged for the recognition of deferred taxes on deductible temporary differences: they are therefore recognised only to the extent to which their recovery is likely, on the basis of the ability to generate positive taxable incomes in the future. As the existence of unused tax losses can be a symptom of difficulty in achieving positive taxable incomes in the future, IAS 12 states that, in the presence of losses made in recent periods, suitable evidence must be provided to support the existence of such income in the future. In addition, we can note that the current Italian tax legislation allows unlimited carrying forward over time of IRES tax losses (Art. 84 paragraph 1 of the Consolidated Income Tax Law); consequently, verification of the existence of future taxable earnings against which to use these losses is not subject to time limits.

As stated above, the MPS Group verifies the probability of the manifestation of future taxable income (probability test) through a risk-adjusted approach which involves the application of a discount rate to prospective cash flows. This factor discounts future income at increasing rates to reflect uncertainties. For more details on the valuations carried out by the Group to verify the possibility of recognising deferred tax assets, please see point 16 below, "Use of estimates and assumption sin preparing the statutory financial statements", paragraph "Methods of determining deferred tax assets (probability test)".

Deferred tax assets and liabilities are calculated using the tax rates expected at the date of payment of the temporary differences, on the basis of the measures existing at the reporting date. In particular, for the purposes of recognising prepaid tax assets, it was taken into account that the 2020 Budget Law (Italian Law 160 of 27 December 2019) reintroduced the ACE (Aid for Economic Growth) subsidy, effective as of 2019, which had been previously abrogated by the 2019 Budget Law (Italian Law 145 of 30 December 2018). Any changes in the tax rates or fiscal legislation, issued or communicated after the reporting date and before the date of authorisation for publication, which have a significant effect on deferred tax assets and liabilities are treated as events that occurred after the reporting date that do not entail adjustment under the terms of IAS 10, with consequent disclosure in the notes to the statements.

Prepaid and deferred taxes are recognised at the capital level by offsetting at the level of the same tax.

b) classification and measurement criteria

Deferred tax assets and liabilities recognised are measured systematically to take account of any changes made to legislation or tax rates, as well as of any subjective situations. In relation to the Tax Consolidation between the Parent Company and the subsidiaries that have accepted it contracts were signed that regulate the offsetting flows in relation to transfers of tax profits and losses. These flows are determined applying the IRES rate in force to the tax losses of the companies involved. For companies that transfer tax losses, the offsetting flow, calculated as above, is paid by the consolidating to the consolidated company when, and in the amount of which, the same consolidated company transfers to the tax consolidation, in tax periods subsequent to that in which the loss was made, positive taxable income. Offsetting flows determined in this way can be recognised as credits and debits relative to the companies participating in tax consolidation, classified among other assets and other liabilities, as a counter-entry to item "270 - Income taxes for the year from continuing operations".

c) income recognition criteria

If the deferred tax assets and liabilities refer to components that have affected the income statement the counter-entry is represented by income taxes. In cases where deferred tax assets and liabilities concern transactions which have directly affected shareholders' equity without influencing the income statement, for example measurements of financial instruments measured at fair value through other comprehensive income or cash flow hedging derivatives, the same are recorded as a counter-entry to shareholders' equity, affecting the specific reserves when envisaged.

10. Financial liabilities measured at amortised cost

a) classification criteria

Item "10. Financial liabilities measured at amortised cost" comprises the sub-items "a) payables to banks", "b) payables to customers" and "c) outstanding securities" and consist of the various forms of funding, both interbank and in relation to customers and deposits made through certificates of deposits and bonds in issue, net of any repurchases. Among outstanding securities are classified all securities not subject to "natural" hedging with derivatives, which are classified among liabilities measured at fair value.
Also included are payables recognised by the lessee in the context of any financial or operating leasing operations entered into, and repurchase agreements for funding and securities lent receiving a guarantee in cash that comes within the full availability of the lender. Lastly, the item includes operating payables connected with the provision of financial services as defined in the Consolidated Law on Banking and the Consolidated Law on Finance.

b) recognition criteria

Initial recognition of these financial liabilities occurs at the moment of receiving the amounts collected or of issue of the debt securities and is done on the basis of the fair value of the liabilities, which is normally equivalent to the amount collected or the issue price, increased by any additional costs/revenues directly attributable to the single funding operation or issue and not refunded by the creditor counterparty. Internal administrative costs are excluded.

Repurchase agreements with obligation to repurchase are recognised as funding transactions for the spot amount received.

With regard to structured instruments, if there are the requirements envisaged by the standard IFRS 9 for separate recognition of embedded derivatives, these latter are separated from the host contract and recognised at fair value as assets or liabilities held for trading. The host contract is instead recognised at amortised cost.

Leasing liabilities recognised relative to the lessee are measured as the current value of future fees yet to be paid for the duration of the lease.

The duration of the lease is determined by taking into account:

- periods covered by options to extend the lease, in the case exercising of the options is reasonably certain;
- periods covered by options to terminate the lease, in the case exercising of the option is reasonably certain.

c) income measurement and recognition criteria

After initial recognition, financial liabilities issued, net of any redemptions and/or repurchases, are measured at the amortised cost with the effective interest rate method. Short term liabilities, when the time factor is negligible, are excepted and remain recognised for the amount collected. Interest is charged to the income statement under item "20. Interest expense and similar charges".
Relative to leasing liabilities, after the date the contract takes effect, the book value:

- increases on the basis of interest expense accrued, recognised in the income statement under item "20. Interest expense and similar charges";
- decreases to take into account the payment of fees due for the lease;
- is redetermined to take any new valuations or amendments to the lease into account (i.e. extension or reduction of the contract duration, or renegotiation of the leasing fee), which occur after the date the contract takes effect.

We can note, in addition, that funding instruments that are the subject of an effective hedging relationship are measured on the basis of the rules laid down for hedging transactions.

d) derecognition criteria

Financial liabilities are derecognised when they have matured or been discharged. Derecognition also takes place when previously issued securities are repurchased. The difference between the book value of the liability and the amount paid to acquire it is recorded in the income statement under item "100. Gains (losses) on disposal or repurchase of: c) financial liabilities". The re-placing of own securities on the market subsequent to their repurchase is considered a new issue with recognition at the new placement price, with no effect on the income statement.

11. Financial liabilities held for trading

a) classification criteria

This item comprises:

- financial liabilities issued with the intention of repurchasing them in the near future;
- liabilities that are part of a portfolio of financial instruments managed jointly for which there is a proven strategy aimed at achieving profits in the near future;
- derivative contracts with a negative fair value not designated as hedging instruments, including those embedded in complex financial instruments that have been separated from liabilities measured at cost amortised cost and those connected to assets/liabilities designated at fair value through profit or loss.

Also included are liabilities that originate from technical overdrafts generated by securities trading activity.

b) recognition criteria

Financial liabilities are initially recognised on the settlement date for on-balance-sheet liabilities, while derivative contracts are recognised on the date they are signed.

At the moment of initial recognition financial liabilities held for trading are measured at their fair value, which generally corresponds to the amount collected, without considering the transaction costs or income directly attributable to the instrument itself, which are booked directly to the income statement.

c) measurement criteria

After initial recognition financial liabilities held for trading are carried at fair value, recording changes as offsetting entries in the income statement.
Please see section "A.4.3 Fair value hierarchy" in the present Part A, below, for a description of the criteria used to determine the fair value of financial instruments.

d) income recognition criteria

Gains and losses deriving from changes in the fair value of financial liabilities and/or from the sale of the same are recognised in the income statement item "80 - Net gains (losses) on trading activities", including those related to derivative liabilities connected with the Fair Value Option.

e) derecognition criteria

Financial liabilities are derecognised when the contractual rights to the related cash flows expire or when the financial liabilities are sold with substantial transfer of all the risks and benefits deriving from ownership of the same.

12. Financial liabilities designated at fair value

This portfolio is not used by the bank.

13. Provisions for risks and charges

Provisions for risks and charges: commitments and guarantees given

The sub-item in question comprises provisions for credit risk covering commitments to disburse funds and guarantees given that come within the scope of application of the rules on impairment under the terms of IFRS 9, as is laid down for "Financial assets measured at amortised cost" and for "Financial assets measured at fair value through other comprehensive income". For more information on the impairment model, please see that shown in point 16 below, "Use of estimates and assumptions in preparing the statutory financial statements" below – paragraph "Methods of determining the impairment of financial assets".

In addition, the sub-item also includes provisions for risks and charges set aside to cover other types of commitments and guarantees given which, owing to their specific features, do not come within the scope of application of the impairment rules under the terms of IFRS 9.

Provisions for risks and charges: pensions and similar obligations

The sub-item "Provisions for risks and charges: b) pensions and similar obligations" includes the provisions recorded on the basis of IAS 19 "Employee benefits" for the purpose of making good the technical deficit of the supplementary defined-benefit pension funds. Pension plans are divided up into the two categories with defined benefits and defined contributions. While for defined contribution plans the liability of the company is established in advance, for defined benefit plans the liability is estimated and must take into account any insufficiency in contributions or in return on the assets in which these contributions have been invested. For defined benefit pension plans, the determination of the actuarial values required by the application of the aforementioned standard is carried out by an independent actuary, using the Projected Unit Credit Method. The actuarial gains and losses, defined as the difference between the book value of the liability and the present value of the commitments at the end of the year, are recognised for the entire amount in the statement of comprehensive income, in the item "Valuation reserves". For more details please see paragraph 15 "Other information" below, letter a) "Content of other significant accounting items" – paragraph "Provisions for severance indemnity and other employee benefits".

Provisions for risks and charges: other provisions for risks and charges

The sub-item "– Provisions for risks and charges: c) other provisions for risks and charges" comprises the amounts set aside to cover the estimated outlays for legal or implicit obligations deriving from past events. These outlays may be of a contractual nature, such as allocations for the incentive system for personnel and for early retirement incentives, indemnities provided for in contractual clauses on the occurrence of certain events, or involving compensation and/or restitution, such as those to cover estimated losses on litigation, including le actions for revocation, estimated outgoings to settle customer complaints for securities broking activities, disputes concerning taxation. Sub-item c) also includes any provisions established against leasing contracts, stipulated as the lessee, which require the execution of dismantling or restoration of the underlying assets at the end of the contract.

Provisions for risks and charges consist of liabilities of an uncertain amount or maturity and are recognised in the financial statements if:

- there is a current (legal or implied) obligation as a result of a past event;
- it will probably be necessary to use resources able to produce economic benefits to meet the obligation; and
- the amount of the probable future outgoing can be estimated reliably.

The amount recognised as provisions represents the best estimate of the financial outgoing necessary to fulfil the obligation existing at the reporting date and reflects the risks and uncertainties inherent in the facts and circumstances examined. If the time factor is significant, the provisions are discounted to the present using the current market rates. With the exception of provisions for risks linked to leasing contracts, provisioning and the effect of discounting are shown in the income statement under item "170. Net provisions for risks and charges", as is the increase in the provisions as a result of the passing of time. Provisions set aside are re-examined at each reporting date and adjusted to reflect the best current estimate. When the use of resources, intended to produce economic benefits to fulfil the obligation, becomes improbable, or when the obligation is extinguished, the provisions are reversed.

Provisions established against leasing contracts stipulated as the lessee are established considering the best estimate of dismantling or restoration costs for the areas as of the date the contract took effect, or the date on which the underlying asset became available to the Bank. The counter-entry for the provision is represented by the asset recognised as the value of the rights of use for the properties under item "80. Property, plant and equipment".

In addition, each provision is used only to cover outgoings for which it was originally set aside.

No provision is made for liabilities which are merely potential and not probable, but disclosure is in any case provided in the Notes to the Financial Statements, unless the likelihood of using resources is remote or the phenomenon is not significant.

14. Foreign currency transactions

a) recognition criteria

Foreign currency transactions are recorded, at the moment of initial recognition, in the reporting currency applying to the amount in foreign currency the exchange rate in force on the transaction date.

b) income classification, measurement, derecognition and recognition criteria

At every reporting date, foreign currency items are measured as follows:

- cash items are converted at the exchange rate in force on the balance sheet date;
- non-cash items are carried at their historical cost converted at the exchange rate in force on the date of the transaction;
- non-cash items designated at fair value are converted at the exchange rate in force on the balance sheet date.

The exchange differences which derive from the settlement of monetary elements or from the conversion of monetary elements at rates other than for initial conversion, or conversion of the previous financial statements, are recorded in the income statement of the period in which they arise.

When a gain or a loss relating to a non-monetary element is recorded under shareholders' equity, the exchange difference relating to this element is also stated under equity. By contrast, when a gain or a loss is recognised in the income statement, the related exchange difference is also recorded in the income statement.

15. Other information

a) Content of other significant accounting items

The content of other significant accounting items is described below.

Other assets and other liabilities

In item 120 of Assets "Other assets" and 80 of the Liabilities "Other liabilities" the assets and liabilities not attributable to the other balance sheet items are recognised. These are referable mainly to:

- items in transit or being processed;
- receivables and payables connected with the supply of goods or non-financial services and accrued income and expenses other than those that are capitalised on the pertinent financial assets/liabilities, including those deriving from contracts with customers under the terms of IFRS 15;
- any inventories of goods according to the definition of the standard IAS 2, with exclusion of those classified as inventories of property, plant and equipment;
- payment agreements that must be classified as payables under IFRS 2;
- credit/debit positions deriving from the tax consolidation system;
- tax credit and debit items other than those recognised in item "100. Tax assets" and "60. Tax liabilities";
- capital gains/capital losses deriving from measurement of transactions in regular way securities not yet settled;
- improvements and incremental expenses paid on third party properties other than those recorded in item "80 Property plant, and equipment", as they are not identifiable and separable on their own.

The costs indicated under the last point are placed under item "120. "Other assets" in consideration of the fact that due to the lease agreement the user company has control over the assets and may draw future economic benefits from them. These costs are recognised in the income statement under item "200. Other operating income/charges" according to the shorter period between the one in which the improvements and incremental expenses can be used and the residual validity of the agreement, including the period of renewal, if there is evidence in this sense.

Severance indemnities and other employee benefits.

Severance indemnities for the personnel are classified, under the terms of IAS 19, as "post-employment benefits". Following the complementary pension reform pursuant to Italian Legislative Decree no. 252 of 5 December 2005, new rules were introduced for severance indemnities accrued starting from 1 January 2007, which are relevant for the related accounting treatment. In particular for companies with on average at least 50 employees during 2006, the portions of severance indemnities for personnel accrued starting from 1 January 2007 are classified in the accounts as a "defined contribution plan" both in the case of option by the employee for a complementary pension, and in the case of allocation to the Treasury Fund at the INPS; the expense, accounted for among personnel expenses, is limited to the contribution established by the rule provided for in the Italian Civil Code, without applying any actuarial methodology.

Otherwise, provisions for severance indemnities accrued as of 31 December 2006 continue to be classified in the accounts as a "defined benefit plan". In general, "post-employment plans" - which include, besides Provisions for severance indemnities, the Pension funds - are divided into two categories, "defined benefit" and "defined contribution", on the basis of the related characteristics.

In particular, for defined contribution plans the cost is represented by contributions accrued in the period, given that the company has only the obligation to pay the contributions fixed on a contractual basis to a fund and consequently does not have any legal or implicit obligation to pay, besides paying the contribution, further amounts if the fund does not have sufficient assets to pay all the benefits to the employees.

For defined benefit plans, the actuarial and investment risk, that is the risk of any insufficiency of contributions or of an insufficient return on the assets in which the contributions are invested, is borne by the company. The liability is determined by an independent actuary according to the actuarial "Projected Unit Credit" method. On the basis of the said method it is necessary to forecast future outgoings on the basis of demographic and financial assumptions, to be discounted to take into account the time that will pass before the effective payment and to be re-proportioned on the basis of the ratio between the years of service matured and the estimated theoretical seniority at the moment is disbursement of the benefit. For discounting purposes, the rate used is determined with reference to the market return of bonds of leading companies taking into account the average residual duration of the liability, weighted on the basis of the percentage of the amount paid and advanced, for each maturity, with respect to the total to be paid and advanced up to the final settlement of the entire obligation.

The actuarial value of the liability thus determined must then be adjusted by the fair value of any assets serving the plan (net liability/asset). The actuarial gains and losses that arise as a result of adjustments of the previous actuarial assumptions formulated, following the experience effectively noted or owing to changes in the said actuarial assumptions, entail a remeasurement of the net liability and are allocated as a counter-entry to a shareholders' equity reserve (item "110. Valuation reserves") and, therefore, represented in the Statement of Comprehensive Income. The change in the liability consequent to a modification or a reduction of a plan is recognised in the income statement as a gain or loss. More specifically, changes occur when a new plan is introduced, rather than when an existing plan is modified or withdrawn. There is instead a reduction in the presence of a significant negative change in the number of employees included in the plan, for example in the case of plans for the reduction of surplus personnel (access to the Solidarity Fund).

The "Projected Unit Credit" method, described above, is followed also for measuring the long-term benefits, such as "seniority bonuses" in favour of employees. Unlike what is described for "defined-benefit plans", the actuarial gains and losses connected with the measurement of the long-term benefits are recognised immediately in the income statement.

Valuation reserves

The present item includes valuation reserves related to equity securities designated at fair value through other comprehensive income, to financial assets (other than equity securities) measured at fair value through other comprehensive income, to foreign investment hedging, to cash flow hedging, to exchange differences from translation, to "single assets" and asset groups held for sale, to the portion of valuation reserves of equity investments measured at shareholders' equity, to actuarial gains/losses on defined benefit plans, to gains/losses connected with the change in own creditworthiness in relation to liabilities in fair value options.

Share capital and Treasury shares

Item "160. Share capital" includes the amount of shares outstanding net of the amount of any capital subscribed but not yet paid up at the reporting date. The item is shown gross of any treasury shares held by the Bank. These latter are recognised in their own item as a negative component of shareholders' equity.
The original cost of repurchased treasury shares and gains and losses deriving from subsequent resale are recognised as changes in shareholders' equity. Transaction costs relative to capital operations, for example share capital increases, are recognised as a reduction in shareholders' equity, net of any associated tax benefits. Dividends on ordinary shares are recognised as a reduction to shareholders' equity during the year in which the Shareholders' Meeting resolved distribution of the same.

b) Other significant accounting treatments

Revenue from Contracts with Customers (IFRS 15)

Revenues are gross flows of economic benefits that have occurred during the year in the form of a fee for the obligation to transfer to customers a vast range of goods and services the come within the ordinary business.
The standard IFRS 15 "Revenue from Contracts with Customers" introduces a new model for recognising revenue deriving from contractual obligations with customers, which is based on the concept of transfer of control and not only, therefore, on the concept of transfer of the risks and benefits.
First of all, the revenue from contracts with customers is recognised in the financial statements only if the contract from which it derives is identifiable, that is:

- the parties have approved the contract and have committed themselves to executing it;
- the rights and obligations of the parties are clearly identifiable in the contract;
- the terms related to payment for the goods and services transferred can be identified;
- the contract has commercial substance, in the sense that it impacts the entity's cash flows;
- collection of the consideration is considered likely in exchange for transfer of the goods and provision of the services. This measurement must consider only the customer's ability and intention to pay the amount of the consideration payable.

After the consideration of the contract has been allocated to the single obligations deriving from the same, the revenue is recognised in the income statement when the customer obtains control over the goods or services promised (that is when the related performance obligation can be considered fulfilled) and this may occur:

- in a certain instant in time (for example, when the entity fulfils the performance obligation, transferring to the customer the good or service promised – at a point in time);
- Along a period of time (for example, as the entity gradually fulfils the performance obligation transferring to the customer the good or service promised – over time).

For the purposes of determining the revenue to be recognised, the consideration is defined as the amount to which the entity expects to have the right in exchange for transfer of the goods and services and may include fixed amounts, variable amounts or both. In detail, the consideration of the contract may vary following reductions, discounts, refunds, incentives, performance bonuses or other similar elements. The variability of the consideration may also depend on the occurrence or non-occurrence of a future event (as in the case of a commission linked to performance targets).
The methods suggested by IFRS 15 for estimating the variable part of the remuneration are:

- the expected value method, that is the weighted sum of the amounts in a range of possible considerations (for example, the company has a high number of contracts with similar characteristics);
- the most likely amount method, that is the most likely amount in a range of possible considerations (for example, the company receives a performance bonus or otherwise).

In the presence of variable considerations, the revenue is recognised in the income statement only if it is possible to estimate the revenue reliably and if it is highly likely that this consideration will not subsequently have to be reversed from the income statement, wholly or in a significant part. In the event of strong prevalence of factors of uncertainty linked to the nature of the consideration, the same will be recognised only at the moment in which this uncertainty is resolved. In any case, the estimated part of the transaction price must be updated at the end of each reporting period. In determining the price, the presence of financial components must be considered, if significant.
In the case of commercial agreements the provide payment to the entity of variable non-cash considerations, linked to the achievement of specific targets spendable in the provision of services rendered by the commercial partner, the Bank recognises this revenue in the income statement of the period in which they accrue, for an amount not more than the fair value of the services effectively rendered by the partner.
If the entity receives from the customer a consideration which provides for repayment, to the customer itself, wholly or in part, of the revenue obtained, a provision for risks and charges is established against the forecast future refunds. This may occur, for example, when the customer has a right of withdrawal on the good or in the

contract a so-called claw back clause is provided. This principle also applies to loyalty programs against which a refund liability is identified. The liability for future refunds is equal to the amount of the consideration received (or receivable) to which it is expected not to have a right (that is amounts not included in the transaction price). The liability for future refunds (and the corresponding change in the transaction price and, consequently, the liability deriving from the contract) must be updated to the date of closure of each reporting period to take into account the changes in circumstances.
Finally, incremental costs relative to obtaining contracts are capitalised, when it is expected these will be recovered, as well as costs for fulfilment of the contract, when these costs can be directly attributed to the contract, generate resources which can be used to fulfil future contractual services and can be considered recoverable.
Assets recognised in this way are systematically amortised in line with the transfer of the asset or service to which the asset refers to the client, and therefore in line with recognition of the corresponding revenues.
In relation to the Bank's operations, the aforementioned particular cases were not recognised.

Revenues and costs related to financial instruments

With reference to income and expenses related to financial assets/liabilities we must specify that:

a) interest is recognised *pro-rata temporis* on the basis of the contractual interest rate or of the effective interest rate in case of application of amortised cost; the negative income components accrued on financial assets are recognised under item "20. Interest and similar expense"; the positive economic components accrued on financial liabilities are recognised under item "10. Interest and similar income". The item interest income (or interest expense) also includes the spreads or margins, positive (or negative), accrued up to the reporting date, related to financial derivative contracts:
    - Hedging assets and liabilities that generate interest;
    - Classified in the Balance Sheet in the trading book, but operationally connected to financial assets and/or liabilities measured at fair value (fair value options);
    - connected operationally with assets and liabilities classified in the trading book and which provide for settlement of spreads or margins at several due dates;
b) default interest is recorded in the income statement solely at the time it is effectively collected;
c) dividends are recognised in the income statement at the moment in which their distribution is resolved and therefore the right to receive the related payment matures;
d) fees for revenues from services are recognised, on the basis of the existence of contractual agreements, in the period in which the services themselves were provided. Fees considered in amortised cost for the purposes of determining the effective interest rate, are recognised among interest;
e) gains and losses consequent to first recognition at fair value, determined by the difference between the transaction price and the fair value of the instrument, are recognised in 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 where the instrument is traded; otherwise, they are distributed over time, taking into account the duration and nature of the instrument;
f) gains and losses deriving from the sale of financial instruments are recognised in the income statement at the moment of completion of the sale, with related transfer of the risks and benefits, on the basis of the difference between the consideration received and the book value of the instruments themselves.

Costs relative to constant services and decreasing payments

The IFRS accounting standards do not provide specific guidelines on the accounting treatment to be applied to recognise costs linked to service contracts, provided by a supplier in the form of an indeterminate number of actions, through a given period of time. In the presence of cases involving services rendered by suppliers through a single performance obligation relative to the disbursement of a specific number of units, for example given volumes of services, which remain constant throughout the entire duration of the contract and each individual performance obligation is satisfied over time with a decreasing amount of payments due from the client, the

Group applies, by analogy, the accounting treatment outlined in accounting standard IFRS 15 (see Basis for Conclusions 313-314).
The Bank, in the case of supplies of a constant volume over time of equal services and decreasing payments, assigns an average unit cost to the services received and, consequently, recognises the costs on a straight line basis. This straight line mechanism for recognising costs makes it necessary to recognise a prepaid asset which, at every reporting date pursuant to IAS 36, is subject to valuation regarding the presence of impairment, taking into account analysis done for the purposes of contracts payable. In the case in which indications of impairment are identified, the recoverable value of the asset is determined, and impairment must be recognised in the financial statements when the recoverable value is less than the book value.

Share-based payments

These are payments to employees, as consideration of the work done, settled with equity instruments, that consist, for example, of assigning:

- rights to subscribe paid capital increases (stock options);
- rights to receive shares on achieving certain targets or at the end of an employment relationship.

Pursuant to standard IFRS 2, payments based on treasury shares are classified as "equity settled" plans, to be recognised on the basis of the fair value of the work services received.

In consideration of the difficulties of directly estimating the fair value of the work services received as a counter-entry of the assignment of shares, it is possible to measure the value of the services received, indirectly, making reference to the fair value of the equity instruments, at date of their assignment. The fair value of the payments settled with the issue of shares is recognised, on the basis of the criterion of accrual of the service provided, in the income statement item "160. a) Personnel expenses" as a counter-entry to an increase in item "140. Reserves". In particular, when the shares assigned are not immediately "usable" by the employee, but will be when the employee has completed a specific period of service, the company recognises the cost as consideration for the service rendered along the period of maturation of the said conditions ("vesting period").

Amortised cost

The amortised cost of a financial asset or liability is the value at which it has been measured on initial recognition net of repayments of principal, increased or decreased by total amortisation calculated using the effective interest rate method, on the differences between the initial value and net of any permanent impairment.

The effective interest rate is the rate that makes the present value of a financial asset or liability equal to the contractual flow of the future payments in cash or received up to maturity or at the later date of recalculation of the price. For the calculation of the current value, the effective interest rate is applied to the flow of the future collections or payments estimated over the entire useful life of the financial asset or liability - or a shorter period in the presence of certain circumstances (for example the review of the market rates).

Subsequent to initial recognition, the amortised cost makes it possible to allocate revenues and costs decreasing or increasing the instruments over the entire estimated life of the same via the amortisation process. The determination of the amortised cost differs according to whether the financial assets/liabilities being measured are fixed or floating rate.

With regard to fixed-rate instruments, the future cash flows are quantified on the basis of the interest rate noted over the duration of the loan. For floating-rate financial assets/liabilities, whose variability is not known in advance (because, for example, it is linked to an index), the cash flows are determined on the basis of the last known rate. As of every rate review date, steps are taken to recalculate the repayment plan and the effective rate of return over the entire useful life of the instruments, in other words to maturity. The adjustment is recognised as a cost or as income in the income statement.

Measurement at amortised cost is carried out for financial assets measured at amortised cost and for those measured at fair value through other comprehensive income; and for 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 including, for instruments measured at amortised cost, the transaction costs and fees directly attributable.

Internal or external marginal costs and income attributable to the issue, acquisition or disposal of a financial instrument and not rechargeable to the customer are considered transaction costs. These fees, which must be directly ascribable to the individual financial asset or liability, affect the original effective return and render the effective interest rate associated with the transaction different from the contractual interest rate. Costs/income related indistinctly to several transactions and the components related to events that may occur during the life of the financial instrument, but which are not certain at the moment of the initial definition, such as fees for retrocession, for non-use, for early settlement, are excluded.

The costs that the Bank has to bear irrespective of the transaction (for example, administrative, stationery, communication costs), those which, although they are specifically attributable to the transaction, come within the normal loan management practice (for example, activities aimed at disbursement of the loan), ad fees for services received following performance of structured finance activity that would, in any case, by received irrespective of the subsequent financing of the operation (such as facility and arrangement fees) are also not considered.

With particular reference to receivables, commissions paid to distribution channel (agents, consultants, mediators) and fees paid for advice/assistance for the organisation and/or participation in syndicated loans are considered costs attributable to the financial instruments while revenue considered in the calculation of amortised cost are those of participation in syndicated operations and brokerage fees connected to commissions recognised by brokerage companies.

As regards securities not measured at fair value through profit or loss, fees for contracts with brokers operating on Italian equity markets, those disbursed to intermediaries operating on foreign equity and bond markets defined on the basis of fee tables are considered transaction costs.

For securities issued, fees for the placing of bond loans paid to third parties, the fees paid to stock exchanges and fees paid to independent auditors for the activity performed in relation to the single issue are considered in the amortised cost calculation, while fees paid to rating agencies, legal and consultancy/auditing expenses and expenses for the annual updating of prospectuses, costs for the use of indices and fees that originate during the life of the bond loan issued are not considered related to amortised cost.

With respect to the general approach the effective interest rate must be calculated differently for financial instruments measured at amortised cost or at fair value through other comprehensive income, purchased or originated, which at the moment of their first recognition are already credit impaired (so-called PCI or OCI).

The criterion of measurement at amortised cost does not apply for hedged financial assets/liabilities for which recognition of changes in fair value related to the risks hedged in the Income Statement is provided for. The financial instrument is however newly measured at amortised cost in the case of cessation of the hedging, the moment starting from which changes in fair value previously recognised are amortised, calculating a new effective interest rate which considers the value of the receivable adjusted by the fair value of the part hedged, up to expiry of the hedging originally provided for. In addition, as already noted in the paragraphs on financial assets and liabilities measured at amortised cost, measurement at amortised cost does not apply for financial assets/liabilities whose brief duration leads to believing negligible the economic effect of discounting for receivables without a defined maturity or until revoked.

Purchased and originated credit-impaired (POCI) assets

These are instruments for which the credit risk is very high and which, in the case of purchase, are purchased at a considerably discounted value with respect to the value of initial disbursement. For this reason, they are considered already credit-impaired at the moment 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 in item "40. Financial assets measured at amortised cost".

Among POCI assets there are two different kinds:

- impaired instruments or loan portfolios purchased on the market (Purchased Credit Impaired – "PCI");
- loans disbursed by the Group to customers distinguished by very high credit risk (Originated Credit Impaired – "OCI").

Impaired financial assets purchased through business combinations under the terms of IFRS 3 come within the scope of application of IFRS 9 PCI assets.

We must specify that these financial assets are initially recognised in stage 3, without prejudice to the possibility of reclassifying them among performing receivables (stage 2), on which, therefore, an expected loss will continue to be recognised according to an impairment model based on lifetime ECLs, as illustrated below.

With reference to the criteria of initial recognition, measurement and derecognition please see what is illustrated in correspondence with the asset items in which they can be classified, subject to what is specified below, with reference to the methods of determining amortised cost and impairment.

In detail, amortised cost and, consequently, interest income are calculated considering a credit-adjusted effective interest rate or CEIR. As regards determination of the effective interest rate, the aforementioned credit adjustment consists of considering in the estimate of the future cash flows also the expected credit losses along the entire residual duration of the asset. For the purposes of calculating the CEIR the Bank uses the contractual cash flows net of the expected losses.

In addition, the assets in question involve a particular treatment also as regards the impairment process, because they are always subject to determination of an expected loss along the life of the financial instrument (lifetime ECL). After initial recognition, the gain or loss deriving from any change in the expected losses along the whole life of the loan with respect to the initial losses must therefore be recognised in the income statement. For these assets it is therefore not possible for the calculation of the expected losses to occur taking as a reference a time horizon of one year.

Renegotiations

In some cases, during the life of financial assets and in particular of loans, the original contractual conditions are subject to subsequent amendment with the agreement of the parties to the contract. When, during the life of an instrument, the contractual clauses are amended (both when the amendment is formalised through the signing of a new contract and through an amendment to an existing contract) it is necessary to check whether the original asset must continue to be recognised in the financial statements or whether, on the contrary, the original instrument must be subject to derecognition from the financial statements and a new financial instrument must be recognised.

In general, the changes to a financial asset lead to derecognition of the same and to recognition of a new asset when they are "substantial". The assessment of the "substantiality" of the change is carried out considering only qualitative elements. In particular, renegotiations are considered substantial if they introduce specific objective elements that affect the characteristics and/or the cash flows of the financial instrument (such as, a change in the currency of denomination, the introduction of indexing to equity or commodity parameters) in consideration of the significant impact expected on the original cash flows or which are made in relation to customers that do not present financial difficulties, with the objective of adjusting the onerousness of the contract to the current market conditions. In this latter case, note that if the Bank does not grant renegotiation of contractual conditions, the client has the possibility of obtaining financing through another intermediary with a consequent loss of the cash flows foreseen for the renegotiated contract for the Bank. In other terms, against a commercial renegotiation, it is held that there is no loss to recognise in the income statement for the Bank consequent to realignment to improved current market conditions for its clientèle. On the contrary, in the presence of renegotiations considered non-substantial the gross value is redetermined through calculation of the present value of the cash flows consequent to the renegotiation, on the basis of the original interest rate of the exposure existing before the renegotiation. The difference between this gross value and the gross book value prior to the change is recognised in the income statement under item "140. Gains (losses) on contractual changes without cancellations" (modification accounting). The case of non-substantial renegotiations includes modifications granted to counterparties with financial difficulties (granting of forbearance measures) attributable to the Bank's attempt to maximise the recovery of the original exposure, the risks and benefits of which continue, however, to be held by the Bank. Modifications that introduce into the contract substantial objective elements capable in themselves of entailing the derecognition of the financial asset, as illustrated above, are an exception.

Accounting treatment of contributions to deposit guarantee systems and resolution mechanisms

Italian Legislative Decrees 180 and 181 of 2015 transposed into Italian legislation Directive 2014/59/EU, the Banking Resolution and Recovery Directive ("BRRD"), which provides for the establishment of resolution funds. These funds are endowed, among other things, by:

a) contributions paid by banks on an annual basis, aimed at reaching the target level of fund endowment set by the legislation;
b) extraordinary contributions paid by banks if the ordinary contributions are insufficient to cover the interventions decided in the context of resolution.

Both types of contributions come within the scope of application of the interpretation IFRIC 21 "Levies", because these contribution obligations derive from legislative provisions. On the basis of this interpretation a liability must be recognised on occurrence of the "obligating event" that creates the payment obligation. The counter-entry for this liability is represented by item "160. Administrative expenses b) other administrative expenses", as the conditions are not fulfilled either for recognition of an intangible asset under the terms of the accounting standard IAS 38 "Intangible Assets", or for recognition of an asset for advance payment.

The same treatment is reserved for the "*ex ante*" contributions paid to the Interbank Deposit Protection Fund in the context of Directive 2014/49/EU "Deposit Guarantee Schemes" (DGS), contributions that the Bank does not pay because it does not have a "contributive base".

c) Other aspects

Classification criteria for financial assets

The classification of financial assets in the three categories provided for in the standard depends on two criteria, or drivers, of classification: the Business Model with which the financial instruments are managed and contractual characteristics of the cash flows of the financial assets (or SPPI Test).
The combined provisions of the aforementioned two drivers leads to the classification of the financial assets, according to what is highlighted below:

- Financial assets measured at amortised cost: assets that pass the SPPI test and fall within the Held To Collect (HTC) business model;
- Financial assets measured at fair value through other comprehensive income (FVOCI): assets that pass the SPPI test and fall within the Held To Collect and Sell (HTCS) business model;
- Financial assets measured at fair value through profit or loss (FVTPL): this is a residual category, which includes financial instruments which are not classifiable in the previous categories on the basis of what

has emerged from the business model test or from the test on the characteristics of the contractual flows (SPPI test not passed).

Business model

As regards the business model, IFRS 9 identifies three cases in relation to methods with which cash flows and sales of financial assets are managed.

- Held to Collect (HTC): this is a business model the objective of which is achieved through the collection of contractual cash flows of the financial assets included in the portfolios associated with it. Inclusion of a portfolio of financial assets in this business model does not necessarily entail the impossibility of selling the instruments even if it is necessary to consider the frequency, the value and the timing of sales in previous years, the reason for the sales and expectations with regard to future sales;
- Held to Collect and Sell (HTCS): this is a mixed business model, the objective of which is achieved through the collection of the contractual cash flows of the financial assets in the portfolio and (also) through sales activity which is an integral part of the strategy. Both activities (collection of contractual flows and sale) are indispensable for achievement of the objective of the business model. Therefore, sales are more frequent and significant compared to an HTC business model and are an integral part of the strategies pursued;
- Others/Trading: this is a residual category which includes both financial assets held for trading purposes and financial assets managed with a business model not attributable to the previous categories (Held to Collect and Held to Collect and Sell). In general, this classification applies to a portfolio of financial assets, the management and performance of which are assessed on the basis of its fair value.

The business model reflects the methods with which the financial assets are managed to generate cash flows for the benefit of the entity and is defined by the top management through opportune involvement of the business structures. It is observed considering the methods of managing financial assets and, as a consequence, the extent to which the cash flows of the portfolio derive either from the collection of contractual flows, or from sale of the financial assets or from both these events.
The measurement is not made on the basis of scenarios which, based on reasonable forecasts of the entity, are not likely to occur, such as the so-called "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 this scenario, on the basis of reasonable forecasts of the entity, is not destined to occur.
The business model does not depend on the intentions that the management has with reference to a single financial instrument, but makes reference to the methods with which groups of financial assets are managed for the purposes of achieving a certain business objective.

In brief, the business model:

- reflects the methods with which financial assets are managed to generate cash flows;
- is defined by the top management, through the opportune involvement of the business structures;
- must be observable considering the methods of managing of financial assets.

In carrying out the assessment of the business model all relevant factors available at the assessment date. The aforementioned evidence includes the strategy, the risks and their management, the remuneration policies, the reporting and the amount of the sale. In the analysis of the business model it is essential for the elements studies to show consistency with each other and in particular for them to be consistent with respect to the strategy pursued. The evidence of activities not in line with the strategy must be analysed and adequately justified.

For Held to Collect portfolios, the Bank defined the thresholds of permissibility of the sales that do not affect the classification (frequent but not significant, individually and in aggregate, or infrequent also if of a significant amount) and, at the same time, established parameters to identify sales consistent with this business model as they are attributable to an increase in credit risk.
More in detail, in the context of an HTC business model sales are permitted i) in the case of an increase in credit risk (or when these are sales of impaired loans or securities classified in stage 2), ii) when made in proximity to the maturity and finally iii) when they are frequent but not significant in terms of value or infrequent also if significant in terms of value. In order to determine these aspects, the thresholds of frequency and significance were defined:

- frequency is defined as the percentage ratio between the number of positions sold (ISIN or ratios) during the observation period and the total of positions in the portfolio present at the beginning of the observation period. Sales are infrequent if they are of a number less than 5% of the number of securities held in the portfolio at the beginning of the year (this amount is zero if the number of securities at the beginning of the year is less than 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 threshold of significance identified by the Bank for individual sales is 5%.

In cases of observance at the same time of both thresholds of frequency and significance in terms of single sale, a further assessment in terms of aggregate amount of sales is provided for in order to confirm the consistency of the HTC business model. In this case, the threshold of significance identified by the Bank for the aggregate amount of sales is 10%.

SPPI test

The other criterion to be used to determine whether a financial asset must be classified among financial instruments measured at amortised cost or at FVOCI – besides the analysis of the business model presented above - states that the related cash flows must consist exclusively of payment or repayment of principal and interest. To this end IFRS 9 states that a test, known in fact as "SPPI" (solely payments of principal and interest) must be carried out, for the purpose of checking that the remuneration of a certain financial instrument, debt securities and loans, is linked exclusively to payment of interest and to repayment of principal.

A debt instrument that does not pass the SPPI test must always be measured at FVTPL and classified in the sub-item "other financial assets obligatorily measured at fair value".

For the 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 the moment of its initial recognition;
- interest is the consideration for the time value of money, for the credit risk associated with the principal in a certain period of time, for other risks and costs associated with the basic risks of a loan operation 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 amount in a certain period of time. Each time the contractual terms introduce other elements, it is no longer possible to consider that asset as a generator exclusively of cash flows in terms of principal and interest. This could happen, for example, when the cash flows come from so-called non-recourse financial assets. The cash flows of the aforesaid financial assets may not consist of payment solely of interest and repayment of principal, because the remuneration is linked to specific business activities. On this point the holder of the asset is obliged to assess, through the so-called look-through approach, whether its own instruments pass or fail the SPPI test. For example, when the entity holds the non-recourse financial assets, the cash flows of which depend on the performance of a financial element of the issuer (for example net income), then the possibility of measurement at amortised cost or FVOCI must be excluded.

In addition, when the contractual cash flows depend on characteristics such as changes in equity or commodity prices, the related financial instruments cannot pass the SPPI test, given that they introduce an exposure to risk or volatility not related to the basic lending arrangements.

IFRS 9 specifies that all financial instruments that undergo the so-called "financial leverage effect", cannot be considered generators of flows of principal and interest, because leverage has the power to increase the volatility of the cash flows. This case includes swaps, options, forwards and all derivative contracts.

IFRS 9 defines two cases in which the time value of money can be considered modified, that is when the relationship between the passing if time and the interest rate is considered imperfect. A case occurs when the interest rate of the asset is redetermined periodically, but the frequency of this redetermination the frequency of the payment does not correspond to the nature of the interest rate. This occurs for example in the case of monthly payments of floating interest, and at the beginning of each month the interest rate is determined as the Euribor at 6 month: the monthly interest rate is determined with reference to interest calculated on a half-yearly basis, and therefore for a different time period. In these cases, the accounting standard introduces the need to make a comparison between the cash flows deriving from the entity's own financial asset and those deriving from a financial asset considered identical for credit risk and duration, but for which the monthly interest is calculated on the basis of the monthly Euribor. The other case of non-perfect correspondence between the passing of time and the time value of money occurs when the interest rate of the asset is redetermined periodically on the basis of an average of particular short- or medium/long-term interest rates. This happens, for example, when a financial asset provides for payment of interest every three months, based on the average of the three-month Euribor interest rate in the quarter prior to that to which the interest refers.
Therefore, in these cases, the entity must analyse whether, despite the change in the time value of money, the financial asset generates only cash flows in terms of principal and interest. The objective of this analysis is to check how different the non-discounted contractual cash flows would be if there were not the change in the time value of money (the so-called benchmark cash flow test).
The presence of contractual clauses that can modify the periodicity or the amount of the contractual cash flows must be considered to assess whether these flows meet the requirements to be considered SPPI compliant (for example prepayment options, possibility of deferring the contractually expected cash flows, instruments with embedded derivatives, subordinated options, etcetera).
However, as provided for in IFRS 9, a characteristic of the contractual cash flows does not affect the classification of the financial asset if it can only have a *de minimis* effect on the contractual cash flows of the financial assets (in each financial year and cumulatively). In the same way, if a characteristic of the cash flows is not realistic (not genuine), or if it affects the contractual cash flows of the instrument only on the occurrence of an extremely rare event, very unusual and very improbable, it does not affect the classification of the financial assets.
In the case of instruments subordinated to another instrument (e.g. guaranteed debt securities), the related cash flows are connected to the nominal value of the principal or interest of the main instrument. The holder of the instrument has the power to exercise the right of pre-emption also in the case of bankruptcy of the debtor. These instruments come within those that do not pass the SPPI test.
As regards contractually-linked instruments, reference is made to instruments with which an entity gives a certain priority to payment of the 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 certain tranche, must have in order to be considered a generator of cash flows represented exclusively by payment of interest and repayment of principal are the following:

- The underlying assets must contain one or more financial assets which produce cash flows made up solely of payment of interest and repayment of principal. In addition, the presence of supporting financial instruments, such as derivatives, is permitted only if they have the function of reducing the volatility of the related cash flows;

- The exposure to credit risk related to certain tranche must be equal to or less than the exposure to the risk attributable to the underlying financial instruments.

For the purposes of performing the SPPI test, for operations in debt securities the Bank avails itself of the services provided by an info-provider. Only if the securities are not managed by the info-provider, the test is carried out manually through the use of a proprietary tool based on a methodology developed internally (decision-making trees). To perform the SPPI test in the context of the loan granting processes a proprietary tool based on a methodology developed internally (decision-making trees) was developed. In particular, given the significant different characteristics, a differentiated management is envisaged for products attributable to a contractual standard (typically retail loan portfolio) and tailor-made financing (typically corporate loan portfolio). For standard products, the SPPI test is performed on structuring the contractual standard, through the "Product Approval" process and the result of the test is extended to all the single relationships attributable to the same product in the catalogue. Instead for tailor-made products, SPPI test is performed for each new credit line/relationship submitted to the decision-making body through the use of the proprietary tool. The decision-making trees - included in the proprietary tool - were prepared internally (for both debt securities and loans) and capture the possible non-SPPI-compliant characteristics.

16. Use of estimates and assumptions in the preparation of the financial statements

The accounting estimates required to apply the accounting standards may have significant effects on the amounts recorded in the balance sheet and in the income statement, as well as on information about contingent assets and liabilities reported in the financial statements. Processing those estimates requires using the information available and making subjective evaluations. For their very nature, the estimates and assumptions used may vary from year to year and, as such, it cannot be excluded that in future years the current values posted on the financial statements may differ, even significantly, as the subjective assessments used alter. These estimates and evaluations are therefore difficult to make and inevitably bring some uncertainty, even in stable macroeconomic conditions.
The main cases for which the use of subjective evaluation by the Company Management is required are:

a) quantification of losses for impairment of receivables and, in general, of the other financial assets;
b) measurement of the congruence of the value of equity investments and other non-financial assets (goodwill, property, plant and equipment, including value of use for assets acquired through leasing and intangible assets);
c) use of measurement models to recognise the fair value of financial instruments not quoted on active markets;
d) the estimate and assumptions on the recoverability of deferred tax assets;
e) the estimate of the liabilities deriving from the defined-benefit company pension funds;
f) quantification of provisions for risks and charges of a legal and fiscal nature.

For some of the cases listed above it is possible to identify the main factors that are the subject of estimates by the Bank and that therefore contribute to determine the book value of assets and liabilities.
In brief, we can note that:

a) for allocation to the three credit risk stages provided for in IFRS 9 of loans and debt securities classified among Financial assets at amortised cost and Financial assets at fair value through other comprehensive income and the calculation of the related expected losses, the main estimates regard:
    - determination of the parameters of significant increase in credit risk, based essentially on models for measuring probabilities of default (PDs) on origination of the financial assets and at the reporting date;
    - the inclusion of forward-looking factors, also of a macroeconomic type, for determination of PD, EAD and LGD;
    - for determination of the estimates of future cash flows deriving from impaired receivables, certain elements are taken into consideration: the expected recovery times, the estimated

realisable value of any guarantees, the costs that it is believed will be borne for recovery of the loan exposure and, finally, the probability of sale for positions for which there is a disposal plan;

b) for the determination of the fair value of financial instruments not quoted on active markets, if it is necessary to use parameters not observable on the market, the main estimates regard, on the one hand, the development of future cash flows (or also income flows, in the case of equity securities), possibly dependent on future events, on the other, the level of certain parameters in input not quoted on active markets;
c) for the quantification of pension funds and for similar obligations the present value of obligations is subject to estimates, taking into account the flows, opportunely discounted, deriving from the historical and statistical analyses and analyses of the demographic curve;
d) for quantification of provisions for risks and charges, the amount of outlays necessary for fulfilment of the obligations is subject to estimates, if possible, taking into account the effective probability of having to use resources;
e) for determination of the items related to deferred taxes the probability of an effective future payment of taxes (taxable temporary differences) is estimated together with the degree of reasonable certainty – if any – of future taxable amounts at the moment in which the tax deductibility will become manifest (deductible temporary differences).

For points a) and e) please see the respective paragraphs below “Methods of determining the impairment of IFRS 9 instruments” and “Methods of determining deferred tax assets (probability test)”; with regards to point b), please see that outlined in paragraph A.4.3 “Fair value hierarchy”, in the Notes to the Financial Statements. In the context of the single sections of the notes to the balance sheet and income statement where the contents of the individual accounting items are detailed, the actual technical and conceptual solutions adopted by the Bank are then analysed and discussed in depth. In particular, as regards point e) please also see section 10 of the assets of the Notes to the Financial Statements “Tax assets and tax liabilities”, for the cases pursuant to points c) and d) please see section 10.5 of the liabilities of the Notes to the Financial Statements “Defined-benefit company pension funds” and section 5. Operational Risks of part E of the Notes to the Financial Statements.

Methods of determining the impairment of IFRS 9 financial instruments

At each reporting date, under the terms of IFRS 9, financial assets other than those measured at fair value through profit or loss are subjected to an impairment test, with the aim of estimating the expected impairment losses due to credit risk (so-called ECLs - expected credit losses). In particular the perimeter to be subjected to impairment tests comprises:

- “Financial assets measured at amortised cost”;
- “Financial assets measured at fair value through other comprehensive income” other than equity securities;
- commitments to disburse funds and guarantees given which are not measured at fair value through profit or loss; and
- trade receivables or assets deriving from contracts that result from transactions falling within the scope of application of IFRS 15.

According to the Expected Credit Losses calculation model, introduced by IFRS 9, the losses must be recorded not only making reference to the objective evidence of impairment already manifest at the measurement date, but also on the basis of the expectation of future impairment losses that have not yet occurred. This concept represents in fact an innovation with respect to that of incurred loss on which the previous impairment model was based.
In particular, the ECL model involves the aforementioned instruments being classified in three distinct “stages”, according to their absolute or relative credit quality with respect to initial disbursement, to which correspond different criteria for measuring the expected losses. In detail:

- stage 1: this comprises performing exposures which have not suffered a significant change in credit risk with respect to the initial recognition. The value adjustments correspond to the expected losses associated with the occurrence of default in the 12 months following the reporting date;
- stage 2: this comprises performing exposures whose creditworthiness is affected by a significant change in credit risk, but for which the losses are not yet observable. The adjustments are calculated considering the loss along all the residual lifetime of the instrument;
- stage 3: this comprises all impaired receivables, that is non-performing exposures which present objective evidence of impairment and which must be written down using the concept of lifetime expected loss.[(5)]

An exception to the above is represented by financial assets considered as impaired right from their acquisition or origin (so-called "POCI – Purchased or Originated Credit Impaired"), for the treatment of which please see what has already been illustrated in the previous paragraph on this subject and assets measured based on the provisions of the "Simplified Method", the discussion of which is found in the subsequent paragraph.

For the MPS Group and, within it, for the Bank, the perimeter of exposures classified in stage 3 corresponds to that of impaired exposures, identified on the basis of the definitions established by the supervisory regulations (Bank of Italy Circular no. 272 "Accounts Matrix") and referred to in Bank of Italy Circular no. 262 "Banking Financial Statements: Formats and Rules for Compilation", because they are considered consistent with the accounting rules provided for in the IAS/IFRS accounting standards, in terms of objective evidence of impairment. On the basis of the aforementioned circulars, the perimeter of impaired exposures corresponds to the aggregate "Non-Performing Exposures", defined by Regulation (EU) 2015/227 which endorsed the EBA ITS "Implementing Technical Standards (ITS) on Supervisory Reporting on Forbearance and Non- Performing Exposures" (EBA/ITS/2013/03/rev1 24/7/2014).

In detail, the aforementioned circulars identify the following categories of impaired assets:

- Bad loans: the set of on- and off-balance sheet exposures in relation to a customer in a state of insolvency (even if not legally ascertained) or in substantially equivalent situations, irrespective of any loss forecasts formulated by the Bank;
- Probable defaults (or "unlikely to pay"): these represent on- and off-balance-sheet exposures, for which the conditions are not fulfilled for classification of the debtors among bad loans and for which it is considered unlikely that, without recourse to actions such as enforcement of the guarantees, the debtors will comply fully (in principal and/or interest) with their loan obligations. This assessment is made irrespectively of the presence of any amounts (or instalments) past-due and unpaid. Classification among probable defaults is not necessarily linked to the explicit presence of anomalies, such as non-payment, but is linked to the existence of elements indicating a situation of risk of non-fulfilment by the debtor (for example, a crisis of the industrial sector in which the debtor operates);
- Impaired past-due and/or over-the-limit exposures: on-balance-sheet exposures, other than those classified among bad debts or probable defaults, which, at the reporting date, present a past-due and/or over-the-limit position for more than 90 days, according to the significance thresholds provided for in the aforementioned regulations. For the MPS Group and the Bank, impaired past-due and/or over-the-limit exposures are determined making reference to the position of the individual debtor.

In addition, the Bank of Italy regulations, in line with the EBA standards, introduced the definition of "Forborne Exposures". These in particular are exposures the benefit from measures of forbearance, which consist of concessions in relation to debtors, in terms of modification and/or refinancing of a pre-existing loan, exclusively owing to, or to prevent, a condition of financial difficulty that could have negative effects on their ability to fulfil

[(5)] The assessment is statistical for positions with a balance of less than € 1 million and analytical, carried out by the managers, for positions above this threshold.

the contractual commitments originally assumed and which would not have been granted to other debtors with analogous risk profiles not in financial difficulty. These concession must be identified at the level of the single credit line and may regard exposures of debtors classified both in performing status and in non-performing (impaired) status. For exposures with forbearance measures classified among probable defaults, return among performing exposures can occur only after at least one year has passed since the moment of the concession (so-called "cure period") and all the other conditions provided for in paragraph 157 of the EBA ITS have been met. In any case, renegotiated exposures must not be considered forborne when the debtor is not in a situation of financial difficulty (renegotiations carried out for commercial reasons).

Loss of value of performing financial assets

For performing financial assets, that is for assets not considered impaired it is necessary to assess, at level of the single relationship, the presence of a significant deterioration of credit risk, by comparing the credit risk associated with the financial instrument at the moment of measurement and that at the initial moment of disbursement or acquisition. This comparison is made assuming as a reference both quantitative and qualitative criteria. The consequences of this check, from the point of view of classification (or, more properly, of staging) and measurement, are the following:

- if these indicators exist, the financial asset goes into stage 2. The assessment, in this case, in keeping with the provisions of the international accounting standards and even in the absence of a manifest loss of value, provides for the recognition of value adjustments equal to the expected losses along the entire residual life of the financial instrument. These adjustments are revised at each subsequent reporting date both to check periodically the congruity with respect to the estimate of loss constantly updated, and to take into account – if the indicators of a "significantly increased" credit risk cease – the changed forecast horizon for calculating the expected loss;
- if these indicators do not exist, the financial asset goes into stage 1. The assessment, in this case, in keeping with the provisions of the international accounting standards and even in the absence of manifest loss of value, provides for the recognition of expected losses, for the specific the financial instrument, during the next twelve months. These adjustments are revised at each subsequent reporting date both to check periodically the congruity with respect to the estimate of loss constantly updated, and to take into account – if indicators of a "significantly increased" credit risk arise – the changed forecast horizon for calculating the expected loss.

As regards the assessment of financial assets and, in particular, the identification of the existence of a "significant increase" in credit risk (a necessary and sufficient condition for classification of the asset being assessed in stage 2), the elements which—under the terms of the standard and its operational declination carried out by the MPS Group—constitute the principal determinants to be taken into consideration are the following:

- relative quantitative criteria, based on statistical observations, considered expression of a significant increase in credit risk that has occurred over time;
- absolute qualitative criteria, represented by the identification of trigger events or by exceeding absolute thresholds in the context of the credit monitoring process. They include:
    - all exposures affected by forbearance measures that present this attribute still active, irrespective of the regularity or otherwise of the probation period in progress;
    - exposures classified in the High Risk and Requalification operating portfolios;
    - customers with negative EBITDA;
- backstop indicators, that is credit "delinquency" factors, the manifestation of which leads to presume that a significant increase in credit risk has occurred, unless there is contrary evidence. As an

assumption, the MPS Group believes that the credit risk of the exposure must be considered significantly increased in the presence of an amount past due/over the limit for a period of more than 30 days, without affecting application of the thresholds of significance provided for in the supervisory regulations.

With particular reference to the relative quantitative criterion applicable to loan exposures in relation to customers, the MPS Group decided to assume as reference the change between the lifetime cumulative forward-looking probability of default (PD) recognised at the origination of the contractual relationship and the probability of default recognised at the measurement date. The development of the model entailed the identification of specific internal thresholds of change between the PD recognised at the origination of the contractual relationship and the PD recognised at the measurement date differentiated by counterparty, initial rating class and vintage. Exceeding the aforesaid thresholds constitutes an expression of a significant increase in credit risk and the single credit line is consequently transferred from stage 1 to stage 2. The comparison is based on uniform residual durations[(6)] and on uniform PD models, for example if the definition of default changes over time, the lifetime cumulative forward-looking PD at origination is redetermined to take into account this new definition of default. The cumulative PDs involved in the 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 an unequivocal classification result, a cumulative PD is used, which results from the weighted average of the cumulative PDs calculated for the single prospective scenarios using as weights the probabilities of the scenarios. The significance threshold is determined, measuring historically, using quantile regression analysis by cluster as level of ratio, between lifetime cumulative forward-looking PD at the reporting date and that at the origination date, which can be considered predictive of transfer to NPE[(7)]. The threshold is determined so as to minimise the so-called false positives and false negatives and maximise the true positives and true negatives.

As regards debt securities that do not have an investment grade rating the relative quantitative criterion is based on the change in lifetime cumulative forward-looking PD between reporting date and origination date greater than a given threshold. For corporate issuers the multi-annual PD curve is the corporate one estimated entirely by the Bank; for government issues the multi-annual PD curve is the one prepared on the basis of the Moody's matrix of defaults at 1 year of government securities. The cumulative PDs involved in the comparison are based on the same model used for ECL purposes (e.g.: definition of PIT - Point in Time - PD and macroeconomic scenarios). In order to obtain an unequivocal classification result, a cumulative PD is used, which results from the weighted average of the cumulative PDs calculated for the single prospective scenarios using as weights the probabilities of the scenarios. Exposures are classified in stage 2 if the ratio between lifetime cumulative forward-looking PD at the reporting date compared to that at the origination date exceeds a given significance threshold equal, for both corporate securities and government ones, to that used for corporate exposures in the form of loans.

Debt securities which at the reporting date have an investment grade rating, mainly attributable to government securities, are classified in stage 1 because for this case, and only for it, the MPS Group availed itself of the "Low Credit Risk Exemption". This exemption consists of the practical expedient of not carrying out the test of significant impairment of credit risk, in the case of exposures for which credit risk is deemed low and is applied to securities which, as of the measurement date, have an investment grade rating in full compliance with that established under accounting standard IFRS 9. In addition, considering the presence of several purchase transactions involving the same fungible security (ISIN), it became necessary to identify a methodology for identifying the tranches sold in order to determine the residual quantities with which to associate the credit quality at the date of initial recognition to be compared with that at the measurement date. In this regard it was

(6) Therefore, the assessment at 31/12/T of the significant increase in credit risk of a thirty-year loan disbursed on 31/12/T-5 is made comparing the lifetime cumulative forward-looking PDs on the residual life of 25 years.
(7) Transfer to NPE is measured on multiyear horizons.

considered suitable to use the FIFO (First In – First Out) methodology because it enables more transparent management of the portfolio, also from the operational point of view (front office), permitting, at the same time, continual updating of the assessment of creditworthiness on the basis of the new purchases.

In general, the criterion for transfer between stages is symmetrical. In particular, an improvement of the credit risk such as to remove the conditions that have led to the significant increase in the same entails the re-attribution of the financial instrument from stage 2 to stage 1. In this case the entity redetermines the value adjustment on a time horizon of twelve months instead of as previously recognised over the lifetime, recognising, consequently, in the income statement a write-back.

Once the allocation of the exposures to the different credit risk stages has been defined, the expected losses (ECLs) are determined, at the level of single transaction or security tranche, starting from the IRB/Operating models, based on the parameters of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD), on which specific adaptations are carried out, so as to guarantee their compliance with the specific prescriptions of IFRS 9, given the different requirements and purposes of the accounting regulations with respect to the prudential regulations.

For PD, LGD and EAD the following definitions apply:

PD (Probability of Default): probability of migrating from the performing status to that of impaired receivable over a time horizon of one year. In the models consistent with the supervisory provisions, the PD factor is typically quantified through the rating. In the MPS Group the PD values derive from the internal rating models, if available, supplemented by external assessments or by average of segment/portfolio data. In particular, with reference to specialised lending operations, note that during the first half of 2019 the Group revised PD estimation criteria, using the rating assigned to counterparties through slotting criteria in place of the AIRB rating;
LGD (Loss Given Default): percentage loss in the event of default. In the models consistent with the supervisory provisions this is quantified through the historical experience of discounted recoveries on files classified as non-performing loans;
EAD (Exposure At Default) or credit equivalent: amount of the exposure at the moment of default.

As already noted above, to be able to observe the provisions of IFRS 9 it became necessary to take specific actions to adjust the above factor, among which we can note in particular:

- adoption of a Point in Time (PIT) PD against the Through the Cycle (TTC) PD used for Basel purposes;
- removal from LGD of a number of additional components, namely indirect costs (non-recurring costs) and from the component linked to the adverse economic cycle (downturn); and to reflect the most current recovery rates (PIT), the expectations on the forward-looking trends and the inclusion of any recovery fees in the case of recovery entrusted to third parties;
- use of multi-period PDs and, if necessary, LGDs, in order to determine the expected loss per for the entire residual life of the financial instrument (stages 2 and 3);
- use, in the context of the process of discounting expected future cash flows, of the effective interest rate of the single operation, unlike what is provided for in the regulatory models, in which the single cash flows are discounted using discounting rates determined in accordance with the prudential regulations.

In relation to the multi-period EAD, in line with the provisions of IFRS 9, the MPS Group makes reference to plans at amortised cost, irrespective of the related measurement methods (amortised cost or fair value through other comprehensive income). For commitments to disburse funds and guarantees given (off-balance-sheet exposures), the EAD is, instead, assumed to be equal to the nominal value weighted for a specific credit conversion factor (CCF).

Standard IFRS 9 establishes that at every reporting date an entity must measure the impairment of an asset based on expected credit loss, considering all information which is available, reasonable and consistent, without incurring excessive cost or effort. One of the most significant changes with respect to IAS 39 involves the use of not only historic information, recalibrated to incorporate the effects of current conditions, but the additional use of future forecasts with a degree of accuracy which depends on the availability, detail and depth of the information itself. The forward looking approach established under IFRS 9 to determine expected loss therefore represents a central aspect of the measurement model.
That being established, the MPS Group uses the forward looking approach to estimate expected losses, in both 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 positions and for non-performing positions measured statistically; Credit Conversion Factor (CCF), used to estimated Exposure at Default (EAD) for performing positions;
- Cure/Danger rate: used for probable defaults other than restructured positions and for positions measured statistically as they fall below a certain threshold;
- haircuts for real estate collateral used, when applicable, for analytical measurement of bad loans and probable defaults other than restructured positions.

Given that expected loss is estimated as the weighted average of a range of possible results, the above cited parameters are determined on the basis of historic evidence and corrected to contain at least 3 economic scenarios which cover a time horizon of at least 3 years: Baseline, Worst and Best.

The forecasts of the (forward-looking) macroeconomic indicators, provided by an external consultant of leading standing and reprocessed internally by the Research Unit, are quantified on the basis of three possible future scenarios, which consider the economic variables considered relevant (Italian GDP, interest rates, unemployment rate, price of commercial and residential properties, inflation, stock indices), with a future time horizon of three years to which are assigned the respective probabilities of occurrence, determined internally by the Bank. In more detail, alongside the "baseline" scenario considered most probable, that is the forecast macroeconomic scenario on the basis of which the MPS Group develops its projections in relation to economic/financial and risk data along a short- and medium-term time horizon, a better (decidedly favourable) and worse (unfavourable) alternative scenario was prepared.

The sensitivity of statistical parameters to macroeconomic variables is estimated. More specifically, below are the associations between statistical parameters/macroeconomic variables:

- PD: Italy GDP, unemployment rate, interest rates, inflation, price of commercial and residential real estate and stock indices;
- LGD/EAD: Italy GDP, price of commercial and residential real estate;
- cure/danger rates: Italy GDP;
- haircut: price of commercial and residential real estate.

For those statistical parameters (e.g. PD) for which a linear relationship with a macroeconomic variable does not exist, the measurement of the parameter is not calculated on the basis of the weighted average of the macroeconomic variables and using the respective probabilities as weights, but instead on the basis of distinct measurements of the parameter. In these cases, the weighted average is obtained at the level of the expected loss.

Lastly, for the estimate of the lifetime expected losses, the time horizon of reference is represented by the contractual maturity date; for instruments without maturity, the estimate of expected losses makes reference to a time horizon estimated through a behavioural model for product on demand and made equal to one year with respect to the reporting date in the other cases.

Loss of value of non-performing financial assets

As illustrated above, for impaired financial assets, with which is associated a probability of default of 100%, the amount of write-downs for expected losses related to each receivable is equal to the difference between the book value of the same at the moment of measurement (amortised cost) and the present value of the expected future cash flows, this latter calculated using the original effective interest rate (or a proxy of it if unavailable). The cash flows are estimated on the basis of the forecasts of expected recovery along the entire lifetime of the asset, taking into account the estimated realisable value net of any guarantees and any costs associated with obtaining the guarantee. To that end, in the case in which the Bank makes use of a third party for impaired loan collection activities, the commission paid to the outsourcer for activities closely linked to the collection are considered when estimating impairment losses. These costs are considered both for impaired and non-impaired exposures, if for the latter it is probable that in the case of a transfer to the bad loan category collection activities would be assigned to third parties.
Commissions paid to the outsourcer are considered in both LGD estimates used to statistical evaluations of all administrative statuses and in bad loan recovery plans and, finally, in analytical valuations of probable defaults.

In order to estimate the future cash flows and the related collection times, the receivables in question of a significant unitary amount are the subject of an analytical measurement process. For some uniform categories of impaired receivables of an insignificant unitary amount, the measurement processes involve loss forecasts based on flat rate/statistical calculation methods, to be attributed in an analytical manner to each position. The perimeter of exposures subjected to a flat rate/statistical measurement process, that is on the basis of statistical grids of operating LGD, differentiated according to the segment and length of time in the risk status ("vintage"), is represented:

- by the bad loans and probable defaults with exposures less than or equal to an established significance threshold of € 1 million;
- by the set of "past-due" impaired exposures irrespective of the significance threshold of the exposure. These in particular are receivables that present continual over-the-limit positions or delayed payments, identified automatically by the MPS Group's IT procedures, according to the aforementioned rules of the Supervisory Body.

Note that the threshold of € 1 million indicated above for bad loans and probable defaults was defined by the Group in the first half of 2019. The previous threshold was € 0.5 million. This increase was made in order to reduce margins of discretion which impacted the measurement process, thereby guaranteeing greater timeliness and homogeneity in the measurement of positions of lesser amounts and consequent greater focus by managers on more significant exposures.

Determining the impairment loss presupposes the measurement of the future cash flows that it is believed the debtor will be able to produce and that will be destined also to service the financial debt. This estimate must be made on the basis of two alternative approaches:

- scenario of the business continuing (Going Concern Approach): the operating cash flows of the debtor (or of the effective guarantor) continue to be produced, and are used to repay the financial debts contracted, on the basis of the repayment schedules provided for. The going concern assumption does not exclude any realisation of guarantees, but only to the extent to which this may happen without prejudice to the debtor's ability to generate future cash flows. The "going concern" method is applied also to cases in which recoverability of the exposure is based on any sale of assets by the debtor or on extraordinary operations;

- scenario of the business closing down (Gone Concern Approach): applicable in cases in which it is believed that the debtor's cash flows are destined to cease. This is a scenario whose application could possibly regard positions for which classification as bad is provided for. In this context, assuming that actions of the shareholders and/or extraordinary debt rescheduling operations in contexts of a turnaround are not reasonably feasible, recovery of the receivable is based substantially on the value of the guarantees that back the receivable and, subordinately, on the realisable value of the capital asset, taking into account the insolvency assets and any reasons for pre-emption.

With reference to exposures classified as bad and probable default, the quantification of the expected losses includes forward-looking elements related to specific scenarios of sale, where the Group's NPL Strategy envisages that the said exposures may be recovered also through their sale on the market.
Consequently, the estimate of the expected losses of transferable exposures is variable according to, not only the forecast of flows recoverable through the internal management activity (workout), but also to the forecast of flows recoverable through possible sale of the same on the market (so-called "multi-scenario" approach). This arrangement is consistent with what is provided for in the ITG paper of 11 December 2015 "Inclusion of cash flows expected from the sale on default of a loan in the measurement of expected credit losses". In particular, two different estimates of the cash flows which the Bank expects to receive are associated with the exposures in question:

- the first determined assuming as a reference the scenario of recovery from the debtor on the basis of the internal activity, according to the ordinary measurement guidelines followed by the Group illustrated above (so-called hold scenario);
- the second calculated assuming as a reference the scenario of recovery through sale of the receivable to third parties (so-called sale scenario).

To each of the two scenarios is assigned a probability of occurrence which is higher for clusters more subject to sale procedures on the basis of historical evidence and/or expectations (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 the recoverable cash flows in the two scenarios (hold and sale).
The selling values and the probability of sale therefore represent the two key elements for the definition of the expected loss. To this end the MPS Group carried out an analysis of the historical series of sales (past events) on the same portfolios and certain considerations on the future sale strategies.

The Restructuring Plan approved during 2017 by the European Commission envisages that in the four years 2018-2021 the MPS Group will carry out a strong action to reduce the exposure classified in default, to be implement though sale operations.

This programme represents a qualifying constraint of the Restructuring Plan in view of which the Group, in order to accelerate the process of reducing impaired loans as explicitly requested by the Supervisory Authority, stated that it was willing to bear higher costs with respect to the ordinary recovery scenario, which will continue in parallel on the portfolios of impaired loans not affected and on those of non-impaired loans (stage 1 and 2) with the priority objective of optimising the economic/financial profiles of the workout activity.

On the basis of these considerations, the accounting model of impairment of only impaired loans for the Group provides for differentiated application for:

- receivables subject to the ordinary recovery process: application of the existing accounting policies, revised to take into account the changes introduced by IFRS 9, including in particular the forward-looking commission component;

- receivables that come within the sale programme: measurement carried out with ordinary policy plus any add-on in order to adjust the portfolios to the estimated sale value.

To determine the add-on the Group considers the following elements:

- selection of portfolios presumably subject to disposal: the perimeter includes positions with a certain attraction for the market, as a consequence both of the fact that other banks have already carried out sale operations and that expressions of interest have already been receive; and additional positions consequent to assessments of expedience carried out by the Bank and Parent Company's competent bodies (e.g. presence of expanded bad loan positions or a high danger rate);
- probability of sale: probability of sale is guided by the amount of the target disposal level included in the NPL Strategy;
- selling prices: the selling prices used are derived from massive transactions on analogous portfolios and single names carried out by the Group or from transactions carried out on the market over the last few years.

Impairment calculated with the simplified method

Quantification of expected losses based on the forecasts of the simplified method established under IFRS 9 is done on the basis of lifetime ECL and hence does not require the presence of a significant increase in credit risk with respect to that existing at the time the asset was initially recognised. The MPS Group adopts this method for trade receivables or assets deriving from contracts without any significant financial components, or for cases in which the adoption of the simplified approach is obligatory under IFRS 9. To that end, the Group did not select to use this method for cases in which application is voluntary.

Method of determining impairment losses of other non-financial assets

Property, plant and equipment and intangible assets with defined useful life are subjected to impairment testing if there is an indication that the book value of the asset can no longer be recovered. The recoverable value is determined with reference to the fair value of the property, plant and equipment or intangible asset net of disposal costs or to the value in use if it can be determined and if it exceeds fair value.

In particular, relative to real estate, the recoverable value is determined on the basis of appraisals or valuations using indices. The impairment is recognised only if the fair value net of the selling costs or the value in use is lower than the book value.

Similar to owned real estate, the value in use of assets acquired through leasing is also subject to the impairment test, when the requirements are met. The test is carried out if the following events or situations occur: full/partial abandonment, under use or non-use of the leased asset. Additionally, it is necessary to refer to indicators coming from internal sources such as signs of obsolescence and/or physical deterioration of the asset, remodelling plans and closures of branches, as well as external sources, including increase in interest rates or other market return rates for investments which could lead to a significant decrease in the recoverable value of the asset.

Methods of determining deferred tax assets (probability test)

The Bank verifies the possibility of recognising deferred tax assets on the basis of a probability test, as reported below.

Forecast plans approved by the Boards of Directors of the parent company and the subsidiaries are used. Obviously those of the subsidiaries are consistent with the Group's forecast plans. Given that forecast plans cover a limited time frame, results after the plan horizon are assumed to be equal to the last result found in the plan and increased by a growth factor *g*, used to determine the terminal value of companies.

The structure of the probability test is in any case consistent with that of the impairment test used to measure goodwill, without prejudice to the specific associated with regulatory requirements (IAS 12 and IAS 36, respectively), for example:

- the possibility for the probability test to take into account company restructuring and reorganisation actions included in the forecast plans; this is not allowed in the goodwill impairment test;
- the possibility for the probability test to take tax planning opportunities into account.

In order to reflect uncertainties associated with the manifestation of future taxable income able to allow the recovery of deferred tax assets, a discount factor based on observable market data is used, consistent with the investment risk metrics implemented at Banca MPS.
Application of this discount factor is a way to reflect the uncertainties associated with the realisation of future income. In any case, it is held that for the purposes of the test, the horizon considered for taxable income deemed of probable realisation cannot exceed 20 years.
In developing the probability test, when applicable the national tax consolidation agreements which the Group adheres to are taken into account.

Obligations of transparency in the context of rules on public disbursements

On the basis of the above, we can note that, at the reporting date of the present financial statements, in the National State Aid Register, in the section Transparency: "Individual Aid Amounts", there are no contributions received by the Bank for 2019. For more details, please see the following link:
https://www.rna.gov.it/sites/PortaleRNA/it_IT/trasparenza.

A.3 - Disclosure on transfers between financial asset portfolios

Tables on transfers between portfolios of financial assets are not provided, in that in this financial year and in previous years, the Bank did not carry out any reclassifications consequent to a change in the business model.

A.4 - Fair value disclosure

Qualitative information

Below is the disclosure regarding the measurement techniques and input used for measurements relative to assets and liabilities measured at fair value in the balance sheet on a recurring and non-recurring basis (the latter are essentially discontinued operations pursuant to IFRS 5).

A.4.1.a - Fair value level 2: measurement techniques and inputs used

Items	Fair value 31 12 2019								Types	Measurement technique	Input used
	Financial assets held for trading	Financial assets designated at fair value	Other financial assets obligatorily measured at fair value	Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Financial liabilities held for trading	Financial liabilities designated at fair value	Hedging derivatives			
Debt securities	992,101	-	9,568	9,727	X	-	-	X	Bonds	Discounted Cash Flow	Rate curve, CDS Curve, Yield, Inflation Curve
									Structured Bonds	Discounted Cash Flow	Rate curve, CDS curve, Yield, Inflation curve + parameters necessary to value the optional component
									Bonds	Market price	Market price
Equity securities	22	X	-	-	X	X	X	X	Equity investments	Net Assets Adjusted	Carrying Amount Assets/Liabilities
										Discounted cash flow	Share prices, sector beta, risk free rate
									Shares/Equity investments	Market price	Market prices, recent transactions, appraisals, operator reports
UCITS Units	-	X	-	X	X	X	X	X	Provisions/PE	Market price	Market prices, recent transactions, appraisals, operator reports
Financing/Debts	-	-	-	-	X	110	X	X		Accrual	Interest rates on transactions
Financial derivatives	3,209,077	X	X	X	-	1,703,462	X	-	IR/Asset/Currency Swaps	Discounted Cash Flow	Rate curve, CDS curve, yield, inflation curve, exchange rates, rate correlation
									Equity swaps	Discounted Cash Flow	Share prices, rate curve, exchange rates
									Forex Singlename Plain	Option Pricing Model	Rate curve, exchange rates, Forex volatility
									Forex Singlename Exotic	Option Pricing Model	Rate curve, exchange rates, Forex volatility (surface)
									Equity Singlename Plain	Option Pricing Model	Rate curve, Share prices, Exchange rates, Equity Volatility
									Equity Singlename Exotic	Option Pricing Model	Rate curve, Share prices, Exchange rates, Equity Volatility (surface), Model Parameters
									Equity Multiname Plain	Option Pricing Model	Rate curve, share prices, exchange rates, equity volatility, Quanto correlations, equity/equity correlations
									Equity Multiname Exotic	Option Pricing Model	Rate curve, Share prices, Exchange rates, Equity Volatility (surface), Model Parameters, Quanto Correlations, Equity/Equity Correlations
									Plain Rate	Option Pricing Model	Rate curve, inflation curve, bond prices, exchange rates, rate volatility, rate correlations
									Foreign currency transactions	Market price	Market price, Swap Point
Credit derivatives	2,676	X	X	X	-	124,714	X	-	Default swaps	Discounted Cash Flow	CDS curve, rates curve
Total assets	**4,203,876**	**-**	**9,568**	**9,727**	**-**	**X**	**X**	**X**			
Total liabilities	**X**	**X**	**X**	**X**	**X**	**1,828,286**	**-**	**-**			

A.4.1.b - Fair value level 3: measurement techniques and inputs used

Items	Fair value 31 12 2019								Types	Measurement technique	non-observable input	Range (weighted average)
	Financial assets held for trading	Financial assets designated at fair value	Other financial assets obligatorily measured at fair value	Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Financial liabilities held for trading	Financial liabilities designated at fair value	Hedging derivatives				
Debt securities	-	-	4,781	-	X	-	-	X	Junior Tranche NPL	SPV Assets/Liabilities	SPV Assets Value	12.0%
Equity securities	-	X	1,285	458	X	X	X	X	Equity investments	Cost/Shareholders' Equity	Fair value asset	0-0.8 €/mln
UCITS Units	-	X	23,003	X	X	X	X	X	Alternative Investment Fund	Discounted Cash Flow	Discount rate	10.4%
Loans	-	-	55,703	-	-	-	-	-	Loans	Discounted Cash Flow	NPE Spread	4.11% - 4.42%
									Loans	Discounted Cash Flow	LGD	6.12% - 15.7%
									Loans	Discounted Cash Flow	PD	0.01% - 45%
									Loans	Discounted Cash Flow	PE Spread	0.01% - 2.43%
Total assets	**-**	**-**	**84,772**	**458**	**-**	**X**	**X**	**X**				
Total liabilities	**X**	**X**	**X**	**X**	**X**	**-**	**-**	**-**				

A.4.2 Measurement processes and sensitivity

In the category "Debt securities" of "Financial assets obligatorily measured at fair value", the position related to the junior tranche of the Siena NPL securitisation, of approximately € 6 million at nominal value, was measured using the discounted cash flow method, discounting future cash flows as a function of expected amounts recovered. It is estimated that the expected fluctuation of these aggregates may have an impact on the value of the Notes of approximately € -0.12 million.
Equity securities measured at fair value amounted to approximately € 1.7 million, of which € 0.5 million through other comprehensive income and € 1.2 million obligatorily measured at fair value. These are, in both cases, securities measured at cost/equity and representing all equity investments at fair value for which it was not possible to define measurement according to a market-based model.
UCITS units include positions obtained against disposals of non-performing loans, measured on the basis of the current distribution value of the funds.
The category "Loans" includes receivables (€ 55.7 million) measured obligatorily at fair value because they did not pass the so-called SPPI test that is the related contractual flows do not involve solely repayment of principal and payment of interest on the principal to be repaid, both in virtue of clauses originally provided for in the contract and following subsequent amendments. The fair value is measured using the Discounted Cash Flow approach applied differently according to whether these are performing or non-performing loans: in the first case the contractual flows are discounted with a Risk-Adjusted curve that incorporates the risks regarding the cost of credit, the cost of funding and the cost of capital; in the second case the recoverable value is discounted applying a spread in order to include the risks related to any sale on the market. The unobservable parameters are Probability of Default (PD), Loss Given Default (LGD) and the distinct spread for performing and non-performing assets. A change in these parameters, respectively of 5% - 10%, -1% -1%, would determine an impact on the fair value of approximately € -3 million.

A.4.3 Fair value hierarchy

In determining the fair value of a financial instrument, IFRS 13 establishes a hierarchy of criteria based on the source, type and quality of the information used in the calculation. This classification has the objective of establishing a hierarchy in terms of the reliability of the fair value as a function of the degree of discretion applied by the companies, giving priority to the use of parameters than can be observed on the market which reflect the assumptions that market participants would use in pricing the said assets/liabilities. The objective of the hierarchy is also to increase the consistency and comparability of fair value measurements.
Below we illustrate the three different measurement levels envisaged by the amendment in question, the choice of which is not optional, as the levels indicated must be applied in hierarchical order:
<u>Level 1 (effective market quotes)</u>
In this level, the input consists of prices quoted (not modified) on active markets for instruments for identical assets and liabilities, which can be accessed as of the measurement date.
<u>Level 2 (comparable approach)</u>
This level includes instruments which, for the purposes of measurement, prices quoted on active markets for similar assets or liabilities are used, or prices calculated using measurement techniques where all the significant input is based on parameters that can be observed on the market, directly or indirectly. An input is observable when it reflects the same assumptions used by market participants, based on market data provided by sources that are independent of the appraiser.
<u>Level 3 (mark-to-model approach)</u>
This level, instead, is used when measurement techniques where at least one significant input is based on non-observable parameters are made use of to calculate the prices.

To determine the methods of classifying assets in fair value Level 1, the Bank, in line with the policies of the Parent Company, used the presence of regulated markets for some categories financial instruments. In any case, classification in an active market requires the meeting of given requirements established ad hoc for each type of financial instrument. In particular equity securities and bonds (with the exception of plain vanilla government securities issued in hard currency and government securities from the G10 and Spain, for which it was held that the significance test was not necessary to carry out for the prices given the breadth and depth of the markets on which they are listed) are subject to periodic tests in order to verify the presence of various elements such as the bid-ask spread, the presence of numerous price contributors, the absence of listings that remain unchanged over time which demonstrate sufficient liquidity to make it possible to classify them in Level 1. Specifically, listed derivatives, exchange rates and Units in collective investment undertakings (limited to SICAVs and mutual investment funds) are considered as level 1.

All other financial instruments (OTC derivatives, Hedge Funds, Private Equity Funds, equity investment structures valued at fair value) and the same instruments that do not pass the liquidity and price significance tests are inserted in Level 2, as a rule.

If certain instruments have peculiarities that make it possible to measure them only with the assistance of measurement models that make use of unobservable market data input and/or entity specific assumptions, they are classified in Level 3.

The measurement method defined for an instrument is adopted and then kept over time, modified only following significant changes in market conditions or the subjective conditions of the issuer of the financial instrument. The Group's policy is that any movement of a given financial instrument between Levels 1 and 2 must be motivated by changed conditions, either improving or worsening, of the liquidity or price significance which determine whether or not the periodic tests are passed. Movement to and from Level 3, on the other hand, may depend on changes in the observability of the unknown parameters, as well as the adoption of different measurement techniques (models, replicas, etc.). It must be stressed that, in relation to item 20 c) "Financial assets obligatorily measured at fair value" and 30 "Financial assets measured at fair value through other comprehensive income", the amounts shown among Level 3 equity securities are referable to shareholding associations for cinema credit and to equity interests that are included in this fair value level when they are measured at adjusted cost, irrespective of measurements based on market parameters.

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 levels

Financial asset / liabilities measured at fair value	31 12 2019				31 12 2018			
	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	6,280,338	4,213,444	84,773	10,578,555	5,068,469	4,299,184	86,755	9,454,408
a) Financial assets held for trading	6,280,338	4,203,876	-	10,484,214	5,068,469	4,279,377	2,523	9,350,369
b) Financial assets designated at fair value	-	-	-	-	-	-	-	-
c) other financial assets obligatorily measured at fair value	-	9,568	84,773	94,341	-	19,807	84,232	104,039
2. Financial assets measured at fair value through other comprehensive income	95,687	9,727	458	105,872	94,797	-	506	95,303
3. Hedging derivatives	-	-	-	-	-	-	-	-
Total assets	**6,376,025**	**4,223,171**	**85,231**	**10,684,427**	**5,163,266**	**4,299,184**	**87,261**	**9,549,711**
1. Financial liabilities held for trading	2,435,928	1,828,286	-	4,264,214	1,873,363	1,594,114	-	3,467,477
2. Financial liabilities designated at fair value	-	-	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-	-	-
Total liabilities	**2,435,928**	**1,828,286**	**-**	**4,264,214**	**1,873,363**	**1,594,114**	**-**	**3,467,477**

Among financial assets held for trading classified as level 2 at 31 December 2019, are around € 3 million in positions which were classified as level 3 the previous year. The change is linked to the fact that the instruments were granted access to trading on regulated markets with not very liquid bid-ask spreads, compared to the previous year in which they were measured using a model.
Additionally, we note a change of around € 131 million in financial assets for trading involving positions which were classified as level 1 the previous year and are classified as level 2 as at 31 December 2019. The change involved bonds which essentially saw worsening of liquidity conditions (measured in terms of bid-ask spread of the quoted price) which enabled this reclassification, based on that indicated in the Group's policy on measuring financial instruments. The same reasoning led to the reclassification of the Astaldi security from level 1 to level 2, in the amount of € 0.1 million, classified among financial assets at fair value through other comprehensive income.
On the other hand, the improvement in liquidity conditions (measured in terms of the bid-ask for the quoted price) led to reclassification of € 26 million in financial assets for trading from level 2 to level 1.
The values at 31/12/2019 of financial assets obligatorily measured at fair value in level 3 include, for a total amount of € 6 million, UCITS units, measured using non-market oriented techniques, which had been classified as level 2 the previous year.
In keeping with the accounting standard IFRS 13, the Bank calculates the value adjustment of OTC derivatives to take account of the creditworthiness of the individual counterparties. This corrective, known as Credit Value Adjustment (CVA), is estimated for all positions in OTC derivatives with non-collateralised commercial and institutional counterparties and with counterparties with which Collateral Support Annex (CSA) contracts outside of market standards have been signed.
The method is based on calculating the operating expected loss associated with the rating of the counterparty and estimated on the duration of the position. The exposure includes the component of future credit variation

represented by the add-ons.
In the calculation of the CVA "risk premium" probability measurements are used in order to incorporate the expectations of the market coming from the CDS quotations, together with the historical information available internally.
The value of the CVA at 31/12/2019 totalled approximately € 10.7 million (€ 17.7 million at 31/12/2018), with an effect on the income statement of the year of approximately € 7 million, due essentially to a decrease in positions subject to correction and marginally also to an improvement of the composition of the portfolio in lending terms.
Mirroring this and within the same perimeter the Bank calculates the adjustment of the value of OTC derivatives to take account of its own creditworthiness, that is Debit Value Adjustment (DVA). At the end of the year the value of the DVA totalled approximately € 1.8 million (€ 1.9 million at 31/12/2018), with a negative effect on the income statement of € 0.1 million, essentially due to the improvement in the Group's credit rating.

A.4.5.2 Assets and liabilities measured at fair value on a recurring basis: breakdown by fair value levels

31 12 2019

	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 assets designated at fair value	Of which: c) other financial assets obligatorily measured at fair value	
1. Opening balances	**86,755**	**2,523**	**-**	**84,232**	**506**
2. Increases	**48,708**	**-**	**-**	**48,708**	**6**
2.1 Purchases	16,121	-	-	16,121	-
2.2 Income allocated to:	14,982	-	-	14,982	-
2.2.1 Income statement	14,982	-	-	14,982	-
- of which capital gains	8,873	-	-	8,873	-
2.2.2 Shareholders' equity	-	X	X	X	-
2.3 Transfers from other levels	10,848	-	-	10,848	-
2.4 Other increases	6,757	-	-	6,757	6
3. Decreases	**50,690**	**2,523**	**-**	**48,167**	**54**
3.1 Sales	14,762	-	-	14,762	54
3.2 Redemptions	16,160	-	-	16,160	-
3.3 Losses allocated to:	17,166	-	-	17,166	-
3.3.1 Income statement	17,166	-	-	17,166	-
- of which capital losses	11,441	-	-	11,441	-
3.3.2 Shareholders' equity	-	X	X	X	-
3.4 Transfers to other levels	2,523	2,523	-	-	-
3.5 Other decreases	80	-	-	80	-
4. Closing balances	**84,773**	**-**	**-**	**84,773**	**458**

A.4.5.3 Changes in liabilities measured at fair value on a recurring basis (level 3)

This schedule is not completed as for the year the Bank has no liabilities measured at fair value on a recurring basis in level 3 of the fair value hierarchy.

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 levels

Financial assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis	31 12 2019					31 12 2018				
	Carrying amount	Level 1	Level 2	Level 3	Total fair value	Carrying amount	Level 1	Level 2	Level 3	Total fair value
1. Financial assets measured at amortised cost	16,877,686	-	11,378,944	5,931,172	17,310,116	15,403,344	-	9,698,199	5,937,162	15,635,361
2. Property, plant and equipment held for investment purposes	490	-	-	855	855	10,981	-	-	12,962	12,962
3. Non-current assets held for sale and discontinued operations	27,099	-	-	-	-	52,746	-	-	-	-
Total assets	**16,905,276**	**-**	**11,378,944**	**5,932,027**	**17,310,971**	**15,467,071**	**-**	**9,698,199**	**5,950,125**	**15,648,323**
1. Financial liabilities measured at amortised cost	22,650,748	-	22,549,460	-	22,549,460	20,957,255	-	20,711,211	-	20,711,211
2. Liabilities associated with assets held for sale	-	-	-	-	-	25	-	-	-	-
Total liabilities	**22,650,748**	**-**	**22,549,460**	**-**	**22,549,460**	**20,957,280**	**-**	**20,711,211**	**-**	**20,711,211**

With reference to assets and liabilities not measured at fair value, note that in the context of financial assets and liabilities measured at amortised cost, all amounts due from customers, other than debt securities, are classified as level 3, given that the fair value is determined on the basis of non-observable parameters, for the most associated with estimates of expected losses, determined on the basis of indicators which cannot be observed on the market.
Amounts due from banks, other than debt securities, impaired loans and amounts due to banks/clientèle, are considered level 2. In particular, for liabilities at amortised cost other than outstanding securities, the book value was used as the expression of fair value, as allowed under accounting standard IFRS 7. For all the cited portfolios, the rules followed for classification within hierarchy levels, as well as the techniques and parameters used in the fair value estimate, to be indicated in the financial statements solely for disclosure purposes, require significant elements based on judgement. Therefore, it cannot be excluded that a different assessment of these parameters or the use of alternative measurement techniques would give rise to significantly different fair value amounts, also as a function of the different purposes of determining the same.
Tangible assets held for investment purposes also fall within the context of assets not measured at fair value. The fair value used for disclosure purposes is classified relative to level 3 of the hierarchy, as it is determined on the basis of appraisals or assessment based on indices. For assets held for sale, as they are subject to measurement at cost, please see the specific disclosure found under Section 11 "Non-current assets and disposal groups held for sale and associated liabilities", found in Part B of these Notes to the Financial Statements.

A.5 Disclosure on day one profit/loss

The fair value of financial instruments, in situations of non-active market, is determined using an evaluation technique, as indicated in IAS 39, paragraphs AG74-AG79. The same standard also prescribes that the best proof of the fair value of an instrument is represented at the time of the initial recognition by the price of the transaction (i.e. the fair value of the consideration paid or received), unless the conditions per IAS 39, Paragraph AG 76 are fulfilled.
The potential consequence, accentuated in determined market situations and for particularly complex and illiquid products, is the manifestation of a difference between the fair value of the financial asset or liability at initial recognition and the amount that would have been determined at the same date using the chosen evaluation technique. The difference, income/expense, must be recognised on first measurement after initial recognition. This phenomenon is known as day one profit/loss.
This concept does not include the profits deriving from the characteristic intermediation of the investment banks if arbitrage between different markets and products, in the presence of contained, book entry risk positions, leads to the formation of a trading margin aimed at remunerating the intermediary for the service rendered and for the assumption of financial and credit risks.

During the year, there were no cases to be reported and handled according to the above criteria.

Part B - Notes to the Balance Sheet

ASSETS

Section 1 – Cash and cash equivalents – Item 10

1.1 Cash and cash equivalents: breakdown

	Total 31 12 2019	Total 31 12 2018
a) Cash	-	-
b) Unrestricted deposits with Central Banks	-	-
Total	**-**	**-**

Cash on hand at 31 December 2019 amounted to € 53.93 (€ 6.96 at 31 December 2018).

Section 2 – Financial assets measured at fair value through profit or loss – Item 20

2.1 Financial assets held for trading: breakdown by type

Items/Balances	Total 31/12/2019				Total 31/12/2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
A. Cash assets								
1. Debt securities	6,111,269	992,101	-	7,103,370	4,942,127	984,908	2,523	5,929,558
1.1 Structured securities	14,164	166,698	-	180,862	3,571	125,127	-	128,698
1.2 Other debt securities	6,097,105	825,403	-	6,922,508	4,938,556	859,781	2,523	5,800,860
2. Equity securities	34,948	22	-	34,970	20,765	23	-	20,788
3. UCITS Units	92,789	-	-	92,789	46,245	-	-	46,245
4. Loans	-	-	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-	-	-
Total (A)	**6,239,006**	**992,123**	**-**	**7,231,129**	**5,009,137**	**984,931**	**2,523**	**5,996,591**
B. Derivative instruments								
1. Financial derivatives:	41,333	3,209,077	-	3,250,410	59,332	3,280,376	-	3,339,708
1.1 for trading	41,333	3,209,077	-	3,250,410	59,332	3,280,376	-	3,339,708
1.2 associated with fair value option	-	-	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-	-	-
2. Credit derivatives:	-	2,676	-	2,676	-	14,070	-	14,070
2.1 for trading	-	2,676	-	2,676	-	14,070	-	14,070
2.2 associated with fair value option	-	-	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-	-	-
Total (B)	**41,333**	**3,211,753**	**-**	**3,253,086**	**59,332**	**3,294,446**	**-**	**3,353,778**
Total (A+B)	**6,280,339**	**4,203,876**	**-**	**10,484,215**	**5,068,469**	**4,279,377**	**2,523**	**9,350,369**

Note: "Debt securities - 1.2 Other debt securities" includes securities associated with securitisation transactions, senior for € 224,252 thousand (215,014 at 31 December 2018), mezzanine for € 125,841 thousand (86,000 at 31 December 2018) and junior for € 46,685 thousand (72,120 at 31 December 2018). The sub-item "Financial derivatives – 1.1 held for trading" includes the fair value of OTC derivative contracts signed with corporate customers which present an evident low credit quality for a net amount of € 359 thousand (€ 346 thousand al 31 December 2018). In application of IAS 32, paragraph 42, level 1 derivatives quoted on regulated markets were offset for € 41,333 thousand (54,607 at 31 December 2018), as well as OTC level 2 financial and hedging derivatives settled through the Central Counterparty London Clearing House (LCH) for € 2,504,329 thousand (1,270,770 thousand at 31 December 2018) and level 2 credit derivatives settled through the Central Counterparty ICE Clear Europe (ICE) for € 5,494 thousand (526 at 31 December 2018). The Bank has "indirect" access to clearing of OTC derivatives through the Clearing Members.

2.1.a Detail of debt instruments: structured instruments

Structured debt securities	Total 31 12 2019	Total 31 12 2018
Index Linked	109,764	78,915
Reverse convertible	-	-
Convertible	216	628
Credit linked notes	2,485	-
Equity Linked	-	12,266
Step-up, Step-down	-	-
Dual Currency	-	-
Drop Lock	-	-
Target redemption note	-	-
Cap Floater	40,161	24,348
Reverse Floater	8,446	2,443
Corridor	-	-
Commodity	-	-
Fund Linked	19,790	9,998
Inflation linked	-	-
Other	-	100
Total	**180,862**	**128,698**

2.2 Financial assets held for trading: breakdown by debtor/issuer/counterparty

Items/Balances	Total 31 12 2019	Total 31 12 2018
A. Cash assets		
1. Debt securities	7,103,370	5,929,557
a) Central Banks	-	-
b) Public administrations	5,742,086	4,488,961
c) Banks	755,573	927,533
d) Other financial companies	535,128	459,401
of which: insurance companies	4,888	6,707
e) Non-financial companies	70,583	53,663
2. Equity securities	34,970	20,788
a) Banks	503	140
b) Other financial companies	10,125	1,042
of which: insurance companies	8,965	336
c) Non-financial companies	24,342	19,606
d) Other issuers	-	-
3. UCITS Units	92,789	46,245
4. Loans	-	-
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total (A)	**7,231,129**	**5,996,590**
B. Derivative instruments		
a) Central Counterparties	-	-
b) Other	3,253,086	3,353,779
Total (B)	**3,253,086**	**3,353,779**
Total (A+B)	**10,484,215**	**9,350,369**

Note: The detail by debtor/issuer was done in compliance with the classification criteria for sectors and economic business groups established by Bank of Italy.

2.2.a Units in collective investment undertakings: Breakdown by main categories

Categories/Balances	Total 31 12 2019	Total 31 12 2018
Stock	-	-
Bonds	154	422
Balanced	-	-
Hedge Funds	-	-
Private equity	-	-
Real estate	-	-
Exchanged Traded Funds (ETF)	87,526	45,823
Other	5,109	-
Total	**92,789**	**46,245**

2.3 Financial assets designated at fair value: breakdown by type

2.4 Financial assets designated at fair value: breakdown by debtor/issuer

Tables 2.3 and 2.4 were not prepared in that, both for the year in course and the comparison year, there were no financial asses designated at fair value.

2.5 Other financial assets obligatorily measured at fair value: breakdown by type

Items/Balances	Total 31/12/2019				Total 31/12/2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
1. Debt securities	-	9,568	4,781	14,349	-	8,959	6,434	15,393
1.1 Structured securities	-	-	-	-	-	-	-	-
1.2 Other debt securities	-	9,568	4,781	14,349	-	8,959	6,434	15,393
2. Equity securities	-	-	1,285	1,285	-	305	1,124	1,429
3. UCITS Units	-	-	23,003	23,003	-	10,543	2,588	13,131
4. Loans	-	-	55,703	55,703	-	-	74,087	74,087
4.1 Repurchase agreements	-	-	-	-	-	-	-	-
4.2 Other	-	-	55,703	55,703	-	-	74,087	74,087
Total	**-**	**9,568**	**84,773**	**94,340**	**-**	**19,807**	**84,233**	**104,040**

Note: the line “Other debt securities” includes the mezzanine (level 2) and junior (level 3) securities deriving from the Siena NPL securitisation. Level 3 of UCITS units include units of the fund deriving from the credit disposal carried out during the year, as well as already existing positions, which had been classified as level 2 the previous year.

2.6 Other financial assets obligatorily measured at fair value: breakdown by debtors/issuers

Items/Balances	Total 31 12 2019	Total 31 12 2018
1. Equity securities	1,285	1,429
of which: banks	-	-
of which: other financial companies	779	-
of which: non-financial companies	506	1,429
2. Debt securities	14,349	15,393
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	14,349	15,393
of which: insurance companies	-	-
e) Non-financial companies	-	-
3. UCITS Units	23,003	13,131
4. Loans	55,704	74,087
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	2,681	6,329
of which: insurance companies	-	-
e) Non-financial companies	50,625	64,892
f) Households	2,398	2,866
Total	**94,341**	**104,040**

2.6.a Equity securities issued by parties classified as non-performing or in probable default status

Categories/Balances	Total 31 12 2019	Total 31 12 2018
Equity securities issued by parties classified as bad		
Gross exposure	207	207
Cumulative write-downs	207	207
Write-downs during the period	-	-
Equity securities issued by parties classified as probable default		
Gross exposure	10,925	13,617
Cumulative write-downs	10,787	12,991
Write-downs during the period	626	418
Total	**138**	**626**

2.6.b UCITS units: breakdown by main categories

Categories/Balances	Total 31 12 2019	Total 31 12 2018
Stock	-	-
Bonds	19,923	6,731
Balanced		
Hedge Funds		
Private Equity		
Real estate	3,080	6,399
Other		
Total	**23,003**	**13,130**

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 by type

Items/Balances	Total 31/12/2019				Total 31/012/2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
1. Debt securities	75,040	9,727	-	84,767	72,710	-	-	72,710
1.1 Structured securities	-	-	-	-	-	-	-	-
1.2 Other debt securities	75,040	9,727	-	84,767	72,710	-	-	72,710
2. Equity securities	20,647	-	458	21,105	22,087	-	506	22,593
3. Loans	-	-	-	-				-
Total	**95,687**	**9,727**	**458**	**105,872**	**94,797**	**-**	**506**	**95,303**

3.2 Financial assets measured at fair value through other comprehensive income: breakdown by debtor/issuer

Items/Balances	Total 31 12 2019	Total 31 12 2018
1. Debt securities	84,767	72,711
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	64,061	60,214
d) Other financial companies	9,958	1,045
of which: insurance companies	-	-
e) Non-financial companies	10,748	11,452
2. Equity securities	21,105	22,593
a) Banks	20,647	22,125
b) Other issuers:	458	468
- other financial companies	-	-
of which: insurance companies	-	-
- non-financial companies	458	468
- other	-	-
3. Loans	-	-
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	**105,872**	**95,304**

3.2.a Equity securities issued by parties classified as non-performing or in probable default status

Categories/Balances	Total 31 12 2019	Total 31 12 2018
Equity securities issued by parties classified as bad		
Gross exposure	-	-
Cumulative write-downs	-	-
of which: Write-downs during the period	-	-
Equity securities issued by parties classified as probable default		
Gross exposure	42,077	42,077
Cumulative write-downs	42,077	42,077
of which: Write-downs during the period	-	-
Total net exposure	**-**	**-**

3.3 Financial assets measured at fair value through other comprehensive income: gross value and total value adjustments

	Gross value				Total value adjustments			Total partial write-offs (*)
	First stage							
		of which instruments with low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	
Debt securities	83,974	72,978	-	4,041	36	-	3,212	-
Loans	-	-	-	-	-	-	-	-
Totale 31 12 2019	**83,974**	**72,978**	**-**	**4,041**	**36**	**-**	**3,212**	**-**
Totale 31 12 2018	71,310	60,216	-	3,850	20	-	2,430	-
of which: purchased or originated impaired financial assets	X	X	-	-	X	-	-	-

Section 4 – Financial assets measured at amortised cost - Item 40

4.1 Financial assets measured at amortised cost: breakdown by type of receivables from banks

Type of transaction /Balances	Total 31 12 2019							
	Carrying amount				Fair value			
	First and second stage	Third stage	of which: purchased or originated impaired	Total	L1	L2	L3	Total
A. Due from Central Banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Fixed-term deposits	-	-	-	-	X	X	X	-
2. Compulsory reserve	-	-	-	-	X	X	X	-
3. Repurchase agreements	-	-	-	-	X	X	X	-
4. Other	-	-	-	-	X	X	X	-
B.Due from banks	**6,265,354**	**-**	**-**	**6,265,354**	**-**	**6,415,406**	**-**	**6,415,406**
1. Loans	6,265,354	-	-	6,265,354	-	6,415,406	-	6,415,406
1.1 Current accounts and demand depo	1,937,156	-	-	1,937,156	X	X	X	-
1.2 Fixed-term deposits	1,232,990	-	-	1,232,990	X	X	X	-
1.3 Other loans	3,095,208	-	-	3,095,208	X	X	X	-
- Reverse repurchase agreements	2,678,532	-	-	2,678,532	X	X	X	-
- Financing for leases	-	-	-	-	X	X	X	-
- Other	416,677	-	-	416,677	X	X	X	-
2. Debt securities	-	-	-	-	-	-	-	-
2.1 Structured securities	-	-	-	-	-	-	-	-
2.2 Other debt securities	-	-	-	-	-	-	-	-
Total	**6,265,354**	**-**	**-**	**6,265,354**	**-**	**6,415,406**	**-**	**6,415,406**

Type of transaction /Balances	Total 31 12 2018							
	Carrying amount				Fair value			
	First and second stage	Third stage	of which: purchased or originated impaired	Total	L1	L2	L3	Total
A. Due from Central Banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Fixed-term deposits	-	-	-	-	X	X	X	-
2. Compulsory reserve	-	-	-	-	X	X	X	-
3. Repurchase agreements	-	-	-	-	X	X	X	-
4. Other	-	-	-	-	X	X	X	-
B.Due from banks	**5,669,343**	**-**	**-**	**5,669,343**	**-**	**5,715,130**	**-**	**5,715,130**
1. Loans	5,669,343	-	-	5,669,343	-	5,715,130	-	5,715,130
1.1 Current accounts and demand depo	1,734,448	-	-	1,734,448	X	X	X	-
1.2 Fixed-term deposits	330,325	-	-	330,325	X	X	X	-
1.3 Other loans	3,604,571	-	-	3,604,571	X	X	X	-
- Reverse repurchase agreements	3,347,790	-	-	3,347,790	X	X	X	-
- Financing for leases	-	-	-	-	X	X	X	-
- Other	256,781	-	-	256,781	X	X	X	-
2. Debt securities	-	-	-	-	-	-	-	-
2.1 Structured securities	-	-	-	-	-	-	-	-
2.2 Other debt securities	-	-	-	-	-	-	-	-
Total	**5,669,343**	**-**	**-**	**5,669,343**	**-**	**5,715,130**	**-**	**5,715,130**

4.2 Financial assets measured at amortised cost: breakdown by type of receivables from customers

Type of transaction Balances	31 12 2019							
	Carrying amount				Fair value			
	First and second stage	Third stage	of which: purchased or originated impaired	Total	L1	L2	L3	Total
Loans	**9,268,137**	**824,149**	**728**	**10,092,286**	**-**	**4,438,359**	**5,931,172**	**10,369,531**
1.1. Current accounts	1	-	-	**1**	X	X	X	X
1.2. Reverse repurchase agreements	4,434,020	-	-	**4,434,020**	X	X	X	X
1.3. Loans	4,246,519	823,323	728	**5,069,842**	X	X	X	X
1.4. Credit cards, personal loans and loans secured over wages and salaries	2,572	-	-	**2,572**	X	X	X	X
1.5. Financing for leases	-	-	-	**-**	X	X	X	X
1.6. Factoring	-	-	-	**-**	X	X	X	X
1.7. Other loans	585,024	826	-	**585,850**	X	X	X	X
of which: operating loans	5,823	80	-	**5,903**	X	X	X	X
Debt securities	**520,046**	**-**	**-**	**520,046**	**-**	**525,179**	**-**	**525,179**
1.1. Structured securities	-	-	-	**-**	-	-	-	-
1.2. Other debt securities	520,046	-	-	**520,046**	-	525,179	-	**525,179**
Total	**9,788,183**	**824,149**	**728**		**-**	**4,963,538**	**5,931,172**	**5,931,172**

Note: item 2.2 "Other debt securities" includes the Senior notes deriving from the "Siena NPL" securitisation and the bond issued by the project company Brebemi S.p.A.

"Loans to customers" include, for insignificant amounts, loans disbursed with funds made available by the State and by other public bodies, with assumption of partial or total risk by the Bank. These funds are managed in the context of the agreements signed by the MPS Group with Cassa Depositi e Prestiti (hereinafter CDP), in direct cooperation with the ABI. In particular the Bank and the Group signed up to the agreements structured by the ABI and CDP in support of businesses. These operations are aimed at facilitating the disbursement of credit, depending on the cases, to small and medium-sized enterprises and/or to medium-sized enterprises substantially to ensure the financial coverage of expenses related to investments and/or linked to needs to increase the working capital and for the purchase or leasing of instrumental assets. Loans disbursed to SMEs by the Bank - with duration of more than 12 months - and the related contractual conditions - released from CDP funding - are the subject of autonomous negotiation between the parties involved. The loans to the final beneficiaries are obligatorily transferred in guarantee to CDP. The funding received from CDP is intermediated by the Parent Company.

Type of transaction Balances	31 12 2018							
	Carrying amount				Fair value			
	First and second stage	Third stage	of which: purchased or originated impaired	Total	L1	L2	L3	Total
Loans	**8,014,012**	**1,138,812**	**1,319**	**9,152,824**	**-**	**3,405,671**	**5,937,162**	**9,342,833**
1.1. Current accounts	2	-	-	2	X	X	X	-
1.2. Reverse repurchase agreements	3,394,929	-	-	3,394,929	X	X	X	-
1.3. Loans	4,177,887	1,137,517	1,319	5,315,404	X	X	X	-
1.4. Credit cards, personal loans and loans secured over wages and salaries	2,763	-	-	2,763	X	X	X	-
1.5. Financing for leases	-	-	-	-	X	X	X	-
1.6. Factoring	-	-	-	-	X	X	X	-
1.7. Other loans	438,431	1,295	-	439,726	X	X	X	-
of which: operating loans	5,698	188	-	5,886	X	X	X	-
Debt securities	**581,177**	**-**	**-**	**581,177**		**577,399**		**577,399**
1.1. Structured securities	-	-	-	-	-	-	-	-
1.2. Other debt securities	581,177	-	-	581,177	-	577,399	-	577,399
Total	**8,595,189**	**1,138,812**	**1,319**	**9,734,001**	**-**	**3,983,070**	**5,937,162**	**9,920,232**

4.3 Financial assets measured at amortised cost: breakdown by debtors/issuers of loans to customers

Type of transaction Balances	Total 31 12 2019			
	First and second stage	Third stage	Of which: purchased or originated impaired assets	
1. Debt securities	**520,046**	**-**	**-**	**520,046**
a) Public administrations	-	-	-	-
b) Other financial companies	483,577	-	-	483,577
of which: insurance companies	-	-	-	-
c) Non-financial companies	36,469	-	-	36,469
2. Loans to:	**9,268,137**	**824,149**	**728**	**10,092,286**
a) Public administrations	27,782	-	-	27,782
b) Other financial companies	5,084,741	20,100	654	5,104,841
of which: insurance companies	-	-	-	-
c) Non-financial companies	3,953,542	661,714	75	4,615,256
d) Households	202,072	142,335	-	344,407
Total	**9,788,183**	**824,149**	**728**	**10,612,332**

Type of transaction Balances	Total 31 12 2018			
	First and second stage	Third stage	Of which: purchased or originated impaired assets	
1. Debt securities	**581,177**	**-**	**-**	**581,177**
a) Public administrations	-	-	-	-
b) Other financial companies	581,177	-	-	581,177
of which: insurance companies	-	-	-	-
c) Non-financial companies	-	-	-	-
2. Loans to:	**8,014,011**	**1,138,812**	**1,319**	**9,152,823**
a) Public administrations	29,219	-	-	29,219
b) Other financial companies	3,760,311	42,446	1,094	3,802,757
of which: insurance companies	-	-	-	-
c) Non-financial companies	4,006,630	909,351	225	4,915,981
d) Households	217,851	187,015	-	404,866
Total	**8,595,188**	**1,138,812**	**1,319**	**9,734,000**

4.4 Financial assets measured at amortised cost: gross value and total value adjustments

Type of transaction Balances	Gross value				Total value adjustments			Total partial write-offs
	First stage		Second stage	Third stage	First stage	Second stage	Third stage	
		of which instruments with low credit risk						
Debt securities	520,337	520,337	-	-	291	-	-	-
Loans	13,886,932	-	1,695,055	1,492,108	5,314	43,182	667,959	88,664
31 12 2019	14,407,269	520,337	1,695,055	1,492,108	5,605	43,182	667,959	88,664
of which: purchased or originated impaired financial assets	X	X	-	2,707	X	-	1,979	-
31 12 2018	12,190,037	581,434	2,179,506	2,159,698	7,966	97,045	1,020,886	102,725

Section 5 - Hedging derivatives – Item 50

In application of IAS 32, paragraph 42, the hedging derivative in place, as it is settled through the Central Counterparty London Clearing House (LCH), is offset with financial derivatives held for trading. For more detail on the hedging position, please see Part E – Section 3.2 "Accounting hedges".

Section 6 - Value adjustments to financial assets subject to macro-hedging - Item 60

There were no transactions for this accounting item.

Section 7 - Equity investments - Item 70

7.1 Equity investments: information on investment relationships

Name	Registered office	Operating office	Stake held %	Avail. Vote %
A. Full subsidiaries				
B. Subsidiaries under joint control				
C. Companies subject to significant influence				
Terme di Chianciano S.p.a.	Chianciano T. (SI)	Chianciano T. (SI)	26.807	26.807
Interporto Toscano A.Vespucci S.p.a.	Collesalvetti (LI)	Collesalvetti (LI)	19.001	19.001
TOTAL (A+B+C)				

7.2 Significant equity investments: carrying amount, fair value and dividends received

Nothing to report.

7.2.a Details of equity securities issued by parties classified as non-performing or in probable default status

	Historical cost	Cumulative write-downs	Carrying amount	Adjustments ascertained in the year
Probable defaults				
Terme di Chianciano SPA	924	(924)	-	-
Interporto Toscano A.Vespucci SPA	8,369	(8,369)	-	-
Total	**9,293**	**(9,293)**	**-**	**-**

7.3 Significant equity investments: accounting information

Nothing to report.

7.4 Non-significant equity investments: accounting information

Corporate Name	Carrying amount of the equity investments	Total assets	Total liabilities	Total revenue	Profit (Loss) from current operations net of taxes	Gain (Loss) on discontinued operations, net of taxation	Profit (Loss) for the period(1)	Other income components net of taxes(2)	Comprehensive income (3) = (1) + (2)
A. Full subsidiaries									
B. Subsidiaries under joint control	-	-	-	-	-	-	-	-	-
C. Companies subject to significant influence	-	131,571	109,079	11,328	3,587	-	3,587	-	3,587
Terme di Chianciano S.p.a.	-	12,253	8,340	6,143	(581)	-	(581)	-	(581)
Interporto Toscano A. Vespucci S.p.a.	-	131,571	109,079	11,328	3,587	-	3,587	-	3,587

The figures refer to the latest financial statements approved at 31 December 2018.

7.5 Equity investments: annual changes

	Total 31 12 2019	Total 31 12 2018
A. Opening balances	**779**	**779**
B. Increases	**-**	**-**
B.1. Purchases	-	-
B.2 Write-backs	-	-
B.3 Revaluations	-	-
B.4 Other changes	-	-
C. Decreases	**779**	**-**
C.1 Sales	-	-
C.2 Write-downs	-	-
C.3 Other changes	779	-
D. Closing balances	**-**	**779**
E. Total revaluations	-	-
F. Total adjustments	**9,293**	**10,419**

Note: the decrease seen in "Other changes" is linked to the transfer to item 20 c) "Other financial assets obligatorily measured at fair value through profit and loss" of the equity investment in Sviluppo Imprese Centro Italia SGR S.p.A. (SICI), following the loss of significant influence.

The reduction in total value adjustments seen during the year is due to the cancellation of 1,193,184 shares (out of 2,209,000) for Terme di Chainciano SPA, with a book value of € 1.19.

7.6 Commitments relating to equity investments in subsidiaries under joint control

At the reporting date, there were no equity investments in joint ventures.

7.7 Commitments relating to equity investments in companies under significant influence

At the reporting date, there were no commitments relating to equity investments in companies under significant influence.

7.8 Significant restrictions

There are no significant restrictions to report.

7.9 Other information

Nothing to report.

Section 8 - Property, plant and equipment - Item 80

8.1 Property, plant and equipment for use in business: breakdown of assets measured at cost

Assets / Balances	Total	
	31 12 2019	31 12 2018 *
1. Company owned	**181**	**178**
a) land	6	6
b) buildings	8	9
c) furniture	6	7
d) electronic systems	5	-
e) other	156	156
2. Rights of use acquired with leasing	**19,793**	-
a) land	-	-
b) buildings	19,754	-
c) furniture	-	-
d) electronic systems	-	-
e) other	39	-
Total	**19,974**	**178**
of which: obtained through enforcement of guarantees received	-	-

* *The Bank utilised the option not to redetermine on a uniform basis the comparative data of the year of first application of IFRS 16.*

8.2 - Property, plant and equipment held for investment purposes: breakdown of assets measured at cost

Assets / Balances	Total 31 12 2019					Total 31 12 2018				
	Carrying amount	Fair Value				Carrying amount	Fair Value			
		Level 1	Level 2	Level 3	Total		Level 1	Level 2	Level 3	Total
1. Company owned	**490**	**-**	**-**	**855**	**855**	**10,982**	**-**	**-**	**12,963**	**12,963**
a) land	340	-	-	620	620	8,905	-	-	8,169	8,169
b) buildings	150	-	-	235	235	2,077	-	-	4,794	4,794
2. Rights of use acquired with leasing	**-**	-	-	**-**	**-**	-	-	-	-	-
a) land	-	-	-	-	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-	-	-	-	-
Total	**490**	**-**	**-**	**855**	**855**	**10,982**	**-**	**-**	**12,963**	**12,963**
of which: obtained through enforcement of guarantees received	-	-	-	-	-	-	-	-		

8.3 Property, plant and equipment used for business: breakdown of revalued assets

Assets / Balances	Total 31 12 2019				Total 31 12 2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
1. Company owned	**-**	**-**	**14**	**14**	**-**	**-**	**-**	**-**
a) land	-	-	6	6	-	-	-	-
b) buildings	-	-	8	8	-	-	-	-
c) furniture	-	-	-	-	-	-	-	-
d) electronic systems	-	-	-	-	-	-	-	-
e) other	-	-	-	-	-	-	-	-
2. Rights of use acquired with leasing	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-				-
b) buildings	-	-	-	-				-
c) furniture	-	-	-	-				-
d) electronic systems	-	-	-	-				-
e) other	-	-	-	-				-
Total	**-**	**-**	**14**	**14**	**-**	**-**	**-**	**-**

8.4 Property, plant and equipment held for investment purposes: breakdown of assets valued at fair value

Nothing to report.

8.5 - Inventories of property, plant and equipment governed by IAS 2: breakdown

Assets / Balances	Total	
	31 12 2019	31 12 2018
1. Inventories of property, plant and equipment obtained through enforcement of guarantee	**750**	**750**
a) land	-	-
b) buildings	750	750
c) furniture	-	-
d) electronic systems	-	-
e) other	-	-
2. Other inventories of property, plant and equipment	-	-
Total	**750**	**750**
of which: measured at fair value net of costs to sell	-	-

8.6 - Property, plant and equipment used for business: annual changes

	Land	Buildings	Furniture	Electronic equipment	Other	Total 31 12 2019
A. Gross opening balances *	**6**	**20,957**	**1,239**	**446**	**303**	**22,951**
A.1 Total net value reductions	-	25	1,231	446	33	1,735
A.2 Net opening balances	**6**	**20,932**	**8**	**-**	**270**	**21,216**
B. Increases	**-**	**584**	**1**	**5**	**13**	**603**
B.1. Purchases	-	351	1	5	13	370
- Business combinations	-	-	-	-	-	-
B.2 Capitalised improvement costs	-	-	-	-	-	-
B.3 Write-backs	-	-	-	-	-	-
B.4 Positive fair value changes booked to:	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Exchange gains	-	-	-	-	-	-
B.6 Transfer from investment property	-	-	X	X	X	-
B.7 Other changes	-	233	-	-	-	233
C. Decreases	**-**	**1,754**	**3**	**-**	**87**	**1,844**
C.1 Sales	-	-	-	-	-	-
C.2 Depreciation	-	1,754	3	-	87	1,844
C.3 Write-downs for impairment booked to:	-	-	-	-	-	-
a) shareholders' equity	-	-	-		-	-
b) income statement	-	-	-	-		-
C.4 Negative fair value changes booked to:	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.5 Exchange losses	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) property, plant and equipment held for investment purposes	-	-	X	X	X	-
b) Non-current assets and disposal groups held for sale	-	-	-	-	-	-
C.7 Other changes	-	-	-	-	-	-
D. Net closing balances	**6**	**19,762**	**6**	**5**	**196**	**19,975**
D.1 Total net value reductions	-	1,779	1,167	447	121	3,514
D.2 Gross closing balances	**6**	**21,541**	**1,173**	**452**	**317**	**23,489**
E. Measured at cost	**7**	**19,783**	**6**	**5**	**195**	**19,996**

* *Gross initial inventories include effects deriving from first time application of the new accounting standard IFRS 16 as of 1 January 2019, as described in the paragraph "Transition to new accounting standard IFRS 16", in Part A1 - Section 2.*

8.7 - Property, plant and equipment held for investment purposes: annual changes

	31 12 2019		
	Land	**Buildings**	**Total**
A. Opening balances	**8,905**	**2,077**	**10,982**
B. Increases	**-**	**-**	**-**
B.1. Purchases	-	-	-
B.2 Capitalised improvement costs	-	-	-
B.3 Positive fair value changes	-	-	-
B.4 Write-backs	-	-	-
B.5 Exchange gains	-	-	-
B.6 Transfers from properties used for business	-	-	-
B.7 Other changes	-	-	-
C. Decreases	**8,565**	**1,927**	**10,492**
C.1 Sales	-	-	-
C.2 Depreciation	-	123	123
C.3 Negative fair value changes	-	-	-
C.4 Write-downs for impairment	-	-	-
C.5 Exchange gains	-	-	-
C.6 Transfers to	8,565	1,804	10,369
a) properties used for business	-	-	-
b) Non-current assets and disposal groups held for sale	8,565	1,804	10,369
C.7 Other changes	-	-	-
D. Closing balances	**340**	**150**	**490**
D.1 Total net value reductions	280	433	713
D.2 Gross closing balances	620	583	1,203
E.Fair value measurement	**620**	**235**	**855**

8.8 - Inventories of property, plant and equipment governed by IAS 2: annual changes

	Inventories of property, plant and equipment obtained through enforcement of guarantees received					Other inventories of property, plant and equipment	Total
	Land	Buildings	Furniture	Electronic equipment	Other		
A. Opening balances	**-**	**750**	**-**	**-**	**-**	**-**	**750**
B. Increases	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B.1. Purchases	-	-	-	-	-	-	-
B.2 Write-backs	-	-	-	-	-	-	-
B.3 Exchange gains	-	-	-	-	-	-	-
B.4 Other changes	-	-	-	-	-	-	-
C. Decreases	**-**	**-**	**-**	**-**	**-**	**-**	**-**
C.1 Sales	-	-	-	-	-	-	-
C.2 Write-downs for impairment	-	-	-	-	-	-	-
C.3 Exchange losses	-	-	-	-	-	-	-
C.3 Other changes	-	-	-	-	-	-	-
D. Closing balances	**-**	**750**	**-**	**-**	**-**	**-**	**750**

8.9 - Commitments for the purchase of property, plant and equipment

As of the reporting date, there were no commitments undertaken to purchase property, plant and equipment.

8.10 - Property, plant and equipment: useful life

Main categories of Property, plant and equipment	%	Year
Land and works of art	0.00%	Indefinite
Buildings	3.03%	33
Furniture	12.50%	8
Electronic equipment	-	-
Electronic and ordinary office machines	20.00%	5
Electronic data processing equipment	25.00%	4
Vehicles	25.00%	4
Telephones	20.00%	5

Section 9 - Intangible assets - Item 90

There were no transactions for this accounting item.

Section 10 – Tax assets and liabilities – Asset Item 100 and Liability Item 60

Current taxes

Current taxes include the estimated payable for current liabilities or liabilities referring to transactions from previous years. Current tax assets and liabilities are shown in their net balance in the respective balance sheet items following the offset carried out at the level of the said tax.
Current tax assets amounted to € 313,267 thousand and include for € 294,921 thousand the tax credit under Italian Law 214/11, for € 25,109 thousand the IRAP credit offset and for € 240 thousand tax withholdings on foreign dividends awaiting repayment. These receivables are offset through payables of the same type for € 7,003 thousand.
As a result of the adhesion to the national tax consolidation system under the terms of Art. 117 ff. of the Consolidated Act on Income Tax as a consolidated company, the Bank determines, in the presence of a taxable profit, the tax charges for which it is liable and the corresponding IRES taxable income is transferred to the Parent Company BMPS, which, as the consolidating company, after consolidating the taxable amounts coming under the scope of consolidation, pays any tax due to the tax authorities.
In 2019, the IRES tax accruing for tax consolidation amounted to € 11,683 thousand, while taxable income relative to additional IRES was entirely offset with the ACE subsidy and previous losses. Consequently, no current taxes are recognised. The results of the probability test determined a writedown of € 40,741 thousand of the receivable due from the Consolidator, which is equal to € 137,202 thousand.
Relative to IRAP, the allocation for the period amounted to € 5,000 thousand. As an effect of the tax credit in question, no payment will be made in June 2020. With respect to IRES, the net debit and credit positions are posted among “Other assets”.

Deferred tax assets and liabilities

Deferred taxation is measured with the “balance sheet liability method” specified in IAS 12 in accordance with the specifications prescribed by the Bank of Italy. This method takes account of the tax effect connected with temporary differences between the carrying value of assets and liabilities and their fiscal value, which lead to taxable or deductible amounts in future periods. For these purposes, “taxable temporary differences” are those which in future periods will determine taxable amounts and “deductible temporary differences” are those which in future periods will determine deductible amounts.
Deferred tax assets and liabilities are calculated applying the tax rates established by the provisions of current laws to the taxable temporary differences in relation to which there is the probability that the taxes will actually have to be paid and to the deductible temporary differences for which there exists reasonable certainty of recovery.
The probability test made necessary a revaluation of deferred tax assets related to the additional IRES and other temporary differences, respectively for € 5,044 thousand and € 145 thousand.
Prepaid and deferred taxes are shown as the net balance of the respective balance sheet item, subsequent to offsetting at the same tax level and for each financial year, taking into account when payment is expected to fall due. Consequently, at 31 December 2019 deferred tax liabilities were completely offset with deferred tax assets.

10.1 Deferred tax assets: breakdown

Items/Balances	IRES as counter-entry in IS	IRES as counter-entry in SE	IRAP as counter-entry in IS	IRAP as counter-entry in SE	31 12 2019	31 12 2018
Receivables	35,217	-	7,068	-	42,285	45,748
Receivables (Law 214/2011)	78,605	-	11,810	-	90,415	90,415
Other financial instruments	2,647	-	44	-	2,691	4,404
Goodwill (Law 214/2011)	-	-	-	-	-	-
Deferred charges	-	-	-	-	-	-
Property, plant and equipment	321	-	65	-	386	392
Intangible fixed assets	-	-	-	-	-	-
Intangible fixed assets (Law 214/2011)	-	-	-	-	-	-
Entertaining expenses	-	-	-	-	-	-
Personnel-related costs	82	470	-	-	552	420
ACE surplus	1,463	-	-	-	1,463	8,669
Tax losses	24,004	-	-	-	24,004	21,588
Tax losses (Law 214/2011)	-	-	-	-	-	-
Reserves for valuation of financial instruments	-	199	-	-	199	729
Other	4,944	-	-	-	4,944	6,555
Deferred tax assets - gross	**147,283**	**669**	**18,987**	**-**	**166,939**	**178,920**
Offsetting against deferred tax liabilities	(2,473)	(283)	(29)	-	(2,785)	(85)
Deferred tax assets - net	**144,810**	**386**	**18,958**	**-**	**164,154**	**178,835**

Deferred tax assets, gross of offsetting against deferred tax liabilities, essentially derive from costs deductible in different periods from the one in which they were recorded in the financial statements and they refer to IRES for € 147,951 thousand and to IRAP for € 18,988 thousand.

The recognition of prepaid tax assets was made after verifying the existence of future taxable income (through the so-called Probability test). The write-downs (or write-backs of previous write-downs) made on the basis of the probability test are accounted for overall as a counter-entry of the income statement item taxes; in the tables of the present section, however, the non-recognisable portion of DTAs is attributed with a proportional criterion also to the DTAs originally recognised as a counter-item of shareholders' equity. For more information on the subject please see paragraph 10.7 "Other information" below.

The amounts shown in the IRES columns include, in addition to deferred tax assets relative to the main tax (at the 24% rate), those relative to additional IRES (3.5% rate) introduced by the Law of 28 December 2015, no. 208, paragraphs 65-66.

The reduction in the balance of the item seen during the year is in large part due to the revision of the value of the DTAs carried out by the Bank to take into account the effects on future taxable income of both the reintroduction of the tax subsidy "ACE - Aid for Economic Growth| in the Budget Law for 2020 (article 1, paragraph 287 of Italian Law 160 of 27/12/2019) and the revision of internal multi-year estimates of economic and equity values, to take into account negative developments in the macroeconomic scenario. For more information on the methods used to perform the probability test, please refer again to the above cited paragraph 10.7.

Specifically:

- The line "Credits" includes, for € 42,285 thousand, the deferred tax assets which were recognisable in relation to nine tenths of the value adjustments to amounts due from customers accounted for at first time adoption of IFRS 9, the deduction of which was provided for in ten constant instalments (from 2018 to 2027) under article 1, paragraphs 1067-1069 of Law no. 145 of 30/12/2018 (2019 Budget Law). Note that the instalment deductible for 2019 was postponed to 2028 by article 1, paragraph 713 of Law 160 of 27/12/2019 (2020 Budget Law);
- the item "ACE surplus" represents the residual amount of the subsidy, which will be recovered in future years. With the 2020 Budget Law (article 1, paragraph 287, no. 160/2019), effective as of financial year 2019 the ACE subsidy was re-introduced, which had been eliminated with the 2019 Budget Law;
- tax assets against "tax losses", equal to € 24,004 thousand, net of write-downs carried out due to the probability test and to the use of the same in order to reduce taxable income for 2019 to zero, refer to financial years 2016 and 2017 and will be recovered if there is taxable income in future years. The item "other" refers to allocations made to provisions for risks and charges against expected deductible costs in future years.

10.2 Deferred tax liabilities: breakdown

Items/Balances	IRES as counter-entry in IS	IRES as counter-entry in SE	IRAP as counter-entry in IS	IRAP as counter-entry in SE	Total 31 12 2019	Total 31 12 2018
Capital gains to be split into instalments	-	-	-	-	-	-
Goodwill	-	-	-	-	-	-
Property, plant and equipment and intangible assets	52	-	10	-	62	66
Financial instruments	2,421	283	19	-	2,723	19
Personnel-related costs	-	-	-	-	-	-
Reserves for valuation of financial instruments	-	-	-	-	-	-
Other	-	-	-	-	-	-
Deferred tax liabilities - gross	**2,473**	**283**	**29**	**-**	**2,785**	**85**
Offsetting against prepaid tax assets	(2,473)	(283)	(29)	-	(2,785)	(85)
Net deferred tax liabilities	**-**	**-**	**-**	**-**	**-**	**-**

Deferred tax liabilities refer to IRES for € 2,757 thousand and to IRAP for € 29 thousand and are entirely recognised as a counter-entry of the income statement for € 2,503 thousand and in shareholders' equity for € 283 thousand (in 2018, € 85 thousand recognised entirely as a counter-entry in the income statement).

The main taxable temporary differences which caused deferred taxes to be recognised are related to the sub-item "Financial instruments", in particular to capital gains on valuation recorded on amounts due from customers measured at fair value and the sub-item "Property, plant and equipment and intangible assets" as a result of a higher statutory value with respect to the fiscal value of the same.

The amounts shown in the IRES columns include, in addition to deferred tax assets relative to the main tax (at the 24% rate), those relative to additional IRES (3.5% rate) introduced by the Law of 28 December 2015, no. 208, paragraphs 65-66.

10.3 Change in deferred tax assets (as counter-entry to the income statement)

	Total 31 12 2019	Total 31 12 2018
1. Opening balance	**177,856**	**192,952**
2. Increases	**15,533**	**51,599**
2.1 Prepaid taxes recorded in the year	15,533	51,599
a) relating to prior years	-	-
b) due to changes in accounting policies	-	-
c) write-backs	5,188	-
d) other	10,345	51,599
2.2 New taxes or increase in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**27,119**	**66,695**
3.1 Prepaid taxes cancelled during the year	22,163	17,163
a) reversals	22,163	7,924
b) written down as now considered unrecoverable	-	9,239
c) change in accounting policies	-	-
d) other	-	-
3.2 Reductions in tax rates	-	-
3.3 Other decreases	4,956	49,532
a) transformation into tax credit as per law 214/2011	-	43,811
b) other	4,956	5,721
4. Closing balance	**166,270**	**177,856**

The table shows all deferred tax assets to be absorbed in subsequent years as counter-entries to the income statement.

Among the main "deferred tax assets recognised during the year", note those generated by application of the ACE subsidy for financial years 2018 and 2019 (€ 9,251 thousand) and those deriving from taxed allocations made to the provision for risks and charges (€ 686 thousand) and for endorsement loans (€ 356 thousand). The item "write-backs" includes the results of the already cited probability test.

"Deferred tax assets cancelled during the year", in the item "reversals", refers to:

- the use of the additional 2019 IRES taxable base (€ 2,628 thousand);
- transformation of ACE tax assets to IRAP tax credit (€ 4,956 thousand);
- use of ACE tax assets to reduce the IRES taxable base (€ 11,519 thousand);
- adjustment of portions relative to loan differentials with customers obligatorily measured at fair value and write-downs on amounts due from customers recognised at first time adoption of IFRS 9 (total of € 5,081 thousand);
- allocations to the provision for risks and charges (€ 2,348 thousand);
- write-downs on guarantees and commitments (€ 698 thousand).

10.3bis- Change in deferred tax assets pursuant to Italian Law 214/2011 (as a counter-entry to the income statement)

Items/Balances	Total	
	31 12 2019	31 12 2018
1. Opening balance	**90,415**	**134226**
2. Increases	-	-
3. Decreases	-	43,812
3.1 Reversals	-	-
3.2 Transformation into tax credit	-	43,812
a) deriving from losses of the period	-	43,812
b) deriving from tax losses	-	-
3.3 Other decreases	-	-
4. Closing balance	**90,415**	**90,415**

Note: These are deferred tax assets potentially transformable into tax credits, on the occurrence of a loss in the period and/or a tax loss on the basis of the provisions of Italian Law 214/2011.

10.4 Change in deferred taxes (as counter-entry to the income statement)

The table shows all deferred tax liabilities to be absorbed in subsequent years as counter-entries to the income statement.

	Total 31 12 2019	Total 31 12 2018
1. Opening balance	**85**	**71**
2. Increases	**2,422**	**20**
- business combinations	-	-
2.1 Deferred tax liabilities recorded in the year	2,422	20
a) relating to prior years	-	-
b) due to changes in accounting policies	-	20
c) other	2,422	-
2.2 New taxes or increase in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**4**	**6**
3.1 Deferred taxes cancelled during the year	4	6
a) reversals	4	6
b) due to changes in accounting policies	-	-
c) other	-	-
3.2 Reductions in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	**2,502**	**85**

10.5 Change in deferred taxes (as counter-entry to shareholders' equity)

Deferred tax assets as a counter-entry in shareholders' equity refer to the measurement of debt securities in OCI and to the discounting reserve for the defined-benefit pension fund.

	Total 31 12 2019	Total 31 12 2018
1. Opening balance	**1,064**	**369**
2. Increases	**267**	**864**
2.1 Prepaid taxes recorded in the year	267	864
a) relating to prior years	1	-
b) due to changes in accounting criteria	-	-
c) other	266	864
2.2 New taxes or increase in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**663**	**169**
3.1 Prepaid taxes cancelled during the year	663	169
a) reversals	663	168
b) written down as now considered unrecoverable	-	1
c) due to changes in accounting criteria	-	-
d) other	-	-
3.2 Reductions in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	**668**	**1,064**

10.6 Change in deferred taxes (as counter-entry to shareholders' equity)

	Total 31 12 2019	Total 31 12 2018
1. Opening balance	**-**	**102**
2. Increases	**386**	**163**
2.1 Deferred tax liabilities recorded in the year	386	163
a) relating to prior years	-	-
b) due to changes in accounting criteria	-	-
c) other	386	163
2.2 New taxes or increase in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**103**	**265**
3.1 Deferred taxes cancelled during the year	103	163
a) reversals	103	163
b) due to changes in accounting criteria	-	-
c) other	-	-
3.2 Reductions in tax rates	-	-
3.3 Other decreases	-	102
4. Closing balance	**283**	**-**

10.7 Other information

The recognition of deferred tax assets was made after verifying the existence of sufficient future taxable income to reabsorb the same (Probability test).
This test took into account the different rules provided for in the Italian tax legislation that have an impact on the measurement in question, in particular:

- art. 2, paragraphs 55-59, of Italian Law Decree 29/12/2010 n. 225 (converted, with amendments, by Law 10 of 26/02/2011) which requires financial intermediaries, in the case of a statutory loss and/or tax loss, to transform DTAs (IRES and IRAP) to tax credits, relative to goodwill, other intangible fixed assets and write-downs on loans;
- art. 84 paragraph 1 of the Consolidated Income Tax Law, which permits IRES tax losses to be carried forward with no time limits;
- art. 1, paragraph 4, of Italian Law Decree no. 201 of 06/12/2011 (converted, with amendments, into Italian Law no. 214 of 22/12/2011) which states that the unused AEG surplus can be carried forward with no time limits, or, alternatively, converted into tax credit to be used to offset the IRAP payable in 5 annual instalments;
- paragraphs from 61 to 66, article 1, of the Stability Law for 2016 (Italian Law No. 208 of 28 December 2015) which, effective as of financial year 2017, cut the IRES rate from 27.5% to 24% and introduced at the same time an IRES surcharge, of 3.5%, for lending and financial institutions.

From a methodological point of view, the Probability Test was carried out in this manner following the steps specified below and also considering the revision of internal multi-year estimates of economic and equity values, described below.

The DTAs related to writedowns on loans (so called "qualified" DTAs) were excluded from the total amount of the DTAs for which the existence of future sufficient taxable income must be verified. This because the cited article 2, paragraphs 55-59 of Italian Law Decree 225/2010 made certain the recovery of this tale type of DTA, for both IRES and IRAP purposes, irrespective of the presence of future taxable income.

In fact, the law states that, if the taxable income of the financial year in which the rebate of the qualified DTAs is not sufficient for their re-absorption, the consequent tax loss will be transformable into tax credit which can alternatively be: i) used to offset, with no time limits, the various levies ordinarily payable by the Bank, or ii) requested as a rebate or iii) transferred to third parties. In addition, qualified DTAs can be transformed into tax credit, in advance with respect to the natural maturity, in the event of a civil-law loss for the period, voluntary liquidation or being made subject to bankruptcy proceedings.

In other words, for qualified DTAs the probability test must be understood as automatically passed; this is confirmed also by the joint Bank of Italy, CONSOB and ISVAP document No. 5 of 15/05/2012.
For DTAs other than qualified ones the year in which they are expected to be rebated was identified (or estimated when not certain).

The taxable incomes of future years were therefore estimated, on the basis of the forecast evolution of the Bank's income statements most recently approved by the Board of Directors. To estimate taxable income in coming years, after the final year of the plan growth of 1.5% is assumed for every year with respect to the economic result envisaged for the immediately preceding year.

The taxable incomes were forecast for the purposes of the probability test applying a discount factor to the prospective economic results (the Risk-adjusted profits approach); this factor, used in a composite way, discounts future incomes to a growing extent to reflect their uncertainty, over a maximum horizon of 20 years. The discount factor is calculated by taking into account observable market parameters. The taxable incomes were forecast:

- at domestic tax consolidation level, for the IRES Probability test, since for the payment of this tax the Bank uses the method set forth in Arts 117 et seq. of the TUIR;
- at individual level, for additional IRES;
- at individual level, for IRAP.

The figures prepared in this way had the following impacts on the Bank's accounts:

- write-down of € 40,741 thousand on the receivable due from the consolidator for previous tax losses;
- write-back of deferred tax assets related to additional IRES for € 5,044 thousand;
- write-back of deferred tax assets related to other temporary differences of € 145 thousand.

Note that the above referenced write-down of the receivable due from the consolidator was negative affected, in a very significant manner, by two non-recurring factors:

1. the introduction of the "Incentive to capitalise businesses", in the 2020 Budget Law (article 1, paragraph 287, Law 160 of 27/12/2019);
2. the revision of internal multi-year estimates of economic and equity figures.

The introduction of the "Incentive to capitalise businesses" is substantially equivalent to the restoration, with a slightly lower notional return rate, of the previous ACE - Aid for Economic Growth subsidy, eliminated by the 2019 Budget Law (article 1, paragraph 1080 of Italian Law 145 of 30/12/2018). For the Bank and the Group, this incentive offers an important prospective tax benefit which, by reducing taxable income, will positively affect the tax item in the income statements for future individual years in which it accrues. Nonetheless, the cited reduction in the taxable base also led to a lower future capacity to absorb the DTA (or the receivable due from the consolidator, for companies participating in tax consolidation) recognised in the financial statements prior to the introduction of the incentive (in particular those deriving from tax losses), which were consequently partially written-down with effects seen in the current year. Substantially, this led to the reversal of the write-back carried out on the receivable due from the consolidator for previous tax losses recognised in 2018 following the abrogation of the ACE subsidy (see the 2018 Financial Statements, Notes to the Financial Statements - Part B - Notes to the Balance Sheet - Paragraph 10.7 Other information).

The ACE benefit is calculated on capital increases carried out since 2011 and through to the current financial year equal, for the Bank, to around € 2.3 billion, but within the limits of the accounting shareholders' equity at the end of the year.

For the sake of completeness, note that the 2020 Budget Law introduced measures that affected the Bank, even if these had marginal effects for the purpose of the assessments of the probability test. We refer to:

- the postponing of the instalment on credit write-downs initially due for 2019 relative to Decree Law 83/2015 (article 1, 712), now due in 4 constant instalments paid from 2022 to 2025;
- the postponing to 2028 of the instalment due for 2019 of write-downs on loans from first time application of IFRS 9 (article 1, paragraph 713);

Relative to the revision of internal multi-year estimates of economic and equity values, note that this was necessary to take into account negative developments in the macroeconomic scenario which emerged during the second part of the year, in particular with regards to expected developments in interest rates, indicators relative to industrial production and household consumption and the consensus on GDP growth estimates. Therefore, on the basis of this situation, with respect to that hypothesised in the previous scenario, a reduction in expected taxable income was forecast, with a lower capacity for future absorption of the DTA recognised in the financial statements. This led to an additional partial write-down on the receivable due from the consolidator relative to previous tax losses.
Note that write-downs consequent to the two non-recurring factors described above were recognised in the fourth quarter of 2019. The table below shows the evolution of the economic effect of the valuation of the

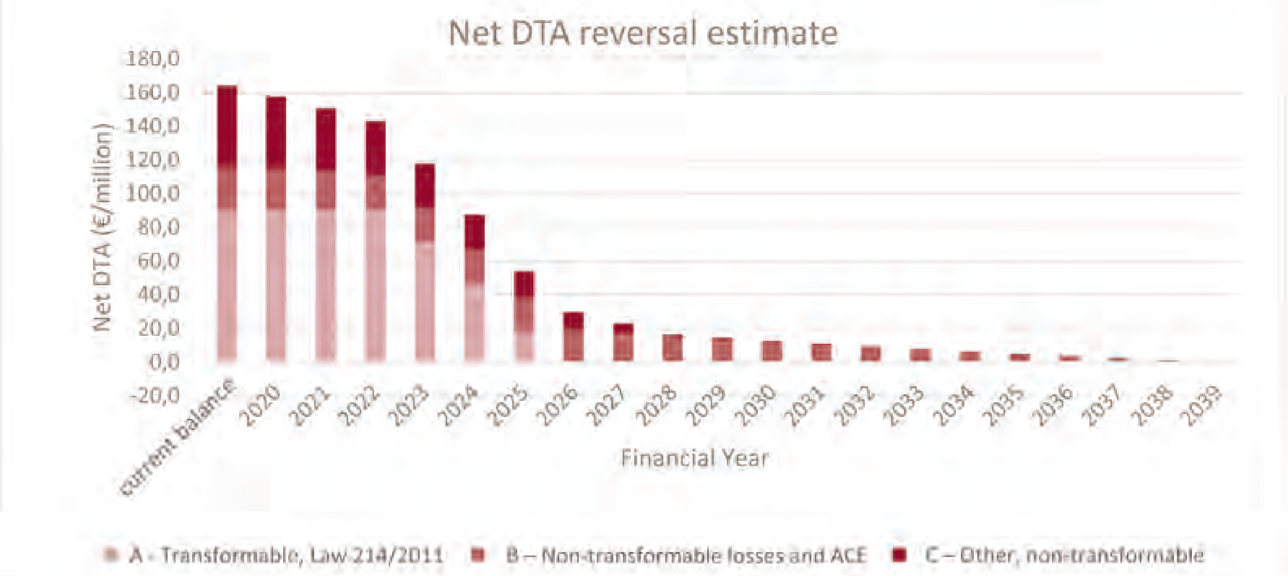
receivable due from the consolidator during the year, showing the results of the cumulative (ordinary) valuation through 30/9/2019 and the negative component recognised in the fourth quarter:

	valuation "tax consolidation receivables"	DTA valuation "tax losses and ACE"	DTA valuation "other, non-transformable"	Total write-down of DTAs
Total valuation effect of DTAs at 30/9/2019	52.4	7.8	0.1	60.3
Valuation effect of DTAs 4th quarter:				
Introduction of the "Incentive to capitalise businesses"	(80.3)	-	-	(80.3)
Revision of internal multi-year estimates of economic and equity figures	(12.8)	(2.7)	-	(15.6)
Total Valuation effect of DTAs 4th quarter	(93.1)	(2.7)	-	(95.9)
Total valuation effect of DTAs 2019	**(40.7)**	**5.1**	**0.1**	**(35.6)**

As a consequence of this valuation, at 31 December 2019 the Bank shows DTA not recognised in the Balance Sheet assets for a total of € 27,055 thousand (€ 32,242 thousand at 31 December 2018) and receivables due from the consolidator for previous losses not recognised in the Balance Sheet Assets for € 234,630 thousand (€ 193,889 thousand at 31 December 2018).
This amount constitutes a potential asset for the Bank, not subject to a time-limit according to the current tax legislation, the recognition of which in the Balance Sheet assets will be assessed at future reporting dates according to the income prospects of the Bank and of the Group.

The sizeable amount of tax losses relative to the Bank, specifically € 1,500.6 million, mainly accrued in the years 2016 and 2017, at the beginning of the MPS Group restructuring process and essentially derives for both years to significant write-downs carried out on loans. In particular, in 2016 it was necessary to update the methodologies and parameters used to assess loans (also to take into account the instructions contained in "Draft guidance to banks on non- performing loans", published by the ECB in September 2016), while in 2017 it was necessary to adjust the realisable value of impaired loans disposed of during 2018. Therefore, pursuant to that established in paragraph 36, letter c) of IAS 12, these unused tax losses are held to derive *"from identifiable causes which are unlikely to be repeated"* and in this sense were considered partially recognisable in the financial statements during the DTA valuation process.

The table below shows the expected evolution of the return of the DTA recognised in the financial statement as at 31 December 2019, both quantitatively and in terms of time, distinguishing between DTA transformable under Italian Law 214/2011, DTA from non-transformable losses and other non-transformable DTA.



The probability test model used in the MPS Group includes certain input data for which oscillations in value can have a significant impact on the final result achieved in valuation of DTAs recognisable in the financial statements. This involves,
specifically:

1) volumes of expected taxable incomes in the last year of the plan horizon (2024);
2) notional return rate on the incentive for capitalisation of businesses;
3) discount rate for prospective results (ratio used for Risk-adjusted profits approach);
4) IRES tax rates, additional to IRES and IRAP.

Below are some indications regarding the sensitivity of the valuation model, hypothesising changes, both upwards and downwards, in each of the input data listed above. The effects shown in the table refer to the change that would have been seen in the item taxes in the 2019 income statement, with respect to that effectively recognised, by changing the individual variable to the degree indicated. The change in taxable income is intended to mean the amount indicated for each year in the twenty year time horizon considered in the Probability test.

(amounts in millions of euro)

Variable input date in the model	Decrease (%)	Economic impact of the decrease	Increase (%)	Economic impact of the increase
Individual taxable income in 2024	(15.0)	(23.1)	15.0	23.1
ACE rate	(0.5%)	30.9	0.5%	(30.9)
Discount rate for prospective results	(1.0%)	28.2	1.0%	(24.8)
IRES rate	(1.0%)	(9.6)	1.0%	9.6

10.7.1 Current tax assets

Items/Balances	Total 31 12 2019	Total 31 12 2018
IRES and IRAP advances	-	-
Other receivables and withholdings	320,270	333,337
Current tax assets - gross	**320,270**	**333,337**
Offsetting against current tax liabilities	7,003	2,003
Current tax assets – net	**313,267**	**335,340**

Note: for IRES advances, please see Notes to the Financial Statements - Part B, Assets *"Section 12 – Other assets"*.

10.7.2 Current tax liabilities

Items/Balances	31 12 2019			31 12 2018		
	Booked to shareholders' equity	Booked to income statement	Total	Booked to shareholders' equity	Booked to income statement	Total
IRES and IRAP tax payables	-	-	-	-	-	-
Other amounts due for current income taxes	-	7,003	7,003	-	2,003	2,003
Amounts due for current taxes - gross	**-**	**7,003**	**7,003**	**-**	**2,003**	**2,003**
Offsetting against current tax assets	-	7,003	7,003	-	2,003	2,003
Amounts due for current taxes – net	**-**	**-**	**-**	**-**	**-**	**-**

Section 11 - Non-current assets and disposal groups held for sale and associated liabilities – Asset Item 110 and Liability Item 70

11.1 Non-current assets and disposal groups held for sale: breakdown by type of asset

	Total	
	31 12 2019	31 12 2018
A. Assets held for sale		
A.1 Financial assets	16,731	52,025
A.2 Equity investments	-	-
A.3 Property, plant and equipment	10,369	720
of which: obtained through enforcement of guarantees received	-	-
A.4 Intangible assets	-	-
A.5 Other non-current assets	-	-
Total A	**27,100**	**52,745**
of which valued at cost	27,100	720
of which valued at fair value level 1	-	-
of which valued at fair value level 2	-	-
of which valued at fair value level 3	-	52,025
C. Liabilities associated with assets held for sale		
C.1 Payables	-	-
C.2 Securities	-	-
C.3 Other liabilities	-	25
Total C	**-**	**25**
of which valued at cost	-	-
of which valued at fair value level 1	-	-
of which valued at fair value level 2	-	-
of which valued at fair value level 3	-	25

Note: line "A.1 Financial assets", refers to operations to dispose of loans classified as bad loans for € 4.4 million and as probable default for € 12.3 million. The line "A.3 Property, plant and equipment", totalling € 10.3 million, includes the disposal of tangible assets held for investment purposes.

Section 12 – Other assets - Item 120

12.1 Other assets: breakdown

	Total 31 12 2019	Total 31 12 2018
Tax receivables due from tax authorities and similar	1,215	1,847
Items being processed	5,931	2,232
Amounts receivable associated with the supply of goods and services	5,421	1,012
Improvement and incremental costs on third party assets other than included in the item "Property, plant and equipment"	10	13
Prepaid expenses not attributable to own items	3,219	6,134
Accrued income not attributable to own items	5,499	4,833
Receivables from tax consolidation	126,416	180,622
Other	1,188	4,363
Total	**148,899**	**201,057**

* *The Bank utilised the option not to redetermine on a uniform basis the comparative data of the year of first application of IFRS 16.*

LIABILITIES

Section 1 – Financial liabilities measured at amortised cost – Item 10

1.1 Financial liabilities measured at amortised cost: breakdown by type of payables to banks

Type of transaction /Balances	Total 31 12 2019				Total 31 12 2018			
	Carrying amount	Fair value			Carrying amount	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Due to Central Banks	-	X	X	X	-	X	X	X
2. Due to banks	15,716,169	X	X	X	15,900,332	X	X	X
2.1 Current accounts and demand deposi	218,982	X	X	X	322,845	X	X	X
2.2 Fixed-term deposits	9,915,027	X	X	X	8,611,859	X	X	X
2.3 Loans	5,207,184	X	X	X	6,573,446	X	X	X
2.3.1 Repurchase agreements	4,918,277	X	X	X	6,165,741	X	X	X
2.3.2 Other	288,907	X	X	X	407,705	X	X	X
2.4 Amounts due for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
2.5 Leasing payables	15,560	X	X	X	-			
2.6 Other amounts payable	359,416	X	X	X	392,182	X	X	X
Total	**15,716,169**	**-**	**15,716,169**	**-**	**15,900,332**	**-**	**15,900,332**	**-**

* *The Bank utilised the option not to redetermine on a uniform basis the comparative data of the year of first application of IFRS 16.*

Note: The sub-item "Due to banks – 2.5 Other amounts payable" includes collaterals received against operations in OTC and listed derivatives and in repurchase agreements (these last by way of additional marginalisations) on the basis of the agreements made between the parties (CSAs for OTC derivatives, GMRAs for repurchase agreements). In relation to the disclosure on fair value, we can note that most of the deposits involve an early repayment on demand option. As a consequence, it was decided to quantify the related fair value as equal to the carrying amount, excluding changes which occurred in the Bank's creditworthiness subsequent to the date the individual relationships were begun.

1.2 Financial liabilities measured at amortised cost: breakdown by type of payables to customers

Type of transaction /Balances	Total 31 12 2019				Total 31 12 2018			
	Carrying amount	Fair value			Carrying amount	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1 Current accounts and demand deposits	-	X	X	X	-	X	X	X
2 Fixed-term deposits	3,177	X	X	X	3,163	X	X	X
3 Loans	6,186,382	X	X	X	4,280,895	X	X	X
3.1 Repurchase agreements	6,173,681	X	X	X	4,262,972	X	X	X
3.2 Other	12,701	X	X	X	17,923	X	X	X
4 Amounts due for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
5 Leasing payables	1,238							
6 Other amounts payable	287,427	X	X	X	316,326	X	X	X
Total	**6,478,224**	**-**	**6,478,224**	**-**	**4,600,384**	**-**	**4,600,384**	**-**

* *The Bank utilised the option not to redetermine on a uniform basis the comparative data of the year of first application of IFRS 16.*

Note: the sub-item 2.6 "Other payables" includes collaterals received against operations in OTC and listed derivatives and in repurchase agreements (these last by way of additional marginalisations) on the basis of the agreements made between the parties (CSAs for OTC derivatives, GMRAs for repurchase agreements).

1.3 Financial liabilities measured at amortised cost: breakdown by type of securities outstanding

Type of security /Balances	Total 31 12 2019					Total 31 12 2018				
	Carrying amount	Fair value				Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total		Level 1	Level 2	Level 3	Total
A. Securities										
1. Bonds	456,355	-	355,067	-	355,067	456,539	-	210,495	-	210,495
1.1 structured	-	-	-	-	-	-	-	-	-	-
1.2 other	456,355	-	355,067	-	355,067	456,539	-	210,495	-	210,495
2. Other securities	-	-	-	-	-	-	-	-	-	-
2.1 structured	-	-	-	-	-	-	-	-	-	-
2.2 other	-	-	-	-	-	-	-	-	-	-
Total	**456,355**	**-**	**355,067**	**-**	**355,067**	**456,539**	**-**	**210,495**	**-**	**210,495**

Note: the 2019 carrying amount includes € 6,342 thousand in interest accrued and not liquidated as of the reference date (compared to € 6530 thousand in 2018).

1.4 Details of subordinated debts/securities

Types/Items	Date of issue	Date of maturity	Currency	Rate	31 12 2019		31 12 2018	
					Nominal value	Carrying amount	Nominal value	Carrying amount
Breakdown securities in circulation subordinated debt					450,000	456,355	450,000	456,539
1. IT0004809601 MPSCS-TV 12/22	30/03/2012	30/03/2022	EURO	variable	50,000	50,460	50,000	50,475
2. IT0005003451 MPSCS-TV 14/24	14/03/2014	14/03/2024	EURO	variable	250,000	253,113	250,000	253,225
3. IT0005041709 MPSCS-TV 14/24	31/07/2014	01/07/2024	EURO	variable	150,000	152,782	150,000	152,839
Total					**450,000**	**456,355**	**450,000**	**456,539**

No subordinated debts in relation to banks or customers are recorded in the financial statements.
Below are the main characteristics of the subordinated securities in being at 31/12/2019:

1. Lower Tier II subordinated domestic bond issue, repayment of which will be in a single instalment at maturity; early repayment is not possible;
2. Lower Tier II subordinated domestic bond issue, repayment of which will be in a single instalment at maturity; early repayment is not possible;
3. Lower Tier II subordinated domestic bond issue, repayment of which will be in a single instalment at maturity; early repayment is not possible.

The subordination clauses state that, if the Bank is liquidated, the loans will be reimbursed only after all other creditors not equally subordinated have been repaid. The Bank may freely acquire on the market portions of the loans for no more than 10% of their value. Higher amounts shall be subject to prior approval by the Bank of Italy.
No portions of these securities were held in the receivable portfolio, at both reference dates.

1.5 Detail of structured debts

No structured debts are recorded in the financial statements.

1.6 Leasing payables

Type of transaction /Balances	31 12 2019	31 12 2018 *
Payments due included in leasing liability, not discountable, up to 5 years	**5,651**	-
Within 1 month	572	-
Between 1 and 3 months	77	-
Between 3 months and 1 year	796	-
Between 1 and 5 years	4,206	-
Total outgoing cash flow for leasing over 5 years	11,146	-
Leasing payables	**16,797**	-

* *The Bank utilised the option not to redetermine on a uniform basis the comparative data of the year of first application of IFRS 16. For more details, please see the paragraph "Transition to new accounting standard IFRS 16, Part A1 – Section 2.*

Section 2 - Financial liabilities held for trading - Item 20

2.1 Financial liabilities held for trading: breakdown by type

Type of operation/ group component	Total 31 12 2019					
	VN	FV				FV*
		Level 1	Level 2	Level 3	Total	
A. Cash liabilities						
1. Due to banks	1,547,156	1,884,151	103	-	1,884,253	1,884,255
2. Due to customers	509,396	551,777	7	-	551,784	551,784
3. Debt securities	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	-	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. Derivative instruments						
1. Financial derivatives		-	1,703,462	-	1,703,462	
1.1 For trading	X	-	1,703,462	-	1,703,462	X
1.2 Associated with fair value option	X	-	-	-	-	X
1.3 Other	X	-	-	-	-	X
2. Credit derivatives		-	124,714	-	124,714	
2.1 For trading	X	-	124,714	-	124,714	X
2.2 Associated with fair value option	X	-	-	-	-	X
2.3 Other	X	-	-	-	-	X
Total B	**X**	**-**	**1,828,176**	**-**	**1,828,176**	**X**
Total (A+B)	**X**	**2,435,928**	**1,828,286**	**-**	**4,264,214**	**X**

* Fair value calculated by excluding the changes in value due to the change in creditworthiness of the issuer
with respect to the issue date.

Note: The amounts shown in lines “1. Due to banks” and “2. Due to customers” are mainly correlated with those in lines “1. Debt securities” and “4. Loans” in table 2.1 of the assets “Financial assets held for trading.” We also note that the sub-items “Due to banks” and “Due to customers”, as above, include technical overdrafts. The same are measured at fair value consistently with the standards applied to “long” positions.

In application of IAS 32, paragraph 42, level 1 derivatives quoted on regulated markets were offset for € 41,333 thousand (€ 54,607 at 31/12/2018) as well as OTC level 2 regulated derivatives settled through the Central Counterparty London Clearing House (LCH) for € 2,504,329 thousand (€ 1,270,770 at 31/12/2018) and level 2 credit derivatives settled at the Central Counterparty ICE Clear Europe (ICE) for € 5,494 thousand (526 at 31/12/2018). The Bank has “indirect” access to clearing of OTC derivatives through the Clearing Members.

Type of operation/ group component	VN	Total 31 12 2018				FV*
		FV				
		Level 1	Level 2	Level 3	Total	
A. Cash liabilities						
1. Due to banks	1,446,932	1,573,188	134	-	1,573,322	1,573,322
2. Due to customers	304,883	300,175	464	-	300,638	300,638
3. Debt securities	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	-	X
3.2 Other securities	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	-	X
3.2.2 Other	-	-	-	-	-	X
Total A	**1,751,815**	**1,873,363**	**597**	**-**	**1,873,960**	**1,873,960**
B. Derivative instruments						
1. Financial derivatives		-	1,537,614	-	1,537,614	
1.1 For trading	X	-	1,537,614	-	1,537,614	X
1.2 Associated with fair value option	X	-	-	-	-	X
1.3 Other	X	-	-	-	-	X
2. Credit derivatives		-	55,903	-	55,903	
2.1 For trading	X	-	55,903	-	55,903	X
2.2 Associated with fair value option	X	-	-	-	-	X
2.3 Other	X	-	-	-	-	X
Total B	**X**	**-**	**1,593,517**	**-**	**1,593,517**	**X**
Total (A+B)	**X**	**1,873,363**	**1,594,114**	**-**	**3,467,476**	**X**

* Fair value calculated by excluding the changes in value due to the change in creditworthiness of the issuer
with respect to the issue date.

2.2 Details of "Financial liabilities held for trading": subordinated liabilities

There are no subordinated liabilities.

2.3 Details of "Financial liabilities held for trading": structured debts

There are no structured debts.

Section 3 - Financial liabilities designated at fair value – Item 30

No positions have been classified in this category.

Section 4 – Hedging derivatives – Item 40

There were no transactions for this accounting item.

Section 5 - Value adjustments to financial liabilities subject to macro-hedging - Item 50

There were no transactions for this accounting item.

Section 6 - Tax liabilities - Item 60

6.1 Current tax liabilities

Details of current tax liabilities are provided in the Notes to the Financial Statements Part B - Assets - Section 10 "*Tax assets and tax liabilities*".

6.2 Deferred tax liabilities

Details of deferred tax liabilities are provided in the Notes to the Financial Statements Part B - Assets - Section 10 "*Tax assets and tax liabilities*".

Section 7 - Liabilities associated with assets held for sale – Item 70

None of the Bank's liabilities are classified in this category.

Section 8 - Other liabilities - Item 80

8.1 Other liabilities: breakdown

	Total 31 12 2019	Total 31 12 2018
Taxes due to the tax authorities and similar	3,068	3,647
Amounts due to social security and welfare institutions	1,650	1,576
Sums available to customers	493	1,866
Other amounts due to employees	3,663	3,228
Items in transit between branches	-	-
Items being processed	30,315	41,477
Amounts payable associated with the payment of supplies of goods and servic	15,638	15,261
Accrued liabilities not attributable to own items	29	18
Deferred income not attributable to own items	237	123
Payables from tax consolidation	-	-
Other	2,804	3,284
Total	**57,898**	**70,480**

Section 9 - Employee severance indemnity - Item 90

9.1 Employee severance indemnity: annual changes

	Total 31 12 2019	Total 31 12 2018
A. Opening balances	**2,525**	**2,603**
B Increases	**125**	**29**
B.1 Provision for the year	27	22
B.2 Other changes	98	7
C. Decreases	**363**	**107**
C.1 Liquidations carried out	334	50
C.2 Other changes	29	57
D. Closing balances	**2,287**	**2,525**

The allocation made during the year, as specified by the Bank of Italy, does not include the portions which, as an effect of the reform introduced by Legislative Decree 252 of 5 December 2005, are paid in directly by the Bank, as a function of choices made by employees, in the form of complementary social security, or those made to the Treasury Fund directly managed by INPS. These economic components are recognised under personnel expense, in "payments to complementary social security funds: defined contribution".

Below, the amount subject to the prudential filter is shown, recognised according to the indications issued by the Bank of Italy regarding the determination of regulatory capital.

	31 12 2019	31 12 2018
a) Value of net liability for defined benefits on the basis of the new IAS 19	2,287	2,525
b) Value of net liability for defined benefits on the basis of the approach used in the 31/12/2012 financial statements	1,554	2,127
c) Difference between the two values (a-b)	**733**	**398**
d) Tax effect on the difference	202	109
e) Net difference to be added as a prudential filter to supervisory capital	**531**	**289**

9.2 Other information

9.2.a Changes during the period in net defined benefit liabilities: severance indemnity

Items/Balances	A (-) Plan assets	B (+) Current DBO value	C (+) Asset ceiling	D= A+B+C Net liability/asset for defined benefits
Opening balances	**-**	**2,525**	**-**	**2,525**
Welfare cost relating to current work services	-	-	-	-
Interest income/expense	-	27	-	27
Revaluation of net liabilities/assets for defined benefits:	-	69	-	69
Yield of plan assets net of interest	-	-	-	-
Actuarial gains/losses deriving from changes in demographic assumptions	-	-	-	-
Actuarial gains/losses deriving from past experience	-	(29)	-	(29)
Actuarial gains/losses deriving from changes in financial assumptions	-	98	-	98
Changes in the effect of limitations on the availability of a net asset for defined benefit plans	-	-	-	-
Welfare cost relating to past employment service and/or regulatory gains/losses	-	-	-	-
Exchange differences	-	-	-	-
Contributions:	-	-	-	-
Paid by the employer	-	-	-	-
Paid by employees	-	-	-	-
Payments made by the plan	-	(334)	-	(334)
Effects of business combinations and disposals	-	-	-	-
Effect of reductions in fund	-	-	-	-
Effect of discharges on fund	-	-	-	-
Other changes	-	-	-	-
Closing balances	**-**	**2,287**	**-**	**2,287**

9.2.b Description of the main actuarial hypotheses

Main actuarial hypotheses / Percentages	31 12 2019	31 12 2018
Discount rates	0.44%	0.98%
average future inflation rate	1.50%	1.50%
Estimated salary increase rates	2.63%	2.63%

9.2.c Analysis of DBO sensitivity to changes in the main actuarial hypotheses

Actuarial hypotheses	31 12 2019		31 12 2018	
	Absolute change in DBO	Percentage change in DBO	Absolute change in DBO	Percentage change in DBO
Discount rate				
0.25% increase	(49)	(2.14%)	(54)	(2.14%)
0.25% decrease	40	1.76%	44	1.76%
Estimated salary increase rates				
0.25% increase	23	0.99%	25	0.99%
0.25% decrease	(32)	(1.41%)	(36)	(1.41%)

9.2.2 Amount of liabilities pursuant to Article 2424-bis of the Italian Civil Code

Under the terms of Article 2424-bis of the Italian Civil Code, the statutory liability accrued at year end for the employee severance indemnity was € 1,970 thousand (€ 2,269 thousand at 31 December 2018).

Section 10 - Provisions for risks and charges - Item 100

10.1 Provisions for risks and charges: breakdown

Items/Components	Total 31 12 2019	Total 31 12 2018
1. Provisions for credit risk related to commitments and financial guarantees given	1,166	2,409
2. Provisions for other commitments and other guarantees given	-	-
3. Company pension funds	4,039	4,108
4. Other provisions for risks and charges	17,978	23,941
4.1 legal and tax disputes	17,227	19,701
4.2 personnel expenses	258	1,794
4.3 other	493	2,445
Total	**23,183**	**30,458**

Note: the sub-item "Other provisions for risks and charges: 4.1 legal and tax disputes" in 2019 includes provisioning carried out for liabilities deemed probable relative to ordinary disputes of various types with customers. In 2018, 88% of the total shown in the table was associated with ordinary disputes with customers and 12% to revocatory disputes.

10.2 Provisions for risks and charges: annual changes

Items/Components	Total 31 12 2019			
	Provisions for other commitments and other guarantees given	Pension funds	Other provisions for risks and charges	Total
A. Opening balances	-	4,108	23,941	**28,049**
B. Increases	**-**	**-**	**1,703**	**1,703**
B.1 Provision for the year	-	-	1,703	1,703
B.2 Changes due to the passage of time	-	20	-	20
B.3 Changes due to discount rate changes	-	-	-	-
B.4 Other changes	-	(20)	-	(20)
C. Decreases	**-**	**69**	**7,666**	**7,735**
C.1 Uses in the year	-	505	5,078	5,583
C.2 Changes due to discount rate changes	-	-	-	-
C.3 Other changes	-	(436)	2,588	2,152
D. Closing balances	**-**	**4,039**	**17,978**	**22,017**

10.2.a Other provisions for risks and charges: details of annual changes

Items/Components	31 12 2019			
	Legal disputes	personnel expenses	Other	Total
A. Opening balances	**19,701**	**1,794**	**2,445**	**23,940**
B. Increases	**934**	**258**	**512**	**1,704**
B.1 Provision for the year	934	258	512	**1,704**
B.2 Changes due to the passage of time				
B.3 Changes due to discount rate changes				**-**
B.4 Other changes				**-**
C. Decreases	**3,408**	**1,794**	**2,464**	**7,666**
C.1 Uses in the year	1,500	1,794	1,784	**5,078**
C.2 Changes due to discount rate changes				**-**
C.3 Other changes	1,908		680	**2,588**
D. Closing balances	**17,227**	**258**	**493**	**17,978**

10.3 Provisions for credit risk related to commitments and financial guarantees given

	Provisions for credit risk related to commitments and financial guarantees given			
	First stage	Second stage	Third stage	Totale 31 12 2019
Irrevocable commitments to grant finance	60	376	-	436
Financial guarantees given	107	92	530	729
Total	**167**	**468**	**530**	**1,165**

10.4 Provisions for other commitments and other guarantees given

There were no transactions for this accounting item.

10.5 Defined-benefit company pension funds

	Totale 31 12 2019	Totale 31 12 2018
defined benefit	4,039	4,108
defined-contributions	-	-
Defined-benefit company pension funds	**4,039**	**4,108**

10.5.1 Illustration of the features of the funds and of the related risks

Determination of actuarial values, required by application of IAS 19 "Employee benefits" for defined-benefit complementary pension funds, is done by an independent actuary, using the "projected unit credit" method, as described in more detail in Part A of the Notes to the Financial Statements, Accounting Policies.

Internal pension funds are as follows:

- Defined benefit pension fund, of a supplementary or additional type, reserved for the personnel of the former Mediocredito Toscano and the former Istituto Nazionale di Credito Agrario already retired as of 1 January 1999 and personnel in service hired before 27 April 1993 who have expressed the desire to remain in said section. The provision for which the Bank is solely responsible is determined on the basis of the mathematical reserve calculated by an independent actuary at the end of each financial year.
- "Defined contribution" pension fund, extended to all the Bank's personnel, with separate assets but not a separate legal standing.

For more details, please refer to the statements of accounts for pension funds attached to the Notes to the Financial Statements.

10.5.2 Changes during the year in net defined benefit liabilities (assets) and in redemption rights

Items/Balances	31 12 2019		31 12 2018	
	Internal plans	External plans	Internal plans	External plans
Opening balances	4,108		4,602	
Increases	436		163	
Welfare cost relating to current work services	-		-	
Interest income/expense	20		20	
Members contributions to plan	-		-	
Actuarial losses	416		143	
Exchange losses	-		-	
Welfare cost relating to past employment services	-		-	
Other changes	-		-	
Decreases				
Payments made by the plan	505		515	
Welfare cost relating to past employment services	-			
Actuarial gains	-		142	
Exchange gains	-		-	
Effect of reductions in fund	-		-	
Effect of discharges on fund	-		-	
Other changes	-		-	
Closing balances	**4,039**		**4,108**	

10.5.2.a Changes during the period in net defined benefit liabilities

Items/Balances	31 12 2019			
	A (-) Plan assets	B (+) Current DBO value	C (+) Asset ceiling	D=A+B+C Net liabilities/assets for defined benefits
Opening balances	**-**	**4,108**	**-**	**4,108**
Welfare cost relating to current work services	X	-	X	-
Interest income/expense	-	20	-	20
Revaluation of net liabilities/assets for defined benefits:	-	416	-	416
Yield of plan assets net of interest	-	X	X	-
Actuarial gains/losses deriving from changes in demographic assumptions	X	119	X	119
Actuarial gains/losses deriving from past experience	X	204	X	204
Actuarial gains/losses deriving from changes in financial assumptions	X	93	X	93
Changes in the effect of limitations on the availability of a net asset for defined benefit plans	X	X	-	-
Welfare cost relating to past employment services	X	-	X	-
Exchange differences	-	-	-	-
Contributions:	-	-	-	-
Paid by the employer	-	-	X	-
Paid by employees	-	-	X	-
Payments made by the plan	-	(505)	X	(505)
Effects of business combinations and disposals	-	-	-	-
Effect of reductions in fund	-	-	X	
Effect of discharges on fund	-	-	X	-
Other changes	-	-	-	-
Closing balances	**-**	**4,039**	**-**	**4,039**

10.5.3 Information on the fair value of plan assets

The assets of the defined-benefit pension funds are invested in the Bank's assets; no specific assets have been classified as plan assets. Consequently, it is not possible to provide precise information on the fair value of plan assets.

10.5.4 Description of the main actuarial hypotheses

Main actuarial hypotheses / Percentages	31 12 2019		31 12 2018	
	Defined benefit funds		Defined benefit funds	
	Internal plans	External plans	Internal plans	External plans
Discount rates	0.44%	-	0.98%	-
Estimated salary increase rates	1.50%	-	1.50%	-

10.5.5 Information on amounts, time frames, and uncertainties for cash flows

Future payments

Year	2020	2021	2022	2023	2024
Cash flow	502	473	442	408	372

Other information

Main actuarial hypotheses / Percentages	31 12 2019	31 12 2018
Number of active employees	-	-
Number of pensioners	36	37
Service Cost 2016	-	-
Residual average length in years	5.64	5.81

10.5.5.a Analysis of DBO sensitivity to changes in the main actuarial hypotheses

Actuarial hypotheses	Absolute change in DBO	Percentage change in DBO
Discount rate		
0.25% increase	(64)	(1.59%)
0.25% decrease	62	1.53%
Estimated inflationary increase rates		
0.25% increase	45	1.12%
0.25% decrease	(49)	(1.21%)

10.5.6 Plans related to more than one employer

There are no plans related to more than one employer.

10.5.7 Defined benefit plans that share the risks between entities under joint control

No plans with these features exist.

10.6 Provisions for risks and charges– other provisions

Items/Components	Total 31 12 2019	Total 31 12 2018
2.1 Legal disputes	17,227	19,701
- Revocatory actions	-	2,430
- Other legal disputes	17,227	17,271
2.2 Personnel expenses	258	1,794
- Employment dispute	-	-
- Voluntary retirement	-	1,794
- Other	258	-
2.3 Other	493	2,445
- Risks linked to disposal of assets/business units	-	-
- Charges from company restructuring	-	-
- Indemnities for financial advisor agents	-	-
- Contracts for a consideration	-	-
- Expenses for misappropriation	-	-
- Complaints and out-of-court agreements	-	-
- Other	493	2,445
Total	**17,978**	**23,940**

Section 11 - Refundable shares - Item 120

There were no transactions for this accounting item.

Section 12 - The Bank's shareholders' equity - Items 110, 130, 140, 150, 160, 170 and 180

The Bank's shareholders' equity has the following composition:

Items/Balances	31 12 2019	31 12 2018
Capital	1,669,516	1,669,516
Share premiums	-	
Reserves	(326,600)	(407,280)
Treasury shares		
Valuation reserves	(141,062)	(141,441)
Equity instruments		
Profit (Loss) for the year	36,562	80,699
Total equity	**1,238,416**	**1,201,494**

12.1 "Share capital" and "Treasury shares": breakdown

12.1.a Share capital: breakdown

Items/Balances	31 12 2019		31 12 2018	
	Unexpressed nominal value	Total amount of share capital	Unexpressed nominal value	Total amount of share capital
Ordinary shares (fully paid-up)	104,013.23	1,669,516,282	2,080.26	1,669,516,282

On 9 December 2019, the Shareholders' Meeting resolved to group 802,551 ordinary shares outstanding (ISIN IT0005210726) into 16,051 new shares (ISIN IT0005393597) at a ratio of one new ordinary share for every 500 ordinary existing shares. In order to enable the overall balancing of the operation 1 old share owned by the Parent Company Banca Monte dei Paschi di Siena was cancelled. The reverse stock split, after authorisation from the Bank of Italy, was completed on 20 December 2019.

12.1.b Treasury shares: breakdown

As of the balance sheet date, the Bank did not hold any treasury shares.

12.2 Capital – number of shares: annual changes

For the reverse stock split transaction carried out in 2019, please see the table "12.1.a Capital: breakdown".

12.3 Capital: other information

The share capital is fully subscribed and paid in.

12.4 Profit reserves: other information

Profit reserves, constituted in accordance with the Italian Code, with the articles of association or in relation to specific resolutions passed by the Shareholders' Meeting as to the allocation of the income for the loss, have the purpose of strengthening the Bank's capital. During 2018 the available profit reserves were completely used to cover part of the 2017 loss. For further details please see table 12.6.2. below.

Items/Balances	31 12 2019	31 12 2018
Legal reserve		
Reserve of parent company shares		
Statutory reserve		
Reserve pursuant to art. 13 Italian Lgs. Decree 124/93		
Extraordinary reserve		
Other reserves	(326,600)	(407,280)
Total	**(326,600)**	**(407,280)**

12.5 Equity instruments: breakdown and annual changes

There were no transactions for this accounting item.

12.6 Other information

12.6.1 Valuation reserves

12.6.1.1 Valuation reserves: breakdown

Items/Components	31 12 2019	31 12 2018
1. Financial assets measured at fair value through other comprehensive income	(138,162)	(139,706)
2. Property, plant and equipment	-	
3. Intangible assets	-	
4. Foreign investment hedging	-	
5. Cash flow hedging	-	
6. Exchange differences	-	
7. Non-current assets held for sale and discontinued operations	-	
8. Special revaluation laws	-	
9. Employee severance indemnities	(1,276)	(1,207)
10. Company pension funds	(2,326)	(1,910)
11. Tax effect	702	1,382
Total	**(141,062)**	**(141,441)**

12.6.1.2 Valuation reserves: annual changes

	Financial assets measured at fair value through other comprehensive income	Employee severance indemnities	Company pension funds	Tax effect	Total
A. Opening balances	**(139,706)**	**(1,207)**	**(1,910)**	**1,382**	**(141,441)**
B. Increases	**3,111**	**29**	**-**	**(863)**	**2,277**
B.1 Fair value increases	3,111			(863)	**2,248**
B.2 Other changes		29			**29**
C. Decreases	**1,567**	**98**	**416**	**(183)**	**1,898**
C.1 Fair value decreases	1,592			(183)	**1,409**
C.2 Other changes	(25)	98	416		**489**
D. Closing balances	**(138,162)**	**(1,276)**	**(2,326)**	**702**	**(141,062)**

12.6.1.3 Valuation reserves relating to financial assets measured at fair value through other comprehensive income: breakdown (before tax effects)

Items/Components	31 12 2019		31 12 2018	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	1,030	653	-	2,581
2. Equity securities	-	138,539	-	137,125
3. UCITS units	-	-	-	
4. Loans	-	-	-	
Total	**1,030**	**139,192**	**-**	**139,706**

12.6.1.4 Valuation reserves relating to financial assets measured at fair value through other comprehensive income: annual changes (before tax effects)

	Debt securities	Equity securities	Units in collective investment undertakings	Loans
1. Opening balances	**(2,581)**	**(137,125)**	**-**	**-**
2. Positive changes	**3,111**	**25**		
2.1 Fair value increases	3,111			
2.2 Transfer to income statement of negative rese	-	25		
- due to impairment				
- due to conversion		25		
2.3 Other changes				
3. Negative changes	**152**	**1,440**		
3.1 Fair value decreases	152	1,440		
3.2 Transfer to income statement of positive reserves				
- due to conversion				
3.3 Other changes				
4. Closing balances	**378**	**(138,540)**	**-**	**-**

12.6.2 The Bank's capital: availability and possibility of distribution of the various items

Items/Balances	Amount	Possibility of utilisation (*)	Available portion	Summary of uses made in previous three years	
				for coverage of loss	for other reasons
Capital	**1,669,516**				
Capital reserves				948,770	
Profit reserves	(326,600)	-	-	-	-
Profit reserves FTA 2013 IAS 19	666	-	-	81,488	-
Reserves from FTA IFRS 9	(46,215)	-	-	-	-
Retained losses	(281,031)	-	-	-	-
Reserves from disposal of OCI equity securities	(20)			10,632	
Other reserves subject to deferred taxation	(141,062)	-	-	-	-
Valuation reserves	-	-	-	-	-
Total reserves	(467,662)	-	-	-	-
Profit for 2019	36,562	-	-	-	-
Total Equity	**1,238,416**	**-**	**-**	**1,040,890**	**-**

(*) Key: A for share capital increases; B for coverage of losses; C for distribution to shareholders

Note: "Retained losses" indicate the loss for financial year 2017 for the portion not covered by the reserves. Utilisations were made in 2017 to cover 2016 losses (for € 769,683 thousand) and in 2018 to cover part of the 2017 losses (for € 271,207 thousand) using the available reserves. Additionally, in 2019 "Retained losses" were further reduced, using the entire amount (€ 80,699 thousand) of 2018 annual profits.

Other information

1. Commitments and financial guarantees given (other than those designated at fair value)

Transactions	31 12 2019				Total
	First stage	Second stage	Third stage	Total	31 12 2018
Irrevocable commitments to grant finan	**4,341,422**	**147,193**	**7,377**	**4,495,992**	**6,586,429**
a)Central Banks	-	-	-	-	
b)Public administrations	-	-	-	-	
c)Banks	30,131	-	-	30,131	69,178
d)Other financial companies	3,928,802	-	1,292	3,930,094	6,087,017
e)Non-financial companies	382,397	147,193	5,894	535,484	429,863
f)Households	92	-	191	283	371
Financial guarantees given	**59,886**	**10,644**	**650**	**71,180**	**88,835**
a)Central Banks	-	-	-	-	
b)Public administrations	-	-	-	-	
c)Banks	8,220	-	-	8,220	8,969
d)Other financial companies	-	3,947	-	3,947	2,747
e)Non-financial companies	51,666	6,697	650	59,013	77,119
f)Households	-	-	-	-	
Total	**4,401,308**	**157,837**	**8,027**	**4,567,172**	**6,675,264**

2. Other commitments and other guarantees given

	Nominal value	
	31 12 2019	31 12 2018
Other guarantees given	**460,745**	**426,714**
of which: impaired credit exposures	-	-
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	13,683	13,683
d) Other financial companies	447,062	413,031
e) Non-financial companies	-	-
f) Households	-	-
Other commitments	**-**	**-**
of which: impaired credit exposures	-	-
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	**460,745**	**426,714**

Note: The table shows, under “Other guarantees given”, € 460,745 thousand (€ 426,714 thousand at 31 December 2018) relative to the maximum risk of indemnities due to counterparty purchasers involved in operations to dispose of impaired loans, against claims of violation of declarations and guarantees given by the Group.

3. Assets lodged as collateral for the Bank’s liabilities and commitments

Portfolios	31 12 2019	31 12 2018
1. Financial assets measured at fair value through profit or loss	5,694,735	4,889,919
2. Financial assets measured at fair value through other comprehensive income	63,867	60,691
3. Financial assets measured at amortised cost	975,313	1,655,648
4. Property, plant and equipment	-	-
of which: property, plant and equipment that constitute inventories	-	-

Note: The table summarises the assets lodged by the Bank as collateral for its liabilities, for the most represented by repurchase agreements payable, as well as derivatives.

4. Management and brokerage on behalf of third parties

Type of services	Amounts 31 12 2019	Amounts 31 12 2018
1. Execution of order on customers' behalf		
a) purchases	6,242,264	6,629,754
1. settled	6,218,346	6,612,092
2. not settled	23,918	17,662
b) sales	7,374,938	6,205,195
1. settled	7,357,868	6,203,222
2. not settled	17,070	1,973
2. Portfolio management		**-**
a) individual	-	-
b) collective	-	-
3. Custody and administration of securities		
a) third party securities deposited with the Bank associated with its role as custodian bank (excluding portfolio management)	-	-
1. securities issued by companies included in consolidation	-	-
2. other securities	-	-
b) third party securities on deposit (excluding portfolio management):	7,077,215	7,236,274
1. securities issued by companies included in consolidation	-	-
2. other securities	7,077,215	7,236,274
c) third party securities deposited with third parties	7,077,315	7,236,274
d) own securities deposited with third parties	7,648,684	6,810,408
4. Other transactions	**4,086,109**	**5,144,296**

Note: The amounts indicated in point 3 "Custody and administration of securities" represent the par value of the securities.
The sub-items "third party securities" include € 661,008 thousand as collateral received to guarantee derivative and repurchase agreements payable exposures (€ 807,535 thousand in 2018), as well as securities received for repurchase and securities lending operations receivable for a nominal value of € 6,400,056 thousand (€ 6,302,241 thousand at 31 December 2018). The aggregate had a total fair value of € 7,865,822 thousand (€ 7,660,121 at 31 December 2018).
The "Other transactions" indicated at point 4, represent the volumes of placement activities with or without guarantees.

5. Financial assets subject to netting in the financial statements, or subject to framework netting agreements or similar

Technical forms	Gross amount of financial assets (a)	Amount of financial liabilities netted in the financial statements (b)	Net amount of financial assets recognised in the financial statements (c=a-b)	Correlated amounts not subject to netting in the financial statements		Net amount (f=c-d-e) 31 12 2019	Net Amount 31 12 2019
				Financial instruments (d)	Cash deposits received as guarantees		
1. Derivatives	5,682,095	2,534,456	3,147,639	1,393,031	1,357,565	397,043	401,493
2. Repurchase agreements	7,112,552	-	7,112,552	7,027,775	2,770	82,007	103,239
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Totale 31 12 2019	**12,794,647**	**2,534,456**	**10,260,191**	**8,420,806**	**1,360,335**	**479,050**	**X**
Totale 31 12 2018	**11,333,427**	**1,325,904**	**10,007,523**	**8,036,919**	**1,465,872**	**X**	**504,732**

The assets indicated in the table above are valued in accordance with the criteria outlined in the relevant accounting standards, that is in Part A.2, Section 1: 1) Financial assets measured at fair value through profit or loss (FVTPL) and 3) financial assets measured at amortised cost.
The amounts related to derivatives refer to i) derivatives quoted on regulated markets; ii) OTC derivatives settled at the Central Counterparties LCH London Clearing House and ICE Clear Europe, through Clearings Members; iii) OTC derivatives entered into with institutional counterparties settled by ISDA, MNA and CSA.
The amounts related to repurchase agreements refer to transactions settled, respectively, through GMRA and GMSLA collateralisation agreements.
The amounts shown in column "c" correspond to those presented in the Balance Sheet Assets under Item 20. "Financial assets measured at fair value through profit or loss - a) Financial assets held for trading" as regards derivatives and in item 40. "Financial assets measured at amortised cost" for repurchase agreements.

<u>Description of netting rights subject to netting framework agreements or similar agreements, including cases in which the criteria envisaged in section 42 of IAS 32 are not met.</u>
Operations regarding derivatives listed on regulated markets have the characteristics referred to in the amendment to IAS 32 for offsetting financial assets and liabilities, in that the Bank has a current and unconditional right, which can be exercised during the normal course of business and also in the cause of default, insolvency or bankruptcy of the counterpart, to offset the financial asset or liability (IAS 32 §AG38B), whether the intention is to settle the amount on a net basis or to make use of the asset while simultaneously eliminating the liability (IAS 32 §AG38E).
With reference to OTC derivatives settled with the Central Counterparties LCH and ICE, the relation between the Bank and the Clearing Members is governed by an ISDA MNA and CSA contract in which, unlike what occurs in the context of the agreements envisaged with the other counterparties, the application of a "Multiple Transaction Payment Netting" clause is envisaged, defined under article 2(c) of the 2002 ISDA MNA. The activation of this clause involves:

- settlement on a net basis on a daily or infra-daily basis;
- the execution of a single transfer of funds for each regulated currency inclusive of exchanges of contractual flows, any amounts to be paid in the case of early termination and payments/deposits related to the initial and variation margin (collateral).

In the event of default of a Clearing Member the Bank can choose whether to transfer the positions to another Clearing Member or have the existing positions liquidated; in any case the netting mechanism provided for in the ISDA MNA is applied.
This type of transaction also has the characteristics envisaged in the amendment to IAS 32 (see previous point).
OTC derivatives entered into with institutional counterparties are governed by ISDA MNA and CSA contracts. The contractual clauses for these operations allow for offset adjustment of the financial assets and liabilities in question only in the case in which certain events occur, while the possibility of offsetting during the course of normal business being excluded.
With the exception of the agreements stipulated with the Central Clearing Members of the CCP, no agreements exist with institutional counterparties that envisage the application of the Multiple Transaction Payment Netting clause.
Therefore, this type does not have the characteristics necessary for netting in the financial statements, as regulated by the amendment to IAS 32.

Repurchase agreements and securities borrowing and lending are all governed by the following agreements, developed with an eye to mitigating credit risk:

- Global Master Repurchase Agreement (GMRA) for repurchase agreements;
- Global Master Securities Lending Agreement (GMSLA) for securities lending.

On the basis of the analysis carried out, with particular reference to the contractual rules relating to the settlement of cash flows, no cases were identified that envisage settlement on a net basis of daily or infra-daily cash flows, during the normal course of business. Therefore, the requirements referred to in the amendment to IAS 32 for relative netting in the financial statements are not met.

6. Financial liabilities subject to netting in the financial statements, or subject to framework netting agreements or similar

Technical forms	Gross amount of financial liabilities (a)	Amount of financial assets netted in the financial statements (b)	Net amount of financial liabilities recognised in the financial statements (c=a-b)	Correlated amounts not subject to netting in the financial statements		Net Amount (f=c-d-e) 31 12 2019	Net Amount 31 12 2018
				Financial instruments (d)	Cash deposits placed as guarantees (e)		
1. Derivatives	4,360,599	2,534,456	1,826,143	1,393,031	423,915	9,197	24,208
2. Repurchase agreements	11,091,958	-	11,091,958	11,091,265	50	643	1,859
3. Securities lending	-	-	-	-	-	-	-
4 Other	-	-	-	-	-	-	-
Totale 31 12 2019	**15,452,557**	**2,534,456**	**12,918,101**	**12,484,296**	**423,965**	**9,840**	**X**
Totale 31 12 2018	**13,308,203**	**1,325,904**	**11,982,299**	**11,808,481**	**147,751**	**X**	**26,067**

The liabilities indicated in the table above are valued in accordance with the criteria outlined in the relevant accounting standards, that is in Part A.2, Section 1: 10) Financial liabilities at amortised cost and 11) Financial liabilities held for trading.
The amounts shown in column "c" correspond to those presented in the Balance Sheet Liabilities under Item 10. "Financial liabilities measured at amortised cost", in relation to repurchase agreements, and 20. "Financial liabilities held for trading", as regards derivatives.
In relation to the disclosure for netting rights, please refer to the information provided at the bottom of table "5. Financial assets subject to netting in the financial statements, or subject to framework netting agreements or similar".

7. Securities lending transactions

Securities lending transactions, as for similar repurchase agreement transactions, are carried out mostly to hedge against similar and specular transactions. They are also carried out to hedge against short positions on securities (known as technical overdrafts, representing, in terms of volumes, mainly sales of government securities) taken on by the trading desks for strategies focused on short/medium-term maturities.
Overall, we can note dynamic and complex management of the Global Markets portfolios, regarding both investments and funding, as can be seen from the figures involved: the amount of the securities lending transactions, at 31 December 2019, came out at € 1,859.7 million (compared to € 1,582.6 million at 31 December 2018). These transactions, aimed at acquiring available securities to be used for funding operations or to cover technical overdrafts, were for the most part carried out with the parent company (which, in turn, borrows these securities from its customers) and involved Italian government securities for approximately 99% of the total (88% at 31 December 2018).
Considering together the securities lending and repurchase agreement transactions, the total net funding position, correlated with financing of net long positions in securities, was € 3,979 million (€ 3,686 million at 31 December 2018).

8. Disclosure on jointly-controlled companies

This section was not completed as it is not relevant to the Bank.

Part C - Notes to the Income Statement

Section 1 – Interest – Items 10 and 20

1.1 Interest and other income: breakdown

Items/Technical types	Debt securities	Loans	Other transactions	Total 31 12 2019	Total 31 12 2018
1. Financial assets measured at fair value through profit or loss	51,810	601	-	52,411	64,691
1.1 Financial assets held for trading	50,160	-	-	50,160	62,843
1.2 Financial assets designated at fair value	-	-	-	-	-
1.3 Other financial assets obligatorily measured at fair value	1,650	601	-	2,251	1,848
2. Financial assets measured at fair value through other comprehensive income	1,448	-	X	1,448	1,658
3. Financial assets measured at amortised cost	6,442	154,942	X	161,384	161,528
3.1 Due from banks	-	28,443	X	28,443	23,423
3.2 Due from customers	6,442	126,499	X	132,941	138,105
4. Hedging derivatives	X	X	(46)	(46)	-
5. Other assets	X	X	1	1	38
6. Financial liabilities	X	X	X	85,188	75,179
Total	**59,700**	**155,543**	**(45)**	**300,386**	**303,094**
of which interest income on impaired financial assets	-	27,469	-	27,469	36,115
of which interest income on financial leases	-	-	-	-	-

* *The Bank utilised the option not to redetermine on a uniform basis the comparative data of the year of first application of IFRS 16.*

1.1.a Interest income on impaired assets

Items	Total 31 12 2019	Total 31 12 2018
- Bad loans	12,985	14,026
of which: forborne	3,926	4,400
-Probable defaults	14,173	21,923
of which forborne	10,496	17,948
-Impaired past-due exposures	311	166
of which forborne	61	1
Total	**27,469**	**36,115**

1.2. Interest and similar income: other information

1.2.1 Interest income on foreign currency financial assets

Items/Balances	Total 31 12 2019	Total 31 12 2018
Interest income on foreign currency financial assets	12,686	12,913

1.3 Interest expense and similar charges: breakdown

Items/Technical types	Payables	Securities	Other transactions	Total 31 12 2019	Total 31 12 2018 *
1. Financial liabilities measured at amortised cost	(97,664)	(19,388)	-	(117,052)	(118,273)
1.1 Payables to central banks	-	X	X	-	-
1.2 Payables to banks	(96,838)	X	X	(96,838)	(98,208)
1.3 Payables to customers	(826)	X	X	(826)	(604)
1.4 Outstanding securities	X	(19,388)	X	(19,388)	(19,461)
2. Financial liabilities held for trading	-	-	-	-	(78)
3. Financial liabilities designated at fair value	-	-	-	-	-
4. Other liabilities and provisions	X	X	-	-	-
5. Hedging derivatives	X	X	-	-	-
6. Financial assets	X	X	X	(58,188)	(49,121)
Total	**(97,664)**	**(19,388)**	**-**	**(175,240)**	**(167,472)**
of which interest payable relative to leasing payables	(619)	-	-	(619)	-

* *The Bank utilised the option not to redetermine on a uniform basis the comparative data of the year of first application of IFRS 16.*

1.4 Interest expense and similar charges: other information

1.4.1 Interest expense on foreign currency liabilities

Items/Balances	Total 31 12 2019	Total 31 12 2018
Interest expense on foreign currency financial liabilities	11,215	8,330

1.5 Spreads relating to hedging transactions

Items	Total 31 12 2019	Total 31 12 2018
A. Positive spreads relating to hedging transactions	-	-
B. Negative spreads relating to hedging transactions	46	-
C. Balance (A+B)	**46**	**-**

Section 2 – Fees – Items 40 and 50

2.1 Fee income: breakdown

Type of services / Balances	Total 31 12 2019	Total 31 12 2018
a) guarantees given	1,084	1,612
b) credit derivatives	-	-
c) asset management, brokerage and consultancy services:	18,030	16,908
1. financial instrument trading	-	-
2. foreign exchange trading	-	-
3. individual portfolio management	-	-
4. custody and administration of securities	-	-
5. custodian bank	-	-
6. placing of securities	16,058	14,774
7. order reception and transmission	1,972	2,134
8. advisory services	-	-
8.1 on investments	-	-
8.2 on financial structure	-	-
9. distribution of third-party services	-	-
9.1. portfolio management	-	-
9.1.1. individual	-	-
9.1.2. collective	-	-
9.2. insurance products	-	-
9.3. other products	-	-
d) collection and payment services	-	-
e) servicing for securitisation transactions	-	-
f) factoring services	-	-
g) tax collection and State lottery services	-	-
h) management of multilateral trading systems	-	-
i) holding and managing current accounts	-	-
j) other services	30,293	27,130
Total	**49,407**	**45,650**

Note: in relation to the sub-item "c) 6. securities placement", 50 placing operations with/without guarantee were handled by the Bank.

In relation to the disclosure required by IFRS 15 please refer to the information provided in Part A, Section 2, para. 15) Other information. We can specify in this regard that fee income is normally recognised in the accounts at point in time, with the exception of that booked to sub-item "a) guarantees given" and for approximately 29% of that booked to sub-item "j) other services", which are received over time. As regards the latter this income consists, in particular, of:

- fees for the work done for the Management of the SME Guarantee Fund, for € 1,438 thousand (€ 1,403 thousand at 31 December 2018);

- fees chargeable to customers for the delayed use of amounts agreed to be disbursed mainly referable to corporate finance (in particular project financing) operations, for an amount of € 3,754 thousand (€ 3,882 thousand at 31 December 2018) (it is contractually provided for that, if the funds are not drawn down completely within a certain date, the customers periodically pay these fees, normally calculated applying a percentage of the credit spread on the amount not drawn down);
- agency fees in the amount of € 2,577 thousand (€ 2,965 thousand at 31 December 2018). These fees are paid by customers for the role played by the Bank as lead manager / agent of loans in pools, for the administrative work related to sending and collecting instalments, to retrocession of collections pro-rata to the participants, to managing arrears but also and above all for the work of monitoring the covenants, annual analysis of accounting indices, etc.

2.1.a Fee income: breakdown of fees for other services

Type of services / Balances	Total 31 12 2019	Total 31 12 2018
a) for early repayment/termination of loans and mortgage loans	431	585
b) fees for advisory services	18,517	16,462
c) fees for services	2,569	2,624
d) fees for securities lending	374	132
e) other	8,402	7,327
Total	**30,293**	**27,130**

Note: The detail "e) other" refers mainly to enquiry and secretarial fees, fees for non or late use of the line granted, disinvestment charges and agency fees.

2.2 Fee income: distribution channels for products and services

Channels / Balances	31 12 2019	31 12 2018
a) at bank branches:	**-**	**-**
1. portfolio management		
2. placing of securities		
3. third-party services and products		
b) offsite sales:		**-**
1. portfolio management	-	-
2. placing of securities	-	
3. third-party services and products	-	-
c) other distribution channels:	**16,058**	**14,774**
1. portfolio management	-	-
2. placing of securities	16,058	14,774
3. third-party services and products		

2.3. Fee expense: breakdown

Services / Balances	Total 31 12 2019	Total 31 12 2018
a) guarantees received	(131)	(112)
b) credit derivatives	-	-
c) management and brokerage services:	(21,926)	(27,516)
1. financial instrument trading	(15,075)	(18,028)
2. foreign exchange trading	(1)	(2)
3. portfolio management:	-	-
3.1 own	-	-
3.2 delegated by third parties	-	-
4. custody and administration of securities	(2,228)	(1,806)
5. placing of financial instruments	(4,622)	(7,681)
6. external marketing of financial instruments, products and services	-	-
d) collection and payment services	(9)	(10)
e) other services	(7,038)	(7,943)
Total	**(29,104)**	**(35,581)**

2.3.a Fee expense: breakdown of fees for other services

Type of services / Balances	Total 31 12 2019	Total 31 12 2018
a) presentation of loan applications	(4,324)	(4,424)
b) handling of bad loans	(2)	(1,505)
d) fees for securities lending	(282)	(142)
e) other	(2,430)	(1,872)
Total	**(7,038)**	**(7,943)**

Section 3 - Dividends and similar income - Item 70

3.1 Dividends and similar income: breakdown

Items/Income	31 12 2019			31 12 2018		
	Dividends	Similar income	Total	Dividends	Similar income	Total
A. Financial assets held for trading	585	1,108	1,693	723	407	1,130
B. Financial assets obligatorily measured at fair value	-	-	-	-	-	-
C. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-
D. Equity investments	-	-	-	-	-	-
Total	**585**	**1,108**	**1,693**	**723**	**407**	**1,130**

Section 4 - Net income from trading activities - Item 80

4.1 Net income from trading activities: breakdown

Transactions/Income components	Capital gains (A)	Gains on disposal (B)	Capital losses (C)	Losses on disposal (D)	Net profit (Loss) (A+B)-(C+D)	
					31 12 2019	31 12 2018
1. Financial assets held for trading	36,409	88,370	(24,781)	(34,184)	65,814	(78,695)
1.1 Debt securities	25,864	83,492	(24,192)	(32,209)	52,955	(73,805)
1.2 Equity securities	3,037	2,160	(587)	(1,736)	2,874	(98)
1.3 UCITS units	7,508	2,718	(2)	(239)	9,985	(4,792)
1.4 Loans	-	-	-	-	-	-
1.5 Other	-	-	-	-	-	-
2. Financial liabilities held for trading	15,315	19,690	(9,738)	(97,412)	(72,145)	80,845
2.1 Debt securities	15,265	19,572	(9,641)	(97,412)	(72,216)	78,671
2.2 Payables	-	-	-	-	-	-
2.3 Other	50	118	(97)	-	71	2,174
3. Other financial assets and liabilities: Exchange differences	X	X	X	X	(50)	6,281
4. Derivative instruments	1,987,161	3,734,481	(1,896,346)	(3,779,820)	40,983	(28,786)
4.1. Financial derivatives:	1,979,527	3,617,104	(1,797,137)	(3,676,969)	118,032	(1,710)
- On debt securities and interest rates	1,940,577	2,883,111	(1,697,661)	(3,012,001)	114,026	(41,660)
- On equity securities and share indices	15,771	622,573	(80,955)	(555,169)	2,220	25,004
- On foreign currencies and gold	X	X	X	X	(4,493)	23,471
- Other	23,179	111,420	(18,521)	(109,799)	6,279	(8,525)
4.2 Credit derivatives	7,634	117,377	(99,209)	(102,851)	(77,049)	(27,076)
of which: natural hedging connected with the fair value option	-	-	-	-	-	
Total	**2,038,885**	**3,842,541**	**(1,930,865)**	**(3,911,416)**	**34,602**	**(20,355)**

4.1.a Write-downs and trading losses attributable to assets of evident low credit quality

	31 12 2019		31 12 2018	
	Capital losses	Losses on disposal	Capital losses	Losses on disposal
Debt securities	199	-	661	148
Equity securities	-	-	-	-
Derivatives	1,064	7,049	2,609	295
Other	-	-	-	-
Total	**1,263**	**7,049**	**3,270**	**443**

Section 5 - Net income (loss) from hedging activities - Item 90

5.1 Net income (loss) from hedging activities: breakdown

Income components / Balances	Total 31 12 2019	Total 31 12 2018
A. Income related to:		
A.1 Fair value hedging derivatives	1,593	-
A.2 Hedged financial assets (fair value)	-	-
A.3 Hedged financial liabilities (fair value)	-	-
A.4 Financial derivatives hedging cash flows	-	-
A.5 Foreign currency assets and liabilities	-	-
Total income from hedging activities (A)	**1,593**	**-**
B. Costs related to:		
B.1 Fair value hedging derivatives	-	-
B.2 Hedged financial assets (fair value)	1,660	-
B.3 Hedged financial liabilities (fair value)	-	-
B.4 Financial derivatives hedging cash flows	-	-
B.5 Foreign currency assets and liabilities	-	-
Total expense from hedging activities (B)	**1,660**	**-**
C. Net income from hedging activities (A-B)	**(67)**	**-**
of which: result of hedges of net positions	**-**	**-**

Section 6 - Profit (Loss) on sale/repurchase - Item 100

6.1 Profit (Loss) on sale/repurchase: breakdown

Items/Income components	Total 31 12 2019			Total 31 12 2018		
	Gains	Losses	Net profit (Loss)	Gains	Losses	Net profit (Loss)
Financial assets						
1. Financial assets measured at amortised cost	3,189	(762)	2,427	2,949	(3,080)	(131)
1.1 Due from banks	-	-	-	-	-	-
1.2 Receivables from customers	3,189	(762)	2,427	2,949	(3,080)	(131)
2. Financial assets measured at fair value through other comprehensive income	1	-	1	576	-	576
2.1 Debt securities	1	-	1	576	-	576
2.2 Loans	-	-	-	-	-	-
Total assets (A)	**3,190**	**(762)**	**2,428**	**3,525**	**(3,080)**	**445**
Financial liabilities measured at amortised cost						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Outstanding securities	-	-	-	-	-	-
Total liabilities (B)	**-**	**-**	**-**	**-**	**-**	**-**

Section 7 – Net gains (losses) on other financial assets and liabilities measured at fair value through profit or loss - Item 110

7.1 Net change in value of other financial assets and liabilities measured at fair value through profit or loss: breakdown of financial assets and liabilities designated at fair value

There were no transactions for this accounting item.

7.2 Net change in value of other financial assets and liabilities measured at fair value through profit or loss: breakdown of other financial assets obligatorily measured at fair value

Transactions / Income components	Capital gains (A)	Gains on disposal (B)	Capital losses (C)	Losses on disposal (D)	Net profit (loss) [(A+B) - (C+D)] 31 12 2019
1. Financial assets					
1.1 Debt securities	423	-	(2,382)	-	(1,959)
1.2 Equity securities	20	2	(931)	-	(909)
1.3 UCITS Units	148	-	(5,698)	-	(5,550)
1.4 Loans	8,705	6,220	(2,429)	(5,805)	6,691
2. Financial assets in other currencies: exchange differences	X	X	X	X	-
Total	**9,296**	**6,222**	**(11,440)**	**(5,805)**	**(1,727)**

Section 8 – Net value adjustments due to credit risk - Item 130

8.1 Net value adjustments due to credit risk in relation to financial assets measured at amortised cost: breakdown

Transactions/Income components	Value adjustments (1)			Write-backs (2)		Total 31 12 2019	Total 31 12 2018
	First and second stage	Third stage		First and second stage	Third stage		
		Write-offs	Other				
A. Due from banks	**-**	**-**	**-**	**47**	**-**	**47**	**(559)**
- Loans	-	-	-	47	-	47	(559)
- Debt securities	-	-	-	-	-	-	-
Of which: purchased or originated credit impaired	-	-	-	-	-	-	-
B. Due from customers	**(35)**	**(4,377)**	**(182,481)**	**56,207**	**134,832**	**4,148**	**17,018**
- Loans	-	(4,377)	(182,481)	56,207	134,832	4,183	17,274
- Debt securities	(35)	-	-	-	-	(35)	(256)
Of which: purchased or originated credit impaired	-	-	(466)	-	3	(463)	(284)
C. Total	**(35)**	**(4,377)**	**(182,481)**	**56,254**	**134,832**	**4,195**	**16,459**

Note: Net value adjustments due to credit risk during the year relative to operating loans falling under the scope of IFRS 15 total -202,000 euro and are almost entirely associated with loans classified in stage 3.

8.2 Net value adjustments due to credit risk in relation to financial assets measured at fair value through other comprehensive income: breakdown

Transactions/Income components	Value adjustments			Write-backs		Total 31 12 2019	Total 31 12 2018
	First and second stage	Third stage		First and second stage	Third stage		
		Write-offs	Other				
A. Debt securities	(17)	-	(782)	2	-	(797)	(1,906)
B. Loans	-	-	-	-	-	-	-
- to banks	-	-	-	-	-	-	-
- to customers	-	-	-	-	-	-	-
Of which: purchased or originated impaired financial assets	-	-	-	-	-	-	-
Total	**(17)**	**-**	**(782)**	**2**	**-**	**(797)**	**(1,906)**

Section 9 – Gains/losses on contractual changes without cancellations- Item 140

9.1 Gains (losses) on contractual changes

Portfolios	31 12 2019 Net profit (Loss)	31 12 2018 Net profit (Loss)
1. Financial assets measured at amortised cost	(46)	(4,515)
2. Financial assets measured at fair value through other comprehensive income	-	-
Total	**(46)**	**(4,515)**

Section 10 - Administrative expenses - Item 160

10.1 Personnel expense: breakdown

Type of cost /Sectors	Total 31 12 2019	Total 31 12 2018
1. Employees	(39,876)	(40,795)
a) wages and salaries	(28,374)	(28,775)
b) social security contributions	(7,578)	(7,611)
c) retirement indemnities	(1,582)	(1,167)
d) other pension costs	-	-
e) provision for personnel severance indemnities	(27)	(22)
f) provision for pensions and similar obligations:	(578)	(445)
– defined contribution	(558)	(425)
- defined benefit	(20)	(20)
g) payments to external supplementary welfare funds:	-	-
– defined contribution	-	-
- defined benefit	-	-
h) costs deriving from payment agreements based on own equity instruments	-	-
i) other employee benefits	(1,737)	(2,774)
2. Other working personnel	-	-
3. Directors and Statutory Auditors	(318)	(428)
4. Retired personnel	(35)	(33)
5. Recovered expenses for employees seconded at other companies	(4,668)	(4,661)
6. Expense reimbursements for third party employees seconded at the Bank	17,723	17,344
Total	**(27,174)**	**(28,573)**

Note: The fees paid to Directors and Statutory Auditors, shown before contributions and tax expenses, are divided as follows: € 270,000 to Directors (320,000 in 2018) and € 48,000 to Statutory Auditors (108,000 in 2018).

10.2 Average number of employees by category

Employee categories /Average number	31 12 2019	31 12 2018
Employees:	**313**	**319**
b) managers	18	21
c) mid-level managers	186	193
c) other personnel	109	105
Other personnel		
Total	**313**	**319**

10.3 Defined-benefit company pension funds: costs and revenue

Items/Balances	31 12 2019			31 12 2018		
	Defined-benefit company pension funds		TFR	Defined-benefit company pension funds		TFR
	Internal plans	External plans		Internal plans	External plans	
Interest income/expense	(20)	-	(27)	(20)	-	(22)
Welfare cost relating to current employment service and gains and losses from fund discharge°	-	-	-	-	-	-
Welfare cost relating to past employment services	-	-	-	-	-	-
Gain/loss from discharge of fund°°	-	-	-	-	-	-
Other management costs	-	-	-	-	-	-
Total	**(20)**	**-**	**(27)**	**(20)**	**-**	**(22)**

10.3.a Contributions to the Plan which the Bank estimates it will pay out in the next year

Defined-benefit company pension funds	25
Severance indemnities	25
Total	**50**

10.4 Other employee benefits

Nothing to report.

10.5 Other administrative expenses: breakdown

Items/Balances	31 12 2019	31 12 2018 *
Stamp duty	(295)	(469)
Indirect duties and taxes	(116)	(88)
Real estate rent	(532)	(2,803)
Fees for outside professionals	(9,938)	(3,304)
Maintenance of furnishings and property used for business purposes	(667)	(484)
Postal charges	(41)	(45)
Telegraph, telephony and telex	(131)	(110)
Advertising, sponsorships and promotions	-	-
Sundry rents and leasing	(5,463)	(6,816)
Information and searches	(6)	-
Transport	(146)	(189)
Electricity, heating, water	(5)	(6)
Security services	(4)	(4)
Reimbursement of staff vehicle and travel costs	(342)	(275)
Contracts for cleaning of premises	(145)	(150)
Municipal property tax	(102)	(104)
Rental of data transmission lines	(54)	(54)
Printed matter and stationery	(21)	(23)
Insurance	(431)	(65)
Processing through third parties	-	-
Software	-	-
Membership fees	(455)	(524)
Entertaining expenses	(60)	(49)
Subscriptions and purchase of publications	(14)	(14)
Expenses for services provided by companies and entities in the MPS Group	(15,186)	(16,514)
Contributions to the Resolution Funds (SRF) and Deposit Guarantee Systems (D	(13,644)	(17,851)
Expenses for training courses	-	-
Fees for DTA	(6,165)	(6,165)
Other	(2,839)	(4,225)
Total	**(56,802)**	**(60,331)**

* *The Bank utilised the option not to redetermine on a uniform basis the comparative data of the year of first application of IFRS 16.*

Note: the trend in the item, which fell by € 3.5 million with respect to the previous year, was mainly due to i) the decrease in contributions to the Resolution Funds (€ -4.2 million); ii) the increase in fees paid to external professionals (€ 6.6 million, change mainly due to charges related to collection activities for bad loans); iii) transfer to the item 180. "Net value adjustments on property, plant and equipment", after application of IFRS 16, of rent payable for real estate and vehicle leases (€ -2.1 million); iv) the reduction in charges for services supplied through outsourcing by Group companies (€ 1.4 million) and for fees and services in outsourcing paid to companies external to the Group (€ 2.2 million).

Section 11 – Net provisions for risks and charges – Item 170

11.1 Net Provisions for credit risk related to commitments to grant finance and financial guarantees given: breakdown

Transactions/Income components	First stage	Second stage	Third stage	Totale 31 12 2019	Totale 31 12 2018
1) Financial guarantees given	476	(47)	97	526	2,612
Provisions for the year	(33)	(64)	(68)	(165)	(361)
Write-backs	509	17	165	691	2,973
2) Commitments to grant finance	602	116	-	718	(72)
Provisions for the year	(30)	(268)	-	(298)	(1,155)
Write-backs	632	384	-	1,016	1,083
E. Total	**1,078**	**69**	**97**	**1,244**	**2,540**

11.2 Net provisions for other commitments and guarantees given: breakdown

There were no transactions for this accounting item.

11.3 Net other provisions for risks and charges: breakdown

Transactions/Income components	Allocations	Write-backs	Totale 31 12 2019	Totale 31 12 2018
Legal disputes	(934)	1,908	974	(554)
Personnel expenses	-	-	-	-
Other risks and charges	(115)	680	565	(680)
E. Total	**(1,049)**	**2,588**	**1,539**	**(1,234)**

Section 12 – Net value adjustments on property, plant and equipment – Item 180

12.1 Net value adjustments on property, plant and equipment: breakdown

Assets / Income components	Depreciation	Value adjustments due to impairment	Write-backs	Net profit (Loss) 31 12 2019	Net profit (Loss) 31 12 2018 *
A. Property, plant and equipment					
A.1 For business use	(1,844)	-	-	(1,844)	(6)
- Owned	(4)	-	-	(4)	(6)
- Rights of use acquired with leasing	(1,840)	-	-	(1,840)	-
A.2 Assets held for investment purpos	(123)	-	-	(123)	(446)
- Owned	(123)	-	-	(123)	(446)
- Rights of use acquired with leasing	-	-	-	-	-
A.3 Inventories	X	-	-	-	-
Total	**(1,967)**	**-**	**-**	**(1,967)**	**(452)**

* *The Bank utilised the option not to redetermine on a uniform basis the comparative data of the year of first application of IFRS 16.*

Section 13 – Net value adjustments on intangible assets – Item 190

There were no transactions for this accounting item.

Section 14 – Other operating income/charges – Item 200

14.1 Other operating charges: breakdown

Items/Balances	Total 31 12 2019	Total 31 12 2018
Amounts not receivable not attributable to own items	(4)	(2)
Out-of-period expense not attributable to own items	(3)	(13)
Amortisation/depreciation: leasehold improvement costs classified among "Other assets"	(3)	-
Charges from legal rulings and settlements	(537)	(307)
Other	(8)	(22)
Total	**(555)**	**(344)**

14.2 Other operating income: breakdown

Items/Balances	Total 31 12 2019	Total 31 12 2018
Amounts not payable not attributable to own items	24	16
Out-of-period income not attributable to own items	27	52
Other costs charged back	801	1,698
Other	766	1,267
Total	**1,618**	**3,033**

Section 15 – Profit (loss) from equity investments – Item 220

There were no transactions for this accounting item.

Section 18 – Gains (losses) on disposal of investments – Item 250

18.1 – Gains (losses) on disposal of investments: breakdown

Income components / Sectors	Total 31 12 2019	Total 31 12 2018
A. Real estate	90	-
- Gains on disposal	90	-
- Losses on disposal	-	-
B. Other Assets	-	-
- Gains on disposal	-	-
- Losses on disposal	-	-
Net profit (Loss)	**90**	**-**

Note: there are not gains/losses deriving from sale or subleasing transactions falling under the scope of IFRS 16. For more information, please see the section "Transition to the new accounting standard IFRS 16", Part A.1 – Section 2).

Section 19 – Income taxes for the year on profit from current operations – Item 270

19.1 Income taxes for the year on profit from current operations: breakdown

Income components / Sectors	Total	
	31 12 2019	31 12 2018
1. Current taxes (-)	(57,425)	8,560
2. Changes in current taxes for previous years (+/-)	(687)	629
3. Reduction in current taxes for the year (+)	-	-
3.bis Reduction in current taxes for the year for tax credits pursuant to Italian Law no. 214/2011 (+)	-	43,811
4. Change in deferred tax assets (+/-)	(6,628)	(9,377)
5. Change in deferred tax liabilities (+/-)	(2,418)	7
6. Taxes accruing during the year (-) (-1+/-2+3+3bis+/-4+/-5)	**(67,158)**	**43,630**

Note:

Financial year 2019

The item "current taxes" includes:

- the IRAP provision for € 5,000 thousand;
- the IRES provision for € 11,683 thousand;
- the result of the probability test which led to an impairment of the receivable due from the consolidator for € 40,741 thousand.

The "change in deferred tax assets" and the "change in deferred taxes" are commented on in Part B of the Notes to the Financial Statements, in Section 10 of the Assets.

Financial year 2018 - current IRES and IRAP taxes were not recognised because the two taxable bases were reduced to zero as a result, respectively, of the deduction of earlier tax losses and of the ACE portions accrued in financial years 2016 and 2017 (as regards IRES), as a result of the deduction of value adjustments on receivables accounted for and not deducted in the period 2008-2012 following the sale of receivables entitled "Valentine", relative to IRAP.

The result of the probability test is recognised under the item "income for tax consolidation"; this determined a revaluation of the credit from the consolidator referred to the 2016 and 2017 tax losses.

The "change in deferred tax assets" mainly comprises the recognition of deferred tax assets on the deduction in the next nine financial years of the value adjustments on receivables that emerged on first application of IFRS 9, as well as the results of the probability test which entailed a write-down of deferred tax assets in relation to the IRES surcharge and to other temporary differences respectively for € 9,094 and 145 thousand.

19.2 Reconciliation between the theoretical tax charge and the actual tax charge in the financial statements

IRES

Items/Balances	31 12 2019	%	31 12 2018	%
(A) Profit (Loss) on current operations, before taxes	103,719		37,069	
(B) Profit (loss) before taxes on non-current assets held for sale	**-**	**27.5%**	**-**	**27.5%**
(A+B) Profit (loss) on current operations before taxes	**103,719**		**37,069**	
Theoretical IRES tax burden	**28,523**		**10,194**	
Non-deductible interest expense	-		-	
Capital gains realised equity investments for AFS	(6)		(840)	
Impairment, equity investments for AFS	256		211	
Non-deductible administrative expenses	335		351	
Non-deductible/taxable contingencies	130		540	
Consolidated company tax losses without expected recovery	40,741		(14,408)	
AEG Deduction	-		(4,863)	
Other permanent differences	-		(41,085)	
Dividends exempt 95%	-		-	
Permanent IRES differences	41,457		(60,094)	
Value adjustments for deferred IRES tax assets from previous years	(9,010)		8,680	
Value adjustments for deferred IRAP tax liabilities from previous years	-		-	
Changes in current IRES taxes for previous years	687		(629)	
IRAP in income statement	5,501		(1,781)	
Income taxes on current operations	**67,158**		**(43,630)**	
Income taxes for the year of asset disposal groups held for sale	-		-	

IRAP

Items/Balances	31 12 2019	%	31 12 2018	%
(A) Profit (Loss) on current operations, before taxes	103,719		37,069	
(B) Profit (loss) before taxes on non-current assets held for sale	**-**	**4.65%**	**-**	**4.65%**
(A+B) Profit (loss) on current operations before taxes	**103,719**		**37,069**	
Theoretical IRES tax burden	**4,823**		**1,724**	
Non-deductible interest expense	-		-	
Net value adjustments on receivables	37		-	
Gains (losses) on contractual changes without cancellations	(2)		210	
Personnel expenses	35		41	
Allocation to provision for risks and charges - non-deductible IRAP portic	(129)		(61)	
Losses on equity investments	-		-	
Lump sum recovery 10% administrative expenses	264		280	
Sundry non-deductible administrative expenses	51		48	
Lump sum recovery 10% amortisation/depreciation	35		21	
Other non-significant operating income/charges	(14)		(52)	
Other increases	-		4,882	
Dividends excluded	(14)		(17)	
2008-2012 adjustments on loans subject to disposal	-		-	
Other decreases	(973)		(8,563)	
Permanent differences	**(710)**		**(3,210)**	
Effect of increase in regional rates	**838**		**(294)**	
Value adjustments for deferred IRAP tax assets from previous years	**550**		**-**	
IRAP in income statement	**5,501**		**(1,781)**	

Section 20 – Gain (loss) on discontinued operations, net of taxes – Item 290

There were no transactions for this accounting item.

Section 22 - Earnings per share

22.1 Average number of ordinary shares in diluted capital

Items/Balances	(no. shares)	
	31 12 2019	31 12 2018
Weighted average of ordinary shares outstanding (+)	16,051	802,551
Diluting effect deriving from put options sold (+)	-	-
Diluting effect deriving from ordinary shares to be assigned as the result of payments	-	-
Diluting effect deriving from convertible liabilities (+)	-	-
Diluting effect deriving from convertible privileged shares (+)	-	-
Weighted average of ordinary shares outstanding for diluted earnings per share	**16,051**	**802,551**

22.2 Other information

22.2.a Reconciliation of profit (loss) for the period – basic earnings per share numerator

Items/Balances	(amounts in Euro)	
	31 12 2019	31 12 2018
1. Net profit (Loss)	36,562,187	80,699,465
2. Profit (loss) attributable to other categories of shares	-	-
Net profit (loss) attributable to ordinary shares - basic earnings per share numerator	**36,562,187**	**80,699,465**

22.2.b Net profit (loss) reconciliation – diluted earnings per share numerator

Items/Balances	(amounts in Euro)	
	31 12 2019	31 12 2018
1. Net profit (Loss)	36,562,187	80,699,465
2. Profit (loss) attributable to other categories of shares	-	-
Net profit (loss) attributable to ordinary shares - basic earnings per share numerator	**36,562,187**	**80,699,465**

22.2.c Basic and diluted earnings per share

	(amounts in Euro)	
Items/Balances	31 12 2019	31 12 2018
1. Basic earnings per share	2,277.876	100.554

Note: during the year a reverse stock split was carried out at a ratio of one new ordinary share for every 500 existing ordinary shares (see "*Section 14 – The Bank's capital*"); the data shown in the table are therefore not comparable.

Part D – Comprehensive Income

ANALYTICAL STATEMENT OF COMPREHENSIVE INCOME

	Items	Total 31 12 2019	Total 31 12 2018
10.	**Profit (Loss) for the period**	**36,562**	**80,699**
	Other income components without transfer to income statement	**(1,767)**	**(35,918)**
20.	Equity securities designated at fair value through other comprehensive incom	(1,415)	(35,950)
	a) Fair value change	(1,440)	(35,950)
	b) Transfers to other shareholders' equity components	25	-
30.	Financial liabilities designated at fair value through profit or loss (changes in own creditworthiness):	-	-
	a) Fair value change	-	-
	b) Transfers to other shareholders' equity components	-	-
40.	Hedging of equity securities designated at fair value through other comprehensive income:	-	-
	a) fair value change (hedged instrument)	-	-
	b) fair value change (hedging instrument)	-	-
50.	Property, plant and equipment	-	-
60.	Intangible assets	-	-
70.	Defined benefit plans	(486)	50
80.	Non-current assets and disposal groups held for sale	-	-
90.	Portion of equity investment valuation reserves measured at equity	-	-
100.	Income tax expense related to other comprehensive income without transfer to income statement	134	(17)
	Other comprehensive income with transfer to income statement	**2,145**	**(1,872)**
110.	Foreign investment hedging:	-	-
	a) fair value changes	-	-
	b) transfer to income statement	-	-
	c) other changes	-	-
120.	Exchange differences:	-	-
	a) changes in value	-	-
	b) transfer to income statement	-	-
	c) other changes	-	-
130.	Cash flow hedging:	-	-
	a) fair value changes	-	-
	b) transfer to income statement	-	-
	c) other changes	-	-
	of which: result of net positions	-	-
140.	Hedging instruments: (non-designated elements)	-	-
	a) changes in value	-	-
	b) transfer to income statement	-	-
	c) other changes	-	-

150. Financial assets (other than equity securities) measured at fair value through other comprehensive income:	2,959	(2,581)
a) changes in value	2,959	(5,032)
b) transfer to income statement	-	2,450
- adjustments for credit risk	-	2,450
- gains/losses on disposal	-	-
c) other changes	-	-
160 Non-current assets held for sale and discontinued operations:	-	-
a) fair value changes	-	-
b) transfer to income statement	-	-
c) other changes	-	-
170. Portion of equity investment valuation reserves measured at equity:	-	-
a) fair value changes	-	-
b) transfer to income statement	-	-
- writedowns for impairment	-	-
- gains/losses on disposal	-	-
c) other changes	-	-
180. Income tax expense related to other comprehensive income with transfer to i	(814)	710
190. Total other income components	**378**	**(37,789)**
200. Comprehensive income (Items 10 + 130)	**36,940**	**42,910**

Part E – Information on risks and related hedging policies

Introduction

The organisational model on which the Internal Controls System is based provides for outsourcing to the parent company's Risk Management Unit, in observance of the specific rules laid down in the corporate policy on the subject of outsourcing of the corporate auditing units within the banking Group and in a specific SLA signed with the Parent Company.

Responsibility for the unit is assigned, in keeping with the rules of the Supervisory Authorities and the powers attributed to the Board of Directors and with the consent of the Board of Statutory Auditors, to the pro tempore Manager of the Parent Company's CRO Department.
The internal contact point for the Risk Management activities is identified as the Manager of the Bank's AML and Compliance Unit, who is responsible for:

- guaranteeing a constant connection between the Bank and the outsourced Risk Management unit;
- providing his or her support to the outsourced Risk Management unit;
- reporting to the Risk Management unit, on the basis of the available information, particular events or situations capable of modifying the risks generated by the Bank.

Below is a summary of the organisation for Group risk governance, the associated processes and the key functions.

Additionally, an estimate of Total Internal Capital is provided with a description of the relative valuation models.

For more information on Risk Governance and the risk culture in the Group please also see that specified in the Report on Operations.

Risk governance system

The risk governance system adopted by the Group features a clear distinction of roles and responsibilities between the first, second and third level control functions.

The policies regarding the assumption, management, hedging, monitoring and control of risks are defined by the Parent Company's statutory bodies. Specifically:

- The Board of Directors of the Parent Company defines and approves the strategic guidelines and risk governance policies and, at least once a year, expresses in numeric terms, the Risk Appetite for the entire Group;
- The Board of Statutory Auditors and the Risks Committee assess the level of efficiency and adequacy of the internal control system, specifically regarding control of risks;
- The Managing Director/General Manager guarantees compliance with the risk policies and procedures;
- The Director assigned responsibility for the internal control and risk management system, established in accordance with the Code of Conduct for Listed Companies, is responsible for establishing and maintaining an effective system of internal control and risk management.

In order to support efficiency and flexibility in the decision-making process and to smooth interaction between the various corporate departments involved, specific Management Committees exist, which are responsible for risks:

- The Risk Management Committee establishes the risk management policies, assesses the Group's risk appetite, in accordance with the annual and multi-annual targets for value creation for the Group and verifies and monitors overall observance of the limits assigned to the various levels of operations; evaluates, at a comprehensive level and at the level of individual companies, the risk profile achieved and hence capital consumption;
- The Finance and Liquidity Committee formulates the principles and strategic guidelines for proprietary finance; resolves and puts forward proposals regarding exposure to interest rate risk and liquidity in the banking book and to define capital management actions;
- The Credit and Credit Policies Committee expresses guidelines regarding lending processes and an opinion on credit policies at least once per year, verifying commercial sustainability and compliance with the Risk Appetite policy. In addition, it has the responsibility, on the basis of the delegated powers, to resolve on the subject of loan disbursement and loan management and problem assets.

In the context of the Internal Control System, the Chief Audit Executive Department carries out third level controls, while the Chief Risk Officer Department and the Compliance Department are responsible for second level controls and the Business Control Units (BCUs) for the first level controls.

The Chief Audit Executive Department carries out independent and objective assurance and advisory activities aimed on one hand to check, also with on-site tests, the regularity of operations and risk performance, and on the other hand to assess the functionality of the overall internal control system, also in order to pursue the improvement of the effectiveness and efficiency of the organisation. It also plays the role of Internal Secondary Supervisor with the objective of focussing on the main characteristics of the prudential supervision process adopted by the European supervisory authorities and the guidelines/priorities that it outlines on occasion, in order to evaluate the Group's positioning with respect to the expectations of the Single supervisory mechanism.

The Chief Risk Officer Department, reporting directly to the Board of Directors and reporting functionally to the Managing Director, carries out the tasks of the Risk Control Department, the Anti-Money Laundering and Terrorism Department and Internal Validation. The manager of the Department (the Chief Risk Officer, CRO), in addition to being responsible for the Risk Control Department, has also been in charge of the AML Department since July 2019. Additionally, the manager of the Internal Validation Department also reports to the CRO, as defined in the regulatory norms and internally established in the Group's policy on Internal Control Systems.

The Department is therefore responsible for:
- guaranteeing the overall functioning of the risk management system;
- participating in defining the performance check on the Risk Appetite Framework (RAF), besides guaranteeing the consistency with the RAF of the most significant operations;
- verifying capital adequacy in the context of the ICAAP process and the adequacy of liquidity in the context of the ILAAP process;
- monitoring the indicators of the Recovery Plan;
- ensuring the necessary reporting to the Group's decision-making bodies and top management;
- guaranteeing proper and adequate auditing activity to Group companies that have outsourced the relevant corporate unit;
- performing the anti-money laundering function provided for by the Law and that of internal validation of the risk management models;

- guaranteeing proper and adequate auditing activity to Group companies that have outsourced the relevant corporate unit;
- overseeing in a centralised manner the management of relations and the moments of verification with the Supervisory Authorities, coordinating and monitoring the planning of the commitments assumed and the main lines of evolution of the European regulatory context.

In particular, within the Chief Risk Officer Department, the structures of the risk control unit are:

- the Financial Risk Officer Area: Defines the integrated methods for assessing and analysing risks and ensures that they are constantly monitored, verifying their consistency with the Risk Appetite and observance of the threshold defined in terms of adequacy with respect to the capital and liquidity reserves, and participating in the definition of any mitigation actions required. It collaborates in the preparation, drafting and monitoring of the Recovery Plan. It supervises the evolution of the proprietary financial risk measurement and control system, in line with internal and regulatory standards. It guarantees management risk reporting for company bodies and top management.
  Prepares the Disclosure to the Public (Pillar 3) and monitors and analyses Business Model issues.
- the Lending Risk Officer Area: Supervises the evolution of the credit risk measurement system, in line with internal and regulatory standards, both in terms of statistical models and analytical and process measurements, monitoring measurement of the credit risk relative portfolio quality down to the single name level. Performs second level controls on Group credit exposures.
- the Operating Risk Officer Area: Supervises the evolution of the risk measurement and control system associated with the operational execution of the Group's business model (including operational risk, reputational risk and risks associated with customer portfolios).

The Compliance Department ensures compliance with the laws for the Banking Parent Company. The unit has direct responsibility for managing the risks related to breaches of the most significant laws in bank-customer relations and reports periodically to the top management bodies and to the supervisory authorities on the overall compliance status of the Bank’s systems and operations. The Compliance Unit reports directly to the Managing Director.

The peripheral BCUs, located at the controlled banks or the main business areas, implement compliance checks on operations and represent the first level of organisational control of operations within the more general Internal Control System.

While observing the autonomy and independence requirements of each participating unit, the Committee for Coordination of the Units also operates with auditing tasks. The Committee has the aim of promoting and sharing operating and methodological aspects to identify possible synergies in the auditing activities by the second and third level Units, coordinating the methods and timing on the subject of planning and reporting to the Corporate Bodies and of planning initiatives connected with the Internal Control System, sharing the areas for improvement highlighted by all the Units with auditing tasks and by the Supervisory Authorities.

Autonomy and independence requirements of the Risks Department

The Parent Company's Risk Control Unit is headed by the Chief Risk Officer (CRO).
The autonomy and independence of the unit are ensured by direct reporting to the Collegial Body with strategic supervision functions (the Board of Directors), reporting only functionally to Management (Managing Director/General Manager). It has direct access to the control body (Board of Statutory Auditors), and can communicate with it continuously without restrictions or liaisons. The CRO also has the right at its discretion to take part in the meetings of the Risks Committee to intervene or propose discussions on specific matters.

In particular the Manager of the Parent Company's Chief Risk Officer is appointed/dismissed by the Board of Directors, on the proposal of the Risks Committee, making use of the contribution of the Appointments Committee, after consulting the Board of Statutory Auditors.

Determination of the remuneration of the Parent Company's Chief Risk Officer is done by the Board of Directors, on the proposal of the Remuneration Committee, acquiring the opinion of the Risks Committee, after consulting the Board of Statutory Auditors.

Activities related to the International Supervisory Legislation

First pillar: since 2008, the Group has used internal models validated by the Bank of Italy to assess and manage credit risks (AIRB - Advanced Internal Rating Based) and operational risks (AMA - Advanced Measurement Approach). Over time, in agreement with the Supervisory Authority, these models have been further developed and their scope of application has been extended to Group entities not included in the initial validation perimeter.

Second pillar: in the year in particular the initiatives continued aimed at guaranteeing compliance with the new Supervisory Review and Evaluation Process (SREP) framework and at improving further the self-assessment processes regarding the Group's capital and Liquidity adequacy (ICAAP - Internal Capital Adequacy Assessment Process and ILAAP - Internal Liquidity Adequacy Assessment Process) of which obligatory disclosure is provided to the Supervisors. During 2019, the overall internal framework of reference for determining the Group's risk appetite developed further (the Risk Appetite Framework - RAF). The Group was also involved in various projects aimed at improving the management systems for various risks.

Third pillar: the related Market Disclosure is released quarterly on the Group's website, at www.mps.it/investors and is updated continuously in compliance with the regulatory developments on the subject.

Analysis of Internal Capital

The Total Internal Capital (or Total Absorbed Internal Capital) is the minimum operational amount of capital required to cover economic losses due to unexpected events generated by simultaneous exposure to various types of risk.

The main types of risk to which the Group is exposed during its normal business activities, can be schematically classified as follows:

- Credit Risk;
- Market Risk;
- Operating Risk;
- Banking Book Interest Rate Risk;
- Counterparty Risk;

- Property Risk;
- Issuer Risk;
- Concentration Risk;
- Equity Investment Portfolio Risk;
- Business/Strategic Risk;
- Liquidity Risk;
- Reputational Risk.

Total Internal Capital is quantified based on all the above types of risks, with the exception of liquidity risk and of reputational risk, which instead are mitigated through policies and organisational processes.

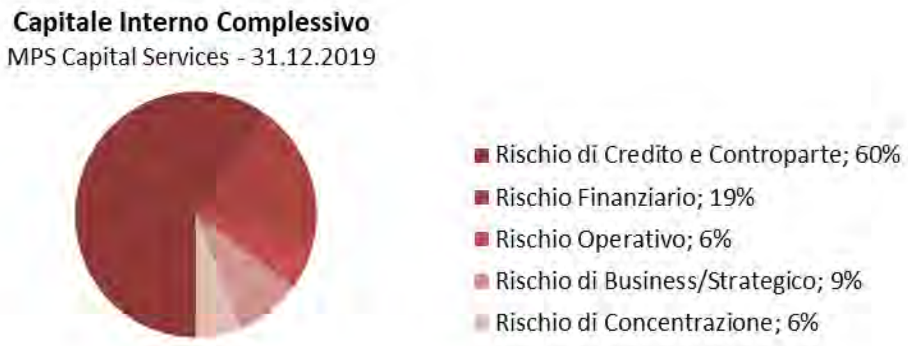
Protection is also put in place against the risks inherent in investment products/services designed for the Group's customers, both to protect the customers and to prevent potential impact on the Group's reputation.

Assessment models

The Chief Risk Officer Department quantifies Internal Capital on a regular basis in relation to each risk type and periodically reports to the Risk Management Committee and Top Management.

The approach used for quantifying and integrating the risks to capital, to which the Group is exposed, is referred to in the literature as Pillar 1 Plus. This approach entails that, to the Pillar 1 requirements for Credit and Counterparty Risk (which already include the requirements related to Issuer Risk on the Banking Book (BB), Equity Investment Risk, Property Risk) and for Operational Risk, are added (avoiding double counts) the requirements calculated using internal models related to Market Risks of both the Trading Book and the Banking Book and Banking Book Interest Rate Risk (Financial Risks), Concentration Risk and Business/Strategic Risk.

Total Internal Capital is calculated without considering inter-risk diversification, hence directly adding together the contributions of internal capital for individual risks (Building Block Approach). This approach tends to assimilate the indications present in the SREP (Supervisory Review and Evaluation Process) Guidelines published by the EBA.



Capitale Interno Complessivo	Total Internal Capital
MPS Capital Services – 31.12.2019	MPS Capital Services – 31.12.2019
Rischio di Credito e Controparte	Credit and Counterparty Risk
Rischio Finanziario	Financial Risk

Rischio Operativo	Operating Risk
Rischio di Business/Strategico	Business/Strategic Risk
Rischio di Concentrazione	Concentration Risk

The Group also continually manages and quantifies Liquidity Risk (risks-to-liquidity, as defined in the SREP Guidelines) using internal methodologies and policies of an organisational nature.

Section 1 – Credit risk

Qualitative information

1. General aspects

The Bank, in the context of its strategic priorities set by the Parent Company's Business Plan, continues to pursue the improvement of the quality of its loan portfolio with the objective of limiting the cost of credit.
The Parent Company's Chief Lending Officer Department defines annually, with possible revision every six months, the strategic guidelines related to the loan portfolio, both at the Group level and at the level of the single subsidiaries. The Group's lending is managed with a view to risk oversight and taking advantage of opportunities for growth. The lending policies and management systems developed aim to make use of trend-related information at the level of the individual relationship, and are characterised by deep awareness and strategic management of the position (credit culture).

The main elements that contribute to the definition of the lending policy can be summarised briefly as:
• internal rating system;
• sectoral classification;
• geographical area of location;
• service models usable (retail, corporate e private).

Already back in 2008, the MPS Group received from the Bank of Italy the authorisation for the use of the advanced internal approaches for determining the capital requirements against credit risk (AIRB – Advanced Internal Rating Based approach). The Bank uses internal estimates of the probability of default (PD) and the loss given default (LGD) for the loan portfolio, relating to the exposures towards businesses.

The internal PD, LGD and EAD models for measuring credit risk represent one of the main elements of assessment for all the Group's structures involved in the lending industry.

To make the valuation of the legal-economic links objective and unequivocal, within the MPS Group, a customised process entitled "Associated Customer Groups" is now operational; it makes it possible to establish and up-date the mapping of the afore-mentioned links by means of the application of automatic process rules which handled the objective data which can be gathered from internal and external official sources.

2. Credit risk management policies

2.1. Organisational aspects

2.1.1 Organisational aspects: banking book

The Bank carries out medium- and long-term lending, aimed at developing productive sectors, related to extraordinary enterprise finance and corporate finance, in all its technical forms. In some cases, a subsidised loan is arranged, although only in a remaining few cases since public aid is limited to a small number of projects for research, industrialisation and agricultural supply chains. New finance operations are also agreed in the context of agreements for the restructuring of pre-existing debts.
Evaluation of creditworthiness, to supervise the risk assumed, is carried out both through an analysis of the repayment sources on the basis of income and cash production capacity (former, current and prospective), and as a function of the specific features of the project financed (competitive positioning, management quality,

quality and quantity of equity and financial resources available, and equity capacity of the shareholders). Generally, real (mortgages, privileges, liens) and/or unsecured guarantees (sureties, letters of patronage) are obtained, in order to mitigate risk and reduce capital absorption.

Loans are classified in categories of different risk intensity on which the lending decision autonomy limits of the lower level delegated bodies are parametrised. These limits are increased or decreased depending on the rating attributed to the counterparty. The Bank, in fact, assesses its customers through the system of ratings attributed by the Parent Company.

In relation to the process of determining creditworthiness for specialised lending operations, specifically identified as IPRE (Income Producing Real Estate), Project Finance or Object Finance, note that the Bank of Italy authorised the Group to use the Regulatory Classification approach (the so-called "Slotting Criteria") for specialised lending with exposure of € 5 million or more. Transactions for an amount of less than € 5 million are instead assessed according to the ordinary process and reported with the standard method.

The lending activity also involves granting credit lines for derivative transactions, aimed at limiting the exposure of the contracting parties (Corporate customers) to market risks.
The General Management of the Bank, in keeping with the guidance issued by the Chief Lending Officer Department of the Parent Company, establishes the criteria and methods for monitoring the portfolio, on an on-going basis making the best possible use of information about the credit facility positions, which is made available within the banking Group. These criteria can be found in the Loan Classification and Measurement Policy (see also paragraph 3. Impaired loan exposures).

In terms of the organisational structure, the activities described above are carried out by the Credit Department, which is subdivided into the structures indicated below:

- High Risk Loans and Monitoring Department - these employees, in addition to supporting other structures in the Department are also responsible for:
  - coordinating loan monitoring activity, according to the principles contained in the "Group Policy on Loan Classification and Measurement";
  - performing rating review activities for the Bank's exclusive customers and requesting reviews from the competent Parent Company structures for shared customers;
  - monitoring review activities for Slotting Criteria relative to specialised lending operations;

- Loan Measurement and High Risk Office - responsible for:
  - assessing the creditworthiness of institutional and financial counterparties for the concession of specific credit lines;
  - assessing the creditworthiness of corporate counterparties for the concession of credit lines of a financial nature;

  - preparing technical opinions for all new loan proposals and for changes to already approved credit operations, including those classified as high risk, investigated by various functions in the Credit Department, with decision-making powers external to the Corporate Finance Department;
  - deciding on loan proposals falling under its powers and proposing them, including those relative to high risk clientèle, and, for those received from other Departments, sending them to higher bodies;

- Performing Portfolio Management Office which performs the following activities:
  assessing all the proposed changes related to ordinary finance operations in amortisation, as well as monitoring the correct classification of the performing positions according to the principles contained in the "Group Policy on Loan Classification and Measurement";
  - examining applications for loans from employees;

- monitoring the guarantees backing loan operations;
- coordinating the activity of updating of the valuation of properties acquired as collateral;
- monitoring the General Database;

- Non-Performing Portfolio Management Office, which is responsible for monitoring anomalous credit according to the principles contained in the "Group Policy on Loan Classification and Measurement" and for undertaking the most opportune initiatives in the relative management of the same, as better specified below.

The above topics are analytically regulated by specific corporate standards.

2.1.2 Organisational aspects: trading book

The assessment of market counterparties for transactions involving financial instruments carried out by the Global Markets Department is the responsibility of the Credit Assessment Office - Counterparty Assessment Service and Correspondent Banking. Usually, market counterparties are regulated intermediaries, such as banks, EMIs (Electronic Money Institutions), investment firms, financial firms (pursuant to Art. 107 of the Consolidated Finance Act), AMCs, SICAVs, Italian and foreign-law Funds, insurance companies, as well as territorial, governmental and supranational agencies; some of these economic entities have a rating attributed by important international agencies.
The Counterparty Assessment and Correspondent Banking Service is tasked with carrying out all stages of the lending process through the applicant business units, from collecting the necessary documentation to the initial investigation review from the assessment of creditworthiness to the loan proposal.
The credit granted is of a dynamic nature, that is it can be used up to the total limit for operations of a financial nature, in its various technical forms and among the various companies related to a single Group, if not otherwise indicated at the moment of acceptance. In order to absorb the total counterparty risk, the Parent Company's Risk Management Unit identifies the calculation algorithms differentiated in relation to the different financial nature of the operations.
The Counterparty Assessment and Correspondent Banking Service, also on the basis of the operating needs expressed by the Front Office units, periodically reviews and revises the creditworthiness of the borrower counterparties. If anomalous situations emerge, the Service proceeds with an extraordinary revision of the position and/or, if necessary, immediately applies an appropriate reduction in its amount. Each revision is immediately notified to the involved corporate functions.
Every six months the Counterparty Assessment and Correspondent Banking Service produces a report for the Board of Directors concerning exposure to counterparty risk, indicating i) the trend of the credit line/utilisation ratio, the risk concentration, the guarantees and the quality of the risk; ii) the record of overdrafts related to the credit lines granted, together with comments on the causes and nature of the overdrafts; iii) the counterparties provided with credit lines and the record of pre-lending investigations, the situation of collaterals and of the country risk.
The Parent Company, in compliance with the directives it issues, is informed with updates on loans granted to counterparties and the related utilisations, by feeding a dedicated application (Zeta limit).
Regarding operational controls, the Counterparty Assessment and Correspondent Banking Service oversees compliance with the total credit limit granted and assures the correct distribution of uses dynamically; it makes the checks on the exact allocation of the credit granted and on the record of its use; it monitors daily the over-the-limit positions – in terms of amount and duration – through the EWRM application, reporting the irregularities noted to the top management and the Internal Audit Office.
Monitoring takes place through the Murex3 application, which is able to reflect the effects of the transactions made, in real time. The operating limits granted and the utilisations referred to individual market counterparties are analysed using the MLC extension of the Murex3 application.

2.2 Management, measurement and control systems

The statistical models aimed at creating the Internal Rating Model and the attribution processes obtained, already back in 2008, the authorisation of the Supervisory Authority for calculating the capital requirements with the Advanced IRB (AIRB) System.

For entities for which an Internal Rating Model has not been authorised, reference is made to that established in the prudential regulations for identification of the respective risk weight, following the standardised model.

The prudential regulations require the Group and the Bank to adopt credit risk measures necessary for calculating Regulatory Capital (AIRB approach): Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD). The "Probability of Default", expressed by the rating, represents the ability to fulfil the commitments assumed over the time horizon of one year. The rating presupposes, therefore, a probabilistic approach to risk assessment, measures the quality of the portfolio from a predictive viewpoint entering into the daily credit assessment, credit management and pricing processes, into the provision methodologies and into the reporting to the management.

Counterparty risk, which corresponds to a particular type of credit risk, means the risk that the counterparty in a transaction involving certain financial instruments, such as derivatives, securities financing transactions (SFT) and long settlement transactions (LST) become non-compliant, prior to settlement of the transaction. In determining the level of Regulatory Capital, based on that established in the prudential regulations, the Group determines the contribution made by counterparty risk using the "market value" and "volatility adjustments" methods to determine EAD, respectively for derivatives and LST and for SFT. For corporate and retail entities in the portfolio, the Group uses the IRB approach to identify PD and LDG levels, while for the remaining part of the portfolio it identifies risk weight levels using the standardised model.

The regulatory endowment of the risk parameters has enabled the Group and the Bank to obtain important operating benefits in terms of both greater accuracy of forecast estimates related to credit risk and specific counterparty risk, and greater control of lending aggregates: on the basis of the risk parameters, in fact, the Group – also for the Bank - sets up the process of annual planning of the figures related to lending items, arriving at accurate and sustainable estimates regarding the composition of the loan portfolio, the probable default and bad loan flows and the amount of adjustments.

Sustainability of estimates regarding credit risk is ensured by the establishment of concrete actions involving the loan portfolio, which the peripheral networks are informed of through a regulatory document as well as through changes made to credit processes and lending and management parameters.

Sustainability of estimates regarding cases of counterparty risk is ensured through a process which defines and monitors management limits assigned to the relevant business units.

All the lending processes use the counterparty rating as decision-making driver and are designed according to the specific features of the different customer segments, in order to optimise the use of the resources invested in the management/monitoring of credit and to achieve the right balance between commercial thrust and effectiveness of the credit management. The internal ratings system, which affects the corporate and retail portfolios, arises from the development of statistical models specialised for the type of customer aimed at attributing a solvency grade both for prospective counterparties (first disbursement models based on financial and socio-demographic information, and information coming from external databases) and for already existing clients (for which behavioural models that use internal performance data have also been used).

In order to increase the levels of efficiency in the management of the Internal Rating, the internal Rating Agencies located around the country have become the only reference point for any business unit on the subject of ratings. The role of the Agencies enables greater interaction with the Network so as to make more effective the assistance activity, generate better synergy and enable a more effective transfer of knowledge.

Specifically, relative to credit risk, the Group has defined, also for the Bank, a regressive macro-economic model to estimate changes in PD, as a function of the main credit drivers. Initially, the credit drivers that explain variations in PD in a significant manner are identified. Then, on the basis of the regressive model, disturbances in the credit drivers are estimated, in line with the current and prospective economic situation. This shock to the credit drivers determines the change in the PDs of the credit portfolio, triggering the simulation of a hypothetical downgrading of counterparties, with the consequent variation of risk in terms of Expected Loss, Unexpected Loss and the entry of new defaults.

2.3 Methods of measuring expected losses

Analysis of credit risk is carried out internally for operating purposes by means of the Loan Portfolio Model developed internally by the Parent Company; as analytical output it produces the classic risk measurements of the Expected Loss and Unexpected Loss, both operating (diversified intra-risk, with a time frame of one year and a confidence interval calibrated to the target rating of the Group itself) and regulatory. The inputs are numerous: probability of default (PD), obtained using validated and non-validated models, LGD rates (operating and regulatory), number and type of guarantees that back the single lending relationships, regulatory and operating Credit Conversion Factors (CCFs) on the basis of which, respectively, the regulatory and operating EAD is estimated.

The internal PD, LGD, and EAD models for credit risk measurement represent one of the main assessment elements used for all the Group structures involved in the credit industry, both central (Risk Management, Credit Department, CFO, General Management, Risk Committee, Board of Directors) and peripheral (Ratings Agencies and Account Managers). Currently the Group is authorised to use Advanced Internal Rating-Based (AIRB) systems for the determination of capital requirements against credit risk for the PD and LGD parameters for business portfolios and exposures to retail customers of the Parent Company, MPS Capital Services, and MPS Leasing & Factoring, and is awaiting validation of the EAD parameter for these counterparties.

To develop the internal rating systems, rigorous advanced statistical methods have been used, respecting the requirements envisaged in the regulations. At the same time, models have been selected so that the results obtained are in line with the Group's historical experience in credit management. Finally, in order to optimise proper use of the new instruments, the rating models have been shared in a top-down manner - from Risk Management down to the individual customer managers. In the loss rate model estimate, internal evidence related to capital flows, recovery, and expense effectively recorded for past non-performing positions have been used. The results obtained from the model are subsequently compared with that observed by the Work Out Area which is dedicated to managing and recovering non-performing loans.

The main features of the advanced rating systems are illustrated below:

- the rating for all validated regulatory portfolios is calculated using a counterparty approach, in line with management practices that envisage credit risk assessment, both during disbursement and monitoring stages, at the level of the individual borrower;
- the rating is based on a Group logic: each individual counterparty is attributed a single rating at the banking Group level, on the foundation of the information set relative to all the lending Banks within the AIRB perimeter. The LGD is distinct for the different companies, due to the variation in the products disbursed and the type of customers to which they are offered;
- segmentation of the rating models has been defined so as to make the individual model clusters align with the commercial, credit policy and regulatory portfolio logics envisaged by law;

- the final ratings determination varies by counterparty type. The credit process involves a level of study proportional to the risk associated with the counterparty: the assessment of loans granted has a complex articulated structure for medium-large corporate counterparties, with larger exposure and concentration risks, and a simplified structure for Small Business and Retail customers;
- in line with the process, the final rating for medium/large corporate companies is determined through a combination of several components: statistical rating, qualitative rating, override faculty, and evaluation of the economic group to which it belongs; for Small Business and Retail counterparties, instead, the rating is determined solely on the basis of the statistical component;
- the rating has an internal validity of 12 months and is normally reviewed once a year, except in the case of rating reviews that follow highly structured and codified rules or that are brought forward on the initiative of the account manager or following serious impairment of the counterparty;
- the LGD rate refers to economic losses recorded and not only accounting losses; for this reason, costs sustained during the recovery process and the time factor are also included in the estimate stage;
- the loss rate in the case of default is distinct for the various types of financing and the attribution occurs at the level of the individual operations; it is differentiated by geographic area, having encountered, over time and currently, different recovery rates between Northern and Central Italy and the South and islands;
- the loss rate estimate on positions with default status other than non-performing loans is carried out using Cure Rates. For counterparties with an administrative status of probable default or impaired past due, percentages of return to performing have been determined and are used to adjust the LGD rate estimated starting from disputed cases.

The Group has adopted a single Master Scale for all types of exposures: this allows all the structures involved in managing credit to have an immediate comparison of the risk associated with various counterparties or portfolios. In addition, the probability of default for internal rating classes is mapped to the external Standard&Poor's rating scale to make internal risk assessments comparable to those available on the financial market.

Activities to develop and monitor the rating systems are assigned to Risk Management and monitored by the Internal Validation and Internal Control departments.

The Group used the PD, LGD and EAD parameters estimated for regulatory purposes for the calculation of Risk Weighted Assets, as well as for other operational purposes and internal management. In effect, these constitute the foundation for calculation for the various systems of measurement and monitoring, specifically:

- for measurement of economic capital in the face of credit risk;
- for the process of calculating risk-adjusted performance and measuring value creation;
- for risk-adjusted pricing processes;
- for credit destination processes (credit policies);
- in all credit processes (disbursement, review, management and continuation) which have been engineered within the PEF application (Electronic Credit File), in the context of which the counterparty rating is the result of a process which evaluates all the economic, financial, performance and qualitative information related to the customers with which credit risk exists in a transparent, structured and uniform process.

To determine expected loss as required under standard IFRS 9, it was necessary to take specific actions to adjust the above parameters, among which we can note in particular:

- adoption of a Point in Time (PIT) PD against the Through the Cycle (TTC) PD used for Basel purposes;
- removal from LGD of a number of additional components, namely indirect costs (non-recurring costs) and from the component linked to the adverse economic cycle (downturn); and to reflect the most

current recovery rates (PIT), the expectations on the forward-looking trends and the inclusion of any recovery fees in the case of recovery entrusted to third parties;
- use of multi-period PDs and, if necessary, LGDs, in order to determine the expected loss per for the entire residual life of the financial instrument (stages 2 and 3);
- use, in the context of the process of discounting expected future cash flows, of the effective interest rate of the single operation, unlike what is provided for in the regulatory models, in which the single cash flows are discounted using discounting rates determined in accordance with the prudential regulations.

For more details on the methods used to determine loan loss amounts relative to IFRS 9, the definition of default and the methods used by the Bank to classify financial assets among impaired assets, please see the paragraph "Methods of determining the impairment of IFRS 9 instruments" in part A "Accounting Policies", as well as the paragraph below "Impaired loan exposures", in these Notes to the Financial Statements.

Finally note that during the year no changes were made to estimation techniques or to significant hypotheses underlying the methods used to determine regulatory expected credit losses, while with regards to changes to methods used to determine expected credit losses recognised in the financial statements, please see that illustrated in Part A "Accounting Policies" of these Notes to the Financial Statements.

In compliance with the provisions of IFRS 9, based on which the estimate of ECL must be the result of weighting of a series of possible forward looking scenarios (probability weighted), the impairment model provides for the use of baseline scenarios, that is the use of the scenario held to be the most probable, together with the best and worst scenarios, each of which is associated with a probability of occurrence.
The scenarios are provided by a major external supplier and are approved by the Board of Directors. The baseline scenario is also used for other Group processes that make use of forward looking elements, such as the Risk Appetite Framework (RAF), Recovery Plan, budget, forecast, impairment test for goodwill and equity investments and, finally, DTA recoverability tests.

These scenarios contain macroeconomic variables with a three year horizon and are updated at least once per year, at the time of the annual financial statements, and are also assessed every time the baseline scenario made available by the external supplier shows, with respect to the one in use, a net cumulative difference in GDP over a horizon of 3 years or more which is 0.5% or greater. Scenarios are distinguished by different levels of favourability/adversity in economic development and growth. For the purposes of estimating ECL, the most probable scenario (baseline) and two alternative scenarios (worst/best) were considered, to represent the distribution tails of the scenarios. The probability of the scenarios is calculated internally on the basis of the occurrence percentage (percentile) assigned by the external supplier. To that end, note that the Group established a probability of 55% for the baseline scenario, and 23% and 22% respectively for the worst and best scenarios. For more information on the inclusion of forward looking information in the impairment model, please see point 16. "Use of estimates and assumptions in preparing the statutory financial statements" below – paragraph "Methods of determining the impairment of IFRS 9 financial instruments", in Part A of the Notes to the Financial Statements.

Below is information on the average values of the main macroeconomic and financial indicators used in the baseline, best and worst scenarios for the three year period 2020-2022. GDP is the variable with the greatest impact on the cost of credit and, therefore, is the representative variable which drives all the other: the average value during the reference time period was 0.74% for the baseline scenario. In the same scenario the price index for real estate was 1.21% and 1.35% for residential and non-residential, respectively. The unemployment rate was forecast as an average of 9.7% during the period. Forecasts regarding the consumer price index show an average value of 1.09%.

Macroeconomic variable	Worse scenario	Baseline scenario	Better scenario
Gross domestic product (constant 2010 prices)	0.14%	0.74%	1.34%
Italian residential real estate price index (base 2015=100)	(0.01%)	1.21%	1.92%
Italian non-residential real estate price index (base 2015=100)	0.06%	1.35%	2.20%
Unemployment rate	10.77%	9.70%	8.75%
Consumer price index	1.00%	1.09%	1.30%

Estimates for the best and worst forward looking scenarios compared to the baseline scenario show the following differences: the average changes during the three year period for the extreme scenarios, with respect to the baseline scenario, are the following, respectively, for GDP, residential and non-residential real estate price index, unemployment rate and consumer price index: -60 bps, -122 bps, -129 bps, 107 bps and -9 bps for the "worst" scenario and 60 bps, 71bps, 85 bps, -95 bps and 21 bps for the "best" scenario.

The table below shows the sensitivity for the Bank's main loan portfolios, consisting of cash loans to customers in the corporate and retail segments, net of loans classified in the portfolio of non-current assets and disposal groups held for sale. The analysis shows the impact on each risk stage for gross exposures, writedowns and the coverage ratio in the use hypothesis of a weight of 100% respectively for the baseline, worst and best scenarios in place of the weighted scenario (based on the different weights the Group assigned to each scenario) determined and used by the Bank to estimate risk staging and writedowns relative to 31 December 2019.

		Scenarios (Change in €/mln)		
	Weighted	Worse	Baseline	Better
STAGE 1 Gross exposure	7,582.96	(50.77)	1.58	9.84
of which CORPORATE	7,506.36	(50.77)	1.58	9.84
of which RETAIL	76.60	-	-	-
STAGE 1 Write-downs	4.52	0.26	0.03	(0.27)
of which CORPORATE	4.50	0.26	0.03	(0.27)
of which RETAIL	0.02	0.00	(0.00)	(0.00)
STAGE 1 coverage ratio (%)	0.06%	0.00%	0.00%	(0.00%)
of which CORPORATE	0.06%	0.00%	0.00%	(0.00%)
of which RETAIL	0.02%	0.00%	(0.00%)	(0.00%)
STAGE 2 Gross exposure	1,656.18	50.77	(1.58)	(9.84)
of which CORPORATE	1,645.63	50.77	(1.58)	(9.84)
of which RETAIL	10.55	-	-	-
STAGE 2 Write-downs	38.15	3.16	(0.38)	(3.19)
of which CORPORATE	37.86	3.14	(0.38)	(3.17)
of which RETAIL	0.29	0.02	(0.00)	(0.02)
STAGE 2 coverage ratio (%)	2.30%	0.12%	(0.02%)	(0.18%)
of which CORPORATE	2.30%	0.12%	(0.02%)	(0.18%)
of which RETAIL	2.73%	0.21%	(0.03%)	(0.17%)
STAGE 3 Gross exposure	1,505.33	-	-	-
of which CORPORATE	1,465.64	-	-	-
of which RETAIL	39.69	-	-	-
STAGE 3 Write-downs	671.67	13.71	0.16	(13.19)
of which CORPORATE	659.74	12.83	0.23	(12.43)
of which RETAIL	11.93	0.88	(0.07)	(0.75)
STAGE 3 coverage ratio (%)	44.62%	0.91%	0.01%	(0.88%)
of which CORPORATE	45.01%	0.88%	0.02%	(0.85%)
of which RETAIL	30.06%	2.21%	(0.16%)	(1.90%)
TOTAL Write-downs	714.34	17.13	(0.19)	(16.65)
of which CORPORATE	702.10	16.23	(0.12)	(15.87)
of which RETAIL	12.23	0.90	(0.07)	(0.77)

With particular reference to write-downs, note substantial symmetry in the variations seen in the worst and best scenarios with respect to the baseline scenario, in line with that previously indicated with regards to the average value of GDP in the three year period 2020-2022.

2.4 Credit risk mitigation techniques

The Group makes use of a system for managing credit risk attenuation techniques (CRM model) which oversees the entire process of acquiring, assessing, controlling and creating the Credit Risk Mitigation instruments used.

This management system is structured so as to guarantee observance of the regulatory, legal and organisational requirements laid down in the Supervisory Measures for applying the credit risk mitigation rules. The admissibility requirements are both of a general nature, as they are valid for all CRM techniques, and of a specific nature for each technique.
The general requirements, aimed at ensuring the legal certainty and effectiveness of the guarantees are ensured in respect of the following significant elements:

- the binding nature of the legal commitment between the parties and the enforceability in court;
- the ability to be documented, the unenforceability of the instrument with third parties in all jurisdictions relevant for the purposes of establishment and enforcement;
- the timeframe for enforcement in the case of non-fulfilment;
- the respect for organisational requirements.

Regarding the respect for organisational requirements, attenuation of the risk is ensured:

- by the presence of an IT system that supports each stage in the life cycle of the guarantee (acquisition, assessment, management, revaluation, enforcement);
- by the formulation of guarantee management policies (principles, methods, processes), which are regulated and available to all users.

The Bank does not apply processes for netting credit risk exposures with items of the opposite sign in the on-balance-sheet or "off-balance-sheet" contexts, as regards the commercial portfolio. The disbursement of credit with the acquisition of guarantees is subject to specific control measures, which are differentiated by the guarantee type, applied at the time of disbursement and during monitoring.

The main credit protection forms of a real type used by the Bank are pledges and mortgages on properties but other types are also present (insurance policies, guarantee funds). On occasion the exposures are also backed by unsecured guarantees, mainly provided by private individuals (sureties) but also by companies (sureties and binding letters of patronage).
Overall the Bank, to protect loans, accepts the various instruments summarised below:

- sureties (including omnibus sureties and unsecured guarantees provided by third party subjects);
- endorsements;
- surety policies;
- letters of comfort/binding letters of patronage;
- independent guarantee contracts;
- assumptions;
- unsecured guarantees under foreign law;
- credit derivatives:
  - credit default swaps;
  - total return swaps;
  - credit linked notes.

The main guarantors are indicated below:

- Sovereign States and Central Banks;
- entities in the public sector and regional entities;
- multilateral development banks;
- regulated intermediaries;
- guarantee bodies (joint facilities);
- companies and private individuals.

The Bank has provided itself with a single process for the acquisition of real guarantees, which at the same time is a working tool and expression of the management policies. Management of guarantees is begun following the decision to grant the loan and the process is divided into several stages:

- acquisition (also multiple): in this stage, controls are carried out (formal and regarding the amount) to ensure that the guarantees proposed during the decision-making stage match those provided;
- adjustment/variation/correction: makes it possible to modify the features of the guarantee without interrupting credit protection;
- querying: makes it possible to learn the current figures and historical evolution of the guarantees received;
- termination/cancellation.

If monitoring measures regarding real guarantees indicate operational anomalies during the acquisition stage or possible inadequacies/losses of the values received as liens, events provided for in the credit monitoring policy are activated that aim to update the credit risk assessment.

Relative to relations with market counterparties for operations in financial instruments (repurchase agreements, securities trading and lending, forex, and financial and credit derivatives), the Bank instead adopts policies to reduce counterparty risk through bilateral netting agreements which allow, in the case of default, for offsetting within its own operating sphere of all the existing credit and debit positions.

To optimise the credit risk management and mitigation, the Bank adopts the following protocols: ISDA (with CSAs for derivatives), GMSLA (Global Master Securities Lending Agreements for securities lending) and GMRA (Global Master Repurchase Agreements for repurchase agreements). At the end of 2019, 100% of derivative use is for counterparties with whom an ISDA Master Agreement exists, of which 99.9% are also supported by collateral agreements (CSAs), or the equivalent.

Another risk mitigation technique used by the Bank during 2019 is indirect adhesion to the “SwapClear” service, through the brokers Barclays Bank PLC, Morgan Stanley Europe SE and Merrill Lynch International Plc. This is a clearing activity (performed by LCH Clearnet Ltd for the professional inter-bank market) for the more standardised types of OTC derivative agreements (such as plain vanilla IRS), whereby individual transactions are centralised with the clearer, through the legal mechanism of novation. This “circuit” not only entails an initial margin, but also the liquidation of a daily variation margin on individual transactions, deriving from automatic netting of mutual credit and debit positions. To this is added indirect subscription to the clearing service on credit derivatives operated by ICE CLEAR Ltd, through the clearing brokers Merrill Lynch International and Barclays Bank PLC. Finally, counterparty risk monitoring is always active relative to Listed Derivatives subject to clearing, as a consequence of the implementation of Regulation EU 575/2013 - Capital Requirement CRR. This involves the extension of counterparty risk to the counterparty Merrill Lynch International (BOA Group), in its role as the clearer, soon to be replaced by Bofa Securities Europe, also part of the Bank of America Group.

Due to events associated with Brexit, the counterparty Merrill Lynch International Plc will be replaced by Bofa Securities Europe, also part of the Bank of America Group. Additionally, although it is not yet operational, a relationship with the clearing broker Morgan Stanley Europe SE has been activated, through the clearing house Eurex Clearing AG with its registered offices in Germany, a fully controlled subsidiary of Eurex Frankfurt AG and part of the Deutsche Börse Group.

3. Impaired loan exposures

3.1 Strategies and management policies

Impaired financial assets include loans which, following the occurrence of events after their disbursement, show objective evidence of a possible loss of value.
The activity of managing, monitoring and controlling impaired receivables, with the exception of non-performing loans, of which only the administrative part is followed as a rule, is entrusted to the Non-Performing Portfolio Management Office.

For the classification of impaired exposures in the various categories (bad loans, Probable Defaults, impaired past-due) reference is made to the regulations issued by the Bank of Italy, supplemented by internal rules consistent with Group policies that govern the transfer of loans to the various categories. In particular the classification occurs automatically for loans that are past-due and/or over-the-limit for more than 90 days, if the threshold of materiality established under the Bankit regulations is met. On the other hand, the transfer to Probable Default and to Bad Loan occurs following specific checks and assessments submitted for the decisions of the Bodies included in the decision-making chain according to a process designed to guarantee the correct classification of the loan.

Management of impaired loans begins on the first signs of impairment and is supported, among other things, by a specific procedure that makes it possible to intercept the parameters identified for default detection so as to submit the single most critical positions to the examination of the managers to assess a possible reclassification. During 2019 procedures for the prompt reclassification of counterparties to a lower status were established in the case of counterparties affected by the establishment of binding parameters, in addition to the strengthening of triggers associated with the High Risk portfolio.
The phases associated with classification as probable default with reference to positions subject to forbearance are also managed in this context. “Forborne exposures” refers to a debt contract relative to which tolerance measures (or “forbearance measures”) have been applied. These measures consist in concessions in terms of changes to and/or refinancing of pre-existing debt contracts, relative to a debtor who finds themselves in financial difficulty. In this phase the manager must determine the degree of financial difficulty suffered by the counterparty and, if the difficulty is deemed grave, must reclassify the counterparty as probable default, in addition to granting the forbearance measures.

In the context of managing all the impaired positions that are not bad, the Non-Performing Portfolio Management Office has the objective of recovering the arrears and bringing the position back to performing status. On this point, on the basis of the analysis of each individual position and joining up with the other Group banks as regards shared positions, it makes the decisions considered most opportune, both with regard to the recovery times and methods and in relation to the classification of said position and the assessment of the related receivable in observance of the current policy.

The return of “impaired loans” to performing status takes place in various ways according to the classification category:

- for the category “impaired past-due and/or over-the-limit” the simple payment of the arrears exceeding 90 days is sufficient;
- for the category ”Probable Default”, besides payment of the arrears, the cessation of any subjective conditions must also be verified, with particular reference to the customer’s state of financial difficulty, which had determined this classification; in this last case the monitoring of forborne non-performing concessions begins; this provides for a cure period of 12 months during which the customer must necessarily remain classified as a Probable Default; after this period, in the event of regular payments and provided that at least one instalment of principal has been paid, the customer can come back to the

"performing" status and the forborne position is transformed into performing under probation, but remains still under observation for a further 24 months. In the case of a shared customer, the removal from the "Probable Default" classification must be agreed with the other Group banks.

- For the category "bad loan", a return to performing status is possible if, in addition to payment of the arrears (in addition to any payments due in the very near future), the following conditions are met:
    - absence of enforcement procedures and reports of dispute to the Risk Authority;
    - the overcoming of the economic-financial difficulties which led to the classification.

With regards to positions classified as "bad", note that during 2019 actions to re-internalise bad loan collection activities were defined and approved, consequent to withdrawal from the outsourcing contract with Juliet S.p.A., which had been entrusted with managing almost 80% of bad loan flows from the Italian banks of the MPS Group.
Following this restructuring, as of 01.01.2020 new positions transferred to collections are entirely sent to the parent company's Work Out department.

The parent company's Work Out department makes use of the administrative support of the Bad Loan Administration Sector of the NPPM Office as regards accounting registrations. The office is in any case responsible for checking the correct assessment of the loans and the passing of the related resolutions including returns to "performing" status which must be analysed and proposed to the Bank.

The analysis and management of "impaired assets" includes obviously also the estimate of the write-downs of the nominal values of the receivables (doubtful outcomes and discounting according to the criteria identified in application of the IAS/IFRS accounting standards) for all non-performing customers "above the threshold" of € 1 million, based on that laid out in the Group's policy.

During 2019, deleveraging activities continue for positions classified as probable default and bad, which had already begun in 2018 with the aim of achieving a significant decrease in the stock of NPE. Again in 2020 the NPE Strategy calls for significant attention to be paid to reducing the stock of impaired loans through various strategies, including strengthening monitoring for forborne positions to return them to performing status and finalisation of out of court strategies to reduce the stock (sales, write-offs, disposals, etc.).

For a review of the activities carried out in 2019, please see the section "Loan aggregates - impaired exposures" in the Report on Operations.

3.2 Write-offs

Total and/or partial write-offs are accounted for when it is ascertained that the loan is uncollectable or when there are no realistic prospects of recovery.

It is assumed that the conditions on which a non-realistic assessment of recoverability is based, in the face of which it is considered opportune to abandon the interruption of the limitation period, mature when arrangement, bankruptcy, execution and also hereditary procedures have come to an end, at the same time as the absence of jointly-responsible parties or guarantors to foreclose, but also in cases of documented ascertainment of non-pursuability/non-convenient pursuability of the debtors/guarantors and finally on conclusion of out-of-court arrangements.

The control process with the aim of identifying the absence of realistic recovery prospects is focused on counterparties with a certain level of coverage and a certain time classified as bad.

3.3 Purchased or originated impaired financial assets

Purchased or originated credit impaired assets (POCI) include financial instruments, purchased or originated, which at the time of initial recognition are credit impaired, that is showing signs of impairment in creditworthiness.
Accounting rules relative to POCI apply to financial instruments measured at amortised cost or at fair value through other comprehensive income, or to SPPI-compliant financial instruments in the context of the HTC and HTC&S business models.

These types of financial assets include the cases indicated below:

- substantial credit changes (other than those which determine failure of the SPPI) granted to non-performing clients relative to which, in accordance with the accounting policy, derecognition accounting is used;
- new loans to impaired counterparties;
- purchase of a portfolio of impaired loans as part of a business combination;
- purchase of individual financial instruments.

In particular, the first two cases refer to "Originated credit impaired assets" (OCI), while the remainder refer to "Purchased credit impaired financial assets" (PCI).

With regards to Originated Credit Impaired (OCI), against gross exposure of € 3.1 million at the beginning of the year, the final amount of exposures relative to these cases was € 2.7 million, associated with 2 clients, both of which are classified as bad.

There were no relationships of the Purchased Credit Impaired (PCI) type.

4. Financial assets subject to commercial renegotiation and forborne exposures

These cases include renegotiations of credit exposures, through changes to the original contractual conditions, granted to performing clients for commercial reasons, with the aim of maintaining the relationship with the customer. The changes in question can be divided into the following two categories, based on the goal and effects of the change agreements made between the parties:

- operations which involve, to the debtor's advantage, a change in the original payment due dates (rescheduling);
- operations which do not involve a change to the original due dates and are made to adjust the expense of the debt to market conditions. These operations involve a change in the original contractual conditions, generally made after a request by the client, relative to aspects linked to the expense of the debt.

Requests for rescheduling involve in any case an assessment of the existence of financial difficulties, done on the basis of above all objective aspects, in order to avoid errors in the assignment of the forborne classification and governed, also from a subjective/qualitative point of view, by specific Group regulatory guidelines.
During 2019, rescheduling operations in the absence of financial difficulties were marginal.

The lever of the forbearance measure is activated if the onset of a critical financial situation is noted, and this is such as to have an impact on the counterparty's available cash flows, making it unable to fulfil its financial commitments.
At the moment of forbearance, it is crucial to assess the degree of the customer's financial difficulty (serious or not) to determine the type of measure (suspension of payments or simple rescheduling of the debt) and to ensure that the measure is credibly aimed at resolving the customer's difficulty.

To achieve this objective in the corporate world, it is necessary to not stop at mere analysis of historic figures, but to acquire forecast data and medium/long-term strategies from the entrepreneur. In the private sector, it is essential to assess the instalment/income ratio, unemployment situation and prospective commitments associated with the family.
From an operational point of view the Bank's orientation is to reschedule the customer's commitments so as to them compatible with the aforementioned items of information and to proceed instead to suspend payments only in cases of a drop in employment or other symptoms of serious financial difficulty of the company.

The stock of performing forbearance measures at the beginning of the year of € 333 million, approximately 14.8% was classified as NPE; on the other hand, of this stock 20.6% concluded the probation period without default events.
As of 31 December 2019, the stock of forborne performing positions was € 336 million.

The stock of forborne NPE positions, totalling € 1,692 million at the beginning of the year, saw reductions during the year following the return to performing status for some positions, and after disposal, write-off and write-down measures, with the end of year balance at € 1,028 million. The existing stock at the end of 2019 is characterised mostly by positions in restructuring, which are the subject of specialist monitoring in the context of plans resolved and/or awaiting approval. The residual component (not in restructuring) has high over-the-limit rates and the operating objective is to check that there are the conditions for granting further forbearance measures or, alternatively, for adopting write-off or disposal measures.
During 2019 exposures in the order of approximately 4.3% of the initial stock of forborne non performing exposures were remedied (that is readmitted to performing).
During financial year 2019 the production of new forbearance measures generated a net cost recognised in item 140. "Gains/losses on contractual changes without cancellations" of the income statement, calculated as the fair value change between forecast cash flows before and after the forbearance measure, of € 45 thousand.

Quantitative information

A. CREDIT QUALITY

A.1 Impaired and non-impaired loan exposures: amounts, value adjustments, trend and economic distribution

A.1.1 Breakdown of financial assets by portfolio and credit quality (book values)

Portfolios / Quality	Bad loans	Probable defaults	Impaired past-due exposures	Non-impaired past-due exposures	Other non-impaired exposures	Total
1. Financial assets measured at amortised cost	377,818	436,202	10,129	27,512	16,026,025	16,877,686
2. Financial assets measured at fair value through other comprehensive income	-	829	-	-	83,938	84,767
3. Financial assets designated at fair value	-	-	-	-	-	-
4. Other financial assets obligatorily measured at fair value	43,854	5,077	-	-	21,122	70,053
5. Financial assets held for sale	4,430	12,301	-	-	-	16,731
Total 31 12 2019	**426,102**	**454,409**	**10,129**	**27,512**	**16,131,085**	**17,049,237**
Total 31 12 2018	**508,369**	**744,080**	**6,585**	**30,344**	**14,328,181**	**15,617,559**

A.1.1.a Analysis of forborne loan exposures by portfolio and credit quality (carrying amount)

Portfolios / Quality	Bad loans	Probable defaults	Impaired past-due exposures	Non-impaired past-due exposures	Other non-impaired exposures	Total
1. Financial assets measured at amortised cost	175,793	371,323		17,135	295,964	860,215
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-
3. Financial assets designated at fair value	-	-	-	-	-	-
4. Other financial assets obligatorily measured at fair value	43,854	5,076	-	-	1,218	50,148
5. Financial assets held for sale	4,430	12,301	-	-	-	16,731
Total 31 12 2019	**224,077**	**388,700**	**-**	**17,135**	**297,182**	**927,094**
Total 31 12 2018	**230,149**	**644,097**	**24**	**11,013**	**294,479**	**1,179,762**

A.1.1.b Analysis of non-impaired loan exposures: seniority of past-due positions

Portfolios / Quality	Past-due up to 3 months	Past-due from over 3 months to 6 months	Past-due from over 6 months to 1 year	Past-due for over 1 year	Not past due	Total
1. Financial assets measured at amortised cost	22,597	3,993	922		16,026,025	16,053,537
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	83,938	83,938
3. Financial assets designated at fair value	-	-	-	-	-	-
4. Other financial assets obligatorily measured at fair value	-	-	-	-	21,122	21,122
5. Financial assets held for sale	-	-	-	-	-	-
Total 31 12 2019	**22,597**	**3,993**	**922**	**-**	**16,131,085**	**16,158,597**
Total 31 12 2018	**19,224**	**8,815**	**2,305**	**-**	**14,328,181**	**14,358,525**

A.1.2 Breakdown of financial assets by portfolio and credit quality (gross and net amounts)

Portfolios / Quality	Impaired assets				Non-impaired assets			Total (net exposure)
	Gross exposure	Specific adjustments	Net exposure	Total partial write-offs*	Gross exposure	Portfolio value adjustments	Net exposure	
1. Financial assets measured at amortised cost	1,492,108	(667,959)	824,149	88,664	16,102,324	(48,787)	16,053,537	16,877,686
2. Financial assets measured at fair value through other comprehensive income	4,041	(3,212)	829	-	83,973	(35)	83,938	84,767
3. Financial assets designated at fair value	-	-	-	-	X	X	-	-
4. Other financial assets obligatorily measured at fair value	122,731	(73,800)	48,931	412	X	X	21,122	70,053
5. Financial assets held for sale	42,038	(25,307)	16,731	-	-	-	-	16,731
Total 31 12 2019	**1,660,918**	**(770,278)**	**890,640**	**89,076**	**16,186,297**	**(48,822)**	**16,158,597**	**17,049,237**
Total 31 12 2018	**2,502,850**	**(1,243,816)**	**1,259,034**	**102,725**	**14,440,853**	**(105,031)**	**14,358,525**	**15,617,559**

Note: as of the reporting date in these financial statements, the Bank had 8 exposures relative to creditors who had made a request for a “blank” arrangement, for net exposure of around € 10,943 thousand.

A.1.2.a Analysis of financial assets held for trading and hedging derivatives

Portfolios / Quality	Assets of evident low credit quality		Other assets
	accumulated capital losse	Net exposure	Net exposure
1. Financial assets held for trading	38,081	589	10,355,867
2. Hedging derivatives	-	-	-
Total 31 12 2019	**38,081**	**589**	**10,355,867**
Total 31 12 2018	**47,664**	**769**	**9,282,567**

A.1.2.b Impaired financial assets purchased

There were no impaired financial assets purchased in the portfolio.

A.1.3 Breakdown of financial assets by past-due band (book values)

Portfolios / risk stages	First stage			Second stage			Third stage		
	Up to 30 days	From over 30 days up to 90 days	Over 90 days	Up to 30 days	From over 30 days up to 90 days	Over 90 days	Up to 30 days	From over 30 days up to 90 days	Over 90 days
1. Financial assets measured at amortised cost	2,407	-	-	1,980	18,210	4,915	2,601	11,454	577,321
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-	-	-	15,495
Total 31 12 2019	**2,407**	**-**	**-**	**1,980**	**18,210**	**4,915**	**2,601**	**11,454**	**577,321**
Total 31 12 2018	**1,319**	**-**	**-**	**3,133**	**14,773**	**10,986**	**2,179**	**16,152**	**796,527**

A.1.4 Financial assets, commitments to grant finance and financial guarantees given: trend of total value adjustments and total provisions

Reasons/risk stages	Total value adjustments																Total provisions on commitments to grant finance and financial			Total
	Assets included in the first stage					Assets included in the second stage					Assets included in the third stage									
	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	*of which: individual write-downs*	*of which: collective write-downs*	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	*of which: individual write-downs*	*of which: collective write-downs*	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	*of which: individual write-downs*	*of which: collective write-downs*	*Of which: purchased or originated impaired financial assets*	First stage	Second stage	Third stage	
Opening balances	7,966	20	-	-	7,987	97,045	-	-	-	97,045	1,020,886	2,430	58,687	1,010,014	71,989	1,878	389	1,394	626	**1,189,443**
Increases due to purchased or originated financial assets	1,268	-	-	-	1,268	3,418	-	-	-	3,418	-	-	-	-	-	-	49	182	-	**4,917**
Derecognitions other than write-offs	(907)	-	-	-	(907)	(26,020)	-	-	-	(26,020)	(347,393)	-	(58,687)	(394,377)	(11,703)	(321)	(112)	(443)	(157)	**(433,719)**
Net value adjustments for credit risk (+/-)	(19,478)	15	-	-	(19,462)	(9,855)	-	-	-	(9,855)	11,370	782	5,879	18,968	(937)	421	(158)	(665)	60	**(12,050)**
Contractual changes without cancellations	-	-	-	-	-	-	-	-	-	-	(59)	-	36	(6)	(16)	-	-	-	-	**(23)**
Changes in the estimation methodology	-	-	-	-	-	-	-	-	-	-	(15,866)	-	-	(33)	(15,833)	-	-	-	-	**(15,866)**
Write-offs	(5)	-	-	-	(5)	-	-	-	-	-	(6,037)	-	-	(2,854)	(3,183)	-	-	-	-	**(6,042)**
Other changes	16,760	-	-	-	16,760	(21,407)	-	-	-	(21,407)	5,057	-	19,392	(36,977)	61,425	-	-	-	-	**19,802**
Total final inventories	5,604	35	-	-	5,641	43,181	-	-	-	43,181	667,958	3,212	25,307	594,735	101,742	1,978	168	468	529	**746,462**
Recoveries due to collection on financial assets written off	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Write-offs recognised directly in the income statement	-	-	-	-	-	-	-	-	-	-	4,364	-	-	4,364	-	-	-	-	-	**4,364**

A.1.5 Financial assets, commitments to grant finance and financial guarantees given: transfers among the different credit risk stages (gross and nominal amounts)

Portfolios / risk stages	Gross amounts/nominal amount					
	Transfers between first stage and second stage		Transfers between second stage and third stage		Transfers between first stage and third stage	
	From first stage to second stage	From second stage to first stage	From second stage to third stage	From third stage to second stage	From first stage to third stage	From third stage to first stage
1. Financial assets measured at amortised cost	322,378	403,183	69,874	68,534	18,996	-
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-
4. Commitments to grant finance and financial guarantees given	36,765	46,883	1,292	-	-	-
Total 31 12 2019	**359,143**	**450,066**	**71,166**	**68,534**	**18,996**	**-**
Total 31 12 2018	**308,111**	**559,240**	**203,870**	**124,596**	**29,026**	**625**

A.1.6 On- and off-balance-sheet exposure to banks: gross and net amounts

Types of exposures/amounts	Gross exposure		Total value adjustments and total provisions	Net exposure	Total partial write-offs
	Impaired assets	Non-impaired assets			
A. On-balance-sheet exposures					
a)Bad loans	-	X	-	-	-
- of which forborne exposures	-	X	-	-	-
b) Probable defaults	-	X	-	-	-
- of which forborne exposures	-	X	-	-	-
c) Impaired past-due exposures	-	X	-	-	-
- of which forborne exposures	-	X	-	-	-
d) Non-impaired past-due exposures	X	-	-	-	-
- of which forborne exposures	X	-	-	-	-
e) Other non-impaired exposures	X	7,085,572	(584)	7,084,988	-
- of which forborne exposures	X	-	-	-	-
Total A	**-**	**7,085,572**	**(584)**	**7,084,988**	**-**
B. Off-balance sheet exposures					
a) Impaired	-	X	-	-	-
b) Non-impaired	X	2,203,820	(1)	2,203,819	-
Total B	**-**	**2,203,820**	**(1)**	**2,203,819**	**-**
Total (A+B)	**-**	**9,289,392**	**(585)**	**9,288,807**	**-**

A.1.7 On- and off-balance-sheet loan exposures to customers: gross and net amounts

Types of exposures/amounts	Gross exposure		Total value adjustments and total provisions	Net exposure	Total partial write-offs
	Impaired assets	Non-impaired assets			
A. On-balance-sheet exposures					
a)Bad loans	922,702	X	(496,599)	426,103	52,111
- of which forborne exposures	406,021	X	(183,813)	222,208	8
b) Probable defaults	726,702	X	(272,294)	454,408	36,073
- of which forborne exposures	622,531	X	(233,831)	388,700	35,901
c) Impaired past-due exposures	11,514	X	(1,385)	10,129	-
- of which forborne exposures	-	X	-	-	-
d) Non-impaired past-due exposures	X	28,574	(1,062)	27,512	-
- of which forborne exposures	X	18,014	(880)	17,135	-
e) Other non-impaired exposures	X	16,196,644	(47,177)	16,149,467	893
- of which forborne exposures	X	318,874	(21,692)	297,182	812
Total A	**1,660,918**	**16,225,218**	**(818,517)**	**17,067,619**	**89,077**
B. Off-balance sheet exposures					
a) Impaired	8,027	X	(530)	7,497	-
b) Non-impaired	X	11,137,912	(37,292)	11,100,620	-
Total B	**8,027**	**11,137,912**	**(37,822)**	**11,108,117**	**-**
Total (A+B)	**1,668,945**	**27,363,130**	**(856,339)**	**28,175,736**	**89,077**

A.1.8 On-balance-sheet loan exposures to banks: trend of gross impaired exposures

A.1.8bis On-balance-sheet loan exposures to banks: trend of gross forborne exposures broken down by credit quality

No on-balance-sheet loan exposure to banks was classified among impaired exposures in either the financial statements at 31 December 2019 or the financial statements at 31 December 2018.

A.1.9 On-balance-sheet loan exposures to customers: trend of gross impaired exposures

Reasons / Categories	Bad loans	Probable defaults	Impaired past-due exposures
A. Initial gross exposure	**1,146,170**	**1,349,128**	**7,553**
- of which: exposures sold but not derecognised	99,531	-	-
B. Increases	**72,962**	**131,934**	**11,854**
B.1 transfers from non-impaired exposures	1,467	91,213	11,614
B.2 transfers from purchased or originated impaired financial assets	-	-	-
B.3 transfers from other categories of impaired exposures	69,247	5,447	-
B.4 contractual changes without cancellations	-	106	-
B.5 other increases	2,248	35,168	240
C. Decreases	**296,430**	**754,359**	**7,893**
C.1 transfers to non-impaired exposures	-	73,777	1,426
C.2 write-offs	8,232	6,032	-
C.3 collections	36,959	102,831	933
C.4 disposals	54,619	192,819	-
C.5 losses on disposal	477	392	-
C.6 transfers to other categories of impaired exposures	1,299	67,863	5,533
C.7 contractual changes without cancellations	-	472	-
C.8 Other decreases	194,844	310,173	1
D. Gross closing balance	**922,702**	**726,703**	**11,514**
- of which: exposures sold but not derecognised	91,810	10,761	-

A.1.9 bis On-balance-sheet loan exposures to customers: trend of gross forborne exposures broken down by credit quality

Reasons / Quality	Forborne exposures: impaired	Forborne exposures: non-impaired
A. Initial gross exposure	**1,692,416**	**333,550**
- of which: exposures sold but not derecognised	99,531	-
B. Increases	**138,599**	**184,099**
B.1 transfers from non-forborne non-impaired exposures	**31,489**	**84,859**
B.2 transfers from forborne non-impaired exposures	49,266	X
B.3 transfers from impaired forborne exposures	X	72,465
B.3 transfers from non-forborne impaired exposures	12,430	9,342
B.4 other increases	**45,414**	**17,433**
C. Decreases	**790,032**	**171,418**
C.1 transfers to non-forborne non-impaired exposures	X	68,614
C.2 transfers to forborne non-impaired exposures	72,465	X
C.3 transfers to impaired forborne exposures	X	49,266
C.4 write-offs	14,263	-
C.5 collections	90,228	41,911
C.6 disposals	201,219	-
C.7 losses on disposal	740	-
C.8 other decreases	**411,117**	**11,627**
D. Gross closing balance	**1,040,983**	**346,231**
- of which: exposures sold but not derecognised	102,571	-

Note: impaired credit exposures at 31 December 2018 which during the course of 2019 were subject to forbearance measures totalled € 12,700 thousand (€ 82,798 thousand the previous year).

A.1.10 On-balance-sheet impaired loan exposures to banks: trend of total value adjustments

No on-balance-sheet loan exposure to banks was classified among impaired exposures in either the financial statements at 31 December 2019 or the financial statements at 31 December 2018.

A.1.11 On-balance-sheet loan exposures to customers: trend of total value adjustments

Reasons / Categories	Bad loans		Probable defaults		Impaired past-due exposures	
	Totals	Of which: forborne exposures	Totals	Of which: forborne exposures	Totals	Of which: forborne exposures
A. Opening balance of overall value a	**637,800**	**296,734**	**605,048**	**521,408**	**968**	**3**
- of which: exposures sold but not derecognised	62,335	62,335	-	-	-	-
B. Increases	**128,070**	**50,916**	**96,597**	**92,266**	**1,360**	**-**
B.1 value adjustments on purchased or originated impaired financial assets	-	X	-	X	-	X
B.2 other value adjustments	101,998	30,429	89,262	81,181	1,132	-
B.3 losses on disposal	477	348	392	392	-	-
B.4 transfers from other categories of impaired exposures	25,087	19,787	781	572	-	-
B.5 contractual changes without cancellations	-	X	49	X	-	X
B.6 other increases	508	352	6,113	10,121	228	-
C. Decreases	**269,270**	**163,836**	**429,350**	**379,842**	**943**	**3**
C.1 write-backs from valuation	61,860	36,228	86,761	72,764	209	-
C.2 write-backs from collection	2,544	1,147	9,426	6,979	-	-
C.3 gains on disposal	786	737	2,514	2,514	-	-
C.4 write-offs	8,232	8,231	6,032	6,032	-	-
C.5 transfers to other categories of impaired exposures	247	229	24,894	19,787	727	-
C.6 contractual changes without cancel	-	X	244	X	-	X
C.7 other decreases	195,601	117,264	299,479	271,766	7	3
D. Final total value adjustments	**496,600**	**183,814**	**272,295**	**233,832**	**1,385**	**-**
- of which: exposures sold but not derecognised	48,225	48,225	2,570	2,570	-	-

Exposure to sovereign risk

As contemplated by the international accounting standards (in particular IAS 1 and IFRS7) related to disclosures on exposures to sovereign credit risk (such as issuers of debt securities, counterparties of OTC derivative contracts, reference entities of credit derivatives and financial guarantees), details of the Bank's exposures at 31 December 2019 are provided.

Overall, exposure to sovereign credit risk, in net nominal values, amounted to € 6,552 million (€ 4,894 million at 31 December 2018) and for € 6,513 million is represented by the long net position with the Republic of Italy (€ 4,890 million at 31 December 2018) and for € 39 million by a long net position with the rest of the world (long net position of € 4 million at 31 December 2018).

The exposures indicated in the following table, including the interest accrued at the end of the year, include the short positions of the HFT portfolio. For credit derivatives the net amount (long or short) of the notional values underlying protection purchases and sales is given. The column "total exposure" shows the net total asset/liabilities, at nominal value, related to the single countries and included in the assets at the end of every year. Any derivative contracts listed on regulated markets are excluded since the economic effects of these are directly posted as an offsetting entry in the cash and cash equivalents, as a result of the settlement of the changes in the margins on a daily basis.

COUNTRY	DEBT SECURITIES							LOANS			CREDIT DERIVATIVES	31/12/2019
	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	TOTAL
	Nominal	Market value = book value	Nominal	Market value = book value	Nominal	Market value	Carrying amount	Nominal	Market value	Carrying amount	Nominal	Nominal
Argentina	254	-	-	-	-	-	-	-	-	-	-	254
Austria	91	92	-	-	-	-	-	-	-	-	-	91
Bosnia	9	1	-	-	-	-	-	-	-	-	-	9
France	30	36	-	-	-	-	-	-	-	-	2,670	2,700
Germany	148	174	-	-	-	-	-	-	-	-	-	148
Greece	5	6	-	-	-	-	-	-	-	-	-	5
Italy	3,360,754	3,255,413	-	-	-	-	-	27,810	27,810	27,810	3,124,640	6,513,203
United Kingdom	2	2	-	-	-	-	-	-	-	-	-	2
Spain	38,739	46,683	-	-	-	-	-	-	-	-	(2,848)	35,891
United States	5	6	-	-	-	-	-	-	-	-	-	5
Turkey	1	1	-	-	-	-	-	-	-	-	-	1
Other countries	68	76	-	-	-	-	-	-	-	-	-	68
Total 31 12 2019	**3,400,106**	**3,302,490**	**-**	**-**	**-**	**-**	**-**	**27,810**	**27,810**	**27,810**	**3,124,462**	**6,552,377**
Total 31 12 2018	**2,664,891**	**2,653,606**	**-**	**-**	**-**	**-**	**-**	**29,254**	**29,254**	**29,254**	**2,200,278**	**4,894,423**

Other information

Credit derivatives in Italy	31 12 2019	31 12 2018
Protection purchases		
Nominal	138,902	138,733
Positive fair value	1,200	7,196
Negative fair value	(82)	32
Protection sales		
Nominal	3,263,542	2,339,212
Positive fair value	-	-
Negative fair value	118,502	49,458

A.2 Classification of financial assets, commitments to grant finance and financial guarantees given on the basis of external and internal ratings

A.2.1 Breakdown of financial assets, commitments to grant finance and financial guarantees given: by external rating classes (gross amounts)

Non-impaired	External rating classes						Unrated	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Financial assets measured at amortised cost	**-**	**570,217**	**436,109**	**11**	**6,703,549**	**-**	**9,884,546**	**17,594,432**
- first stage	-	558,182	170,780	11	5,285,858	-	8,392,438	14,407,269
- second stage	-	12,035	265,329	-	1,417,691	-	-	1,695,055
- third stage	-	-	-	-	-	-	1,492,108	1,492,108
B. Financial assets measured at fair value through other comprehensive income	**64,063**	**-**	**8,915**	**10,996**	**-**	**4,041**	**-**	**88,015**
- first stage	64,063	-	8,915	10,996	-	-	-	83,974
- second stage	-	-	-	-	-	-	-	-
- third stage	-	-	-	-	-	4,041	-	4,041
C. Financial assets held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**42,038**	**42,038**
- first stage	-	-	-	-	-	-	-	-
- second stage	-	-	-	-	-	-	-	-
- third stage	-	-	-	-	-	-	42,038	42,038
Total (A+B+C)	**64,063**	**570,217**	**445,024**	**11,007**	**6,703,549**	**4,041**	**9,926,584**	**17,724,485**
- of which: purchased or originated impaired financial assets	-	-	-	-	-	-	2,707	2,707
D. Commitments to grant finance and financial guarantees given	**-**	**-**	**-**	**-**	**38,351**	**-**	**4,528,821**	**4,567,172**
- first stage	-	-	-	-	38,351	-	4,362,957	4,401,308
- second stage	-	-	-	-	-	-	157,837	157,837
- third stage	-	-	-	-	-	-	8,027	8,027
Total (A+B+C+D)	**64,063**	**570,217**	**445,024**	**11,007**	**6,741,900**	**4,041**	**14,455,405**	**22,291,657**

Note: 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 classes adopted to complete the table are those used by Standard & Poor's. In the presence of multiple assigned external ratings, the criteria adopted to select the rating are those prescribed by the Bank of Italy (in the presence of two ratings, the worse one is used, in the presence of three or more assigned ratings, the second-best is selected). To assure that the information is significant, internal transcoding tables were used to convert the classification provided by the different rating companies to the one adopted by Standard & Poor's.

A.2.2 Breakdown of financial assets, commitments to grant finance and financial guarantees given: by internal rating classes (gross amounts)

Non-impaired	Internal rating classes								Total
	High quality	Good quality	Sufficient quality	Mediocre quality	Weak quality	Default	Group administrative default	Unrated	
A. Financial assets measured at amortised cost	**232,208**	**973,683**	**1,781,842**	**807,895**	**33,015**	**1,493,668**	**22,436**	**12,249,684**	**17,594,431**
- first stage	232,208	671,365	1,431,929	309,974	-	-	-	11,761,792	14,407,268
- second stage	-	302,318	349,913	497,881	33,015	1,600	22,436	487,892	1,695,055
- third stage	-	-	-	40	-	1,492,068	-	-	1,492,108
B. Financial assets measured at fair value through other comprehensive income	**64,063**	**8,915**	**10,996**	**-**	**-**	**4,041**	**-**	**-**	**88,015**
- first stage	64,063	8,915	10,996	-	-	-	-	-	83,974
- second stage	-	-	-	-	-	-	-	-	-
- third stage	-	-	-	-	-	4,041	-	-	4,041
C. Financial assets held for sale	**-**	**-**	**-**	**-**	**-**	**42,038**	**-**	**-**	**42,038**
- first stage	-	-	-	-	-	-	-	-	-
- second stage	-	-	-	-	-	-	-	-	-
- third stage	-	-	-	-	-	42,038	-	-	42,038
Total (A+B+C)	**296,271**	**982,598**	**1,792,838**	**807,895**	**33,015**	**1,539,747**	**22,436**	**12,249,684**	**17,724,484**
- of which: purchased or originated impaired financial assets	-	-	-	-	-	2,707	-	-	2,707
D. Commitments to grant finance and financial guarantees given	**33,083**	**211,784**	**186,153**	**30,047**	**-**	**8,027**	**-**	**4,098,079**	**4,567,173**
- first stage	33,083	188,105	131,099	18,401	-	-	-	4,030,620	4,401,308
- second stage	-	23,679	55,054	11,646	-	-	-	67,459	157,838
- third stage	-	-	-	-	-	8,027	-	-	8,027
Total (A+B+C+D)	**329,354**	**1,194,382**	**1,978,991**	**837,942**	**33,015**	**1,547,774**	**22,436**	**16,347,763**	**22,291,657**

Note: High Quality (Master Scale classes AAA, A1) Good Quality (Master Scale classes A2, A3, B1) Sufficient Quality (Master Scale classes B2, B3, C1, C2) Mediocre Quality (Master Scale classes C3, D1, D2, D3) Weak Quality (Master Scale classes E1, E2, E3).

The table describes the breakdown of the Bank's customer by risk classes attributed according to the rating assigned by internal models. For this purpose, only exposures (counterparties) whose internal rating is periodically determined without any transcoding from official rating to internal rating concerning instead sectors such as "banks", "non-banking financial institutions" and "Governments and Government Agencies". Based on this caveat, therefore, the positions referred to these latter segments - while provided with official ratings - were also indicated as "unrated" in the internal rating models.

A.3 Distribution of guaranteed loan exposures by type of guarantee

A.3.1 Guaranteed on- and off-balance-sheet loan exposures to banks

	Gross exposure	Net exposure	Secured guarantees: Real estate - mortgages	Secured guarantees: Real estate - financing for leasing	Secured guarantees: Securities	Secured guarantees: Other secured guarantees	Unsecured guarantees – Credit derivatives: CLN	Credit derivatives – Other derivatives: Central counterparties	Credit derivatives – Other derivatives: Banks	Credit derivatives – Other derivatives: Other financial companies	Credit derivatives – Other derivatives: Others	Endorsement credits: Public administrations	Endorsement credits: Banks	Endorsement credits: Other financial companies	Endorsement credits: Others	Total secured and unsecured guarantees
1. Guaranteed on-balance-sheet loan exposures:	**2,678,855**	**2,678,532**	**-**	**-**	**2,595,908**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,595,908**
1.1 fully secured	2,678,855	2,678,532	-	-	2,595,908	-	-	-	-	-	-	-	-	-	-	**2,595,908**
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
1.2 partially secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
2. Guaranteed "off-balance-sheet" loan exposures:	**373,782**	**373,782**	**-**	**-**	**12,195**	**345,214**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**357,409**
2.1 fully secured	192,030	192,030	-	-	12,195	179,834	-	-	-	-	-	-	-	-	-	**192,029**
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
2.2 partially secured	181,752	181,752	-	-	-	165,380	-	-	-	-	-	-	-	-	-	**165,380**
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**

Cash exposures guaranteed by securities are mainly represented by repurchase agreements. "Real guarantees" supporting off-balance sheet exposures, represented by cash collateral or securities, cover net counterparty risk determined on the basis of netting agreements defined in ISDA contracts. These guarantees are shown at fair value estimated at the reporting date, or when this information is lacking, at the contractual value of the same.

A.3.2 Guaranteed on- and off-balance-sheet loan exposure to customers

			Secured guarantees				Unsecured guarantees									
							Credit derivatives					Endorsement credits				
								Other derivatives								
	Gross exposure	Net exposure	Real estate - mortgages	Real estate - financing for leasing	Securities	Other secured guarantees	CLN	Central counterparties	Banks	Other financial companies	Others	Public administrations	Banks	Other financial companies	Others	Total secured and unsecured guarantees
1. Guaranteed on-balance-sheet loan exposures:	**9,176,465**	**8,431,915**	**2,568,123**	**-**	**4,655,671**	**406,764**	**-**	**-**	**-**	**-**	**-**	**6,513**	**1,224**	**13,477**	**145,191**	**7,796,963**
1.1 fully secured	7,924,370	7,457,326	2,413,736	-	4,602,609	309,871	-	-	-	-	-	6,478	934	1,839	98,110	7,433,577
- of which impaired	1,147,785	714,200	659,669	-	13,052	11,812	-	-	-	-	-	-	495	1,525	27,646	714,199
1.2 partially secured	1,252,095	974,589	154,387	-	53,062	96,893	-	-	-	-	-	35	290	11,638	47,081	363,386
- of which impaired	420,786	151,825	108,353	-	2,479	4,989	-	-	-	-	-	-	62	1,868	1,767	119,518
2. Guaranteed "off-balance-sheet" loan exposures:	**5,062,244**	**5,061,935**	**99,406**	**-**	**3,837,833**	**1,033,828**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,923**	**41,566**	**5,014,556**
2.1 fully secured	4,957,020	4,956,796	93,799	-	3,836,550	990,174	-	-	-	-	-	-	-	-	22,168	4,942,691
- of which impaired	7,231	7,231	2,729	-	-	-	-	-	-	-	-	-	-	-	4,502	7,231
2.2 partially secured	105,224	105,139	5,607	-	1,283	43,654	-	-	-	-	-	-	-	1,923	19,398	282,228
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Cash exposures guaranteed by securities are mainly represented by repurchase agreements. "Real guarantees" supporting off-balance sheet exposures, represented by cash collateral or securities, cover net counterparty risk determined on the basis of netting agreements defined in ISDA contracts. These guarantees are shown at fair value estimated at the reporting date, or when this information is lacking, at the contractual value of the same.

A.4 Financial and non-financial assets obtained through enforcement of guarantees received

	Loan exposure written off	Gross value	Total value adjustments	Carrying amount	
					of which obtained during the year
A. Property, plant and equipment	**750**	**750**	**-**	**750**	**-**
A.1. For use in business	-	-	-	-	-
A.2. For investment purposes	-	-	-	-	-
A.3. Inventories	750	750	-	750	-
B. Equity securities and debt securities	-	-	-	-	-
C. Other assets	**-**	**-**	**-**	**-**	**-**
D. Non-current assets and disposal groups held for sale	**-**	**-**	**-**	**-**	**-**
D.1. Property, plant and equipment	-	-	-	-	-
D.2. Other assets	-	-	-	-	-
Total 31 12 2019	**750**	**750**	**-**	**750**	**-**
Total 31 12 2018	**750**	**750**	**-**	**750**	**750**

B. Distribution and concentration of loan exposures

B.1 Sectoral distribution of on- and off-balance-sheet loan exposures to customers

Exposures/counterparties	Public administrations		Financial companies		Financial companies: of which insurance companies		Non-financial companies		Households	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. On-balance-sheet loan exposures										
A.1 Bad loans	-	-	2,953	(4,347)	-	-	328,198	(430,198)	94,951	(62,054)
- of which: forborne exposures	-	-	2,088	(3,770)	-	-	187,767	(168,760)	32,354	(11,283)
A.2 Probable defaults	-	-	17,106	(22,680)	-	-	390,959	(236,319)	46,344	(13,295)
- of which: forborne exposures	-	-	17,097	(22,654)	-	-	334,196	(201,221)	37,408	(9,956)
A.3 Impaired past-due exposures	-	-	2,722	(477)	-	-	5,861	(792)	1,545	(116)
- of which: forborne exposures	-	-	-	-	-	-	-	-	-	-
A.4 Non-impaired exposures	5,769,868	(28)	6,127,753	(1,718)	4,888	-	4,075,394	(44,751)	203,964	(1,743)
- of which: forborne exposures	665	(4)	4,072	(219)	-	-	288,959	(21,409)	20,621	(938)
Total A	**5,769,868**	**(28)**	**6,150,534**	**(29,222)**	**4,888**	**-**	**4,800,412**	**(712,060)**	**346,804**	**(77,208)**
B. Off-balance-sheet loan exposures										
B.1 Impaired exposures	-	-	1,292	-	-	-	6,014	(530)	191	-
B.2 Non-impaired exposures	5,297,559	-	5,002,515	(1,093)	-	-	800,451	(35,490)	96	(709)
Total B	**5,297,559**	**-**	**5,003,807**	**(1,093)**	**-**	**-**	**806,465**	**(36,020)**	**287**	**(709)**
Total (A+ B) 31 12 2019	**11,067,427**	**(28)**	**11,154,341**	**(30,315)**	**4,888**	**-**	**5,606,877**	**(748,080)**	**347,091**	**(77,917)**
Total (A+ B) 31 12 2018	**9,178,321**	**(35)**	**12,238,113**	**(76,185)**	**6,708**	**-**	**5,677,190**	**(1,171,536)**	**412,032**	**(149,069)**

The data relative to "Loan exposures - off-balance-sheet" may differ from the quantitative information indicated in table A.1.7 above "On- and off-balance-sheet loan exposures to customers: gross and net amounts" for the total of exposures connected with the counterparty risk related to operations for the lending or borrowing of securities or goods.

B.2 Geographical distribution of on- and "off-balance sheet" loan exposures to customers

Exposures/Geographic areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICAS		ASIA		REST OF WORLD	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. On-balance-sheet exposures										
A.1 Bad loans	426,037	(496,456)	65	(143)	-	-	-	-	-	-
A.2 Probable defaults	442,739	(271,660)	11,669	(634)	-	-	-	-	-	-
A.3 Impaired past-due exposures	10,129	(1,385)	-	-	-	-	-	-	-	-
A.4 Non-impaired exposures	15,571,210	(48,151)	577,061	(88)	28,707	-	-	-	-	-
Total A	**16,450,115**	**(817,652)**	**588,795**	**(865)**	**28,707**	**-**	**-**	**-**	**-**	**-**
B. Off-balance sheet exposures										
B.1 Impaired exposures	7,497	(530)	-	-	-	-	-	-	-	-
B.2 Non-impaired exposures	9,916,830	(37,023)	1,176,025	(269)	7,765	-	-	-	-	-
Total B	**9,924,327**	**(37,553)**	**1,176,025**	**(269)**	**7,765**	**-**	**-**	**-**	**-**	**-**
Total (A+ B) 31 12 2019	**26,374,442**	**(855,205)**	**1,764,820**	**(1,134)**	**36,472**	**-**	**-**	**-**	**-**	**-**
Total (A+ B) 31 12 2018	**25,443,080**	**(1,382,429)**	**2,011,991**	**(14,399)**	**48,562**	**-**	**2,024**	**-**		

The data relative to "Loan exposures - off-balance-sheet" may differ from the quantitative information indicated in table A.1.7 above "On- and off-balance-sheet loan exposures to customers: gross and net amounts" for the total of exposures connected with the counterparty risk related to operations for the lending or borrowing of securities or goods.

B.3 Geographical distribution of on- and "off-balance-sheet" loan exposures to banks

Exposures/Geographic areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICAS		ASIA		REST OF WORLD	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. On-balance-sheet loan exposures										
A.1 Bad loans	-	-	-	-	-	-	-	-	-	-
A.2 Probable defaults	-	-	-	-	-	-	-	-	-	-
A.3 Impaired past-due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Non-impaired exposures	6,474,587	(579)	536,745	(3)	21,174	-	-	-	52,482	(2)
Total A	**6,474,587**	**(579)**	**536,745**	**(3)**	**21,174**	**-**	**-**	**-**	**52,482**	**(2)**
B. Off-balance-sheet loan exposures										
B.1 Impaired exposures	-	-	-	-	-	-	-	-	-	-
B.2 Non-impaired exposures	1,668,949	(1)	337,264	-	197,606	-	-	-	-	-
Total B	**1,668,949**	**(1)**	**337,264**	**-**	**197,606**	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31 12 2019	**8,143,536**	**(580)**	**874,009**	**(3)**	**218,780**	**-**	**-**	**-**	**52,482**	**(2)**
Total (A+B) 31 12 2018	**7,580,817**	**(622)**	**566,985**	**(8)**	**212,239**	**-**	**-**	**-**	**50,554**	**(2)**

The data relative to "Loan exposures - off-balance-sheet" may differ from the quantitative information indicated in table A.1.6 above "On- and off-balance-sheet loan exposures to customers: gross and net amounts" for the total of exposures connected with the counterparty risk related to operations for the lending or borrowing of securities or goods.

B. Distribution and concentration of loan exposures

B.4 Significant exposures

Items/Balances	31 12 2019	31 12 2018
a) Amount (carrying amount)	45,986,148	41,997,036
b) Amount (weighted value)	982,868	1,024,954
c) Number	-	-

The Supervisory Regulations define a position as a "large exposure" on the basis of the unweighted exposure for credit risk. A position is considered a "large exposure" if of an amount equal to or greater than 10% of the regulatory capital.
As provided for in the aforementioned regulations, exposures in Government Securities were also considered.
No positions exceed the risk concentration limit.

C. Securitisation transactions

Qualitative information

The Bank acts as investor as well as market maker. The internal organisational structure which oversees these operations is the Credit Trading Desk. Its main objective involves providing liquidity and pricing for the transactions carried out by the MPS Group and support, again in terms of pricing, both to the Parent Company and to customers that have invested in the securitisations. For such purposes, ongoing and structured analysis is used on the underlying flows of these transactions principally attributable to residential mortgage loans, commercial loans and consumer loans.

For deals originating outside the MPS Group, the Desk's activity is oriented to seizing the various opportunities that the market offers, in order to maximise the income returns of the portfolios as an investor in this segment also and mainly in the light of the operations carried out by the Central Bank following approval of the purchase programme on this Asset Class. The process for assessing and measuring the risks connected to the positions temporarily held is centralised at the Risk Management Area of the Parent Company MPS within the scope of market risk measurement. Activities for controlling and mitigating risks are mainly carried out via the study and daily analysis of the underlying flows, all by the use of advanced models.

During 2019, operations were carried out via trading on the secondary market.

The amount held in the trading book (item 20a of the Assets "Financial assets held for trading") was € 410 million (€ 374 million at 31 December 2018), of which around 58% allocated to the senior part of the capital structure. Senior securities are also present in the portfolio at amortised cost (for € 484 million), as well as mezzanine and junior securities in the portfolio at obligatory FV (for a total of € 14.6 million), recognised following the derecognition of bad loans carried out in June 2018 as part of the securitisation transaction involving the Group's bad loans. The exposure classified under "Financial assets through other comprehensive income" for € 8.9 million is correlated to a senior security.

The Bank holds only on-balance-sheet exposures and has not issued either guarantees or credit lines to securitisation vehicles.

Quantitative information

C.1 Exposures deriving from the main "own" securitisation transactions divided by type of asset securitised and type of exposure

Type of securitised assets/Exposure	On-balance-sheet exposure					
	Senior		Mezzanine		Junior	
	Carrying amount	Write-downs/write-backs	Carrying amount	Write-downs/write-backs	Carrying amount	Write-downs/write-backs
A. Completely derecognised	**74,670**	**13**	**1,458**	**45**	**796**	**(405)**
Non-performing loans	74,670	13	1,458	45	796	(405)
B. Partially derecognised	**-**	**-**	**-**	**-**	**-**	**-**
C. Not derecognised	**-**	**-**	**4,997**	**1,139**	**4,998**	**549**
Mortgage loans	-	-	3,014	1,096	1,289	469
Residential mortgage loans	-	-	-	-	-	-
ship finance	-	-	1,983	43	3,709	80
Total 31 12 2019	**74,670**	**13**	**6,455**	**1,184**	**5,794**	**144**

Note: there are no exposures serving as guarantees issued nor credit lines.

C.2 Exposures deriving from the main "third party" securitisation transactions divided by type of asset securitised and type of exposure

Type of underlying assets/Exposure	On-balance-sheet exposures					
	Senior		Mezzanine		Junior	
	Carrying amount	Write-downs/write-backs	Carrying amount	Write-downs/write-backs	Carrying amount	Write-downs/write-backs
Other assets	10,049	65	-	-	-	-
Bonds	-	-	-	-	-	-
Receivables	-	-	-	-	-	-
Consumer credit	68,801	(156)	37,334	(425)	30,867	(379)
Non-performing loans	457,236	(518)	9,243	258	4,357	(2,217)
Ship finance	-	-	7,202	155	13,474	291
Mortgage loans	-	-	7,219	2,625	3,087	1,123
Residential mortgage loans	90,117	(44)	60,864	(131)	9,882	(11)
Non-residential mortgage loans	29,351	(89)	26,378	(389)	5,936	(169)
Total 31 12 2019	**655,554**	**(742)**	**148,240**	**2,093**	**67,603**	**(1,362)**

Note: the table shows the exposures taken on the Bank with reference to each third party securitisation transaction, showing also the contractual technical forms associated with the assets disposed of. The value adjustments column shows any flows during the year in write-downs/write-backs as well as an impairment and revaluations recognised in the income statement, or directly to a shareholders' equity reserve in the case of securities in the portfolio of "Financial assets at fair value through other comprehensive income". There are no exposures serving as guarantees issued nor credit lines.

C.3 Special purpose vehicle for securitisation

Name of securitisation/special purpose vehicle	Registered office	Consolidation	Assets			Liabilities		
			Receivables	Debt securities	Other	Senior	Mezzanine	Junior
2017 Popolare Bari RMBS S.r.l.	Via V.Alfieri, 1 Conegliano (TV)	NO	536,137	-	13,605	376,138	58,264	92,516
A-Best Fifteen S.r.l.	Via V.Alfieri, 1 Conegliano (TV)	NO	738,584	-	49,000	650,954	73,000	31,000
Argo Mortgage 2 S.r.l.	Via Cassa di Risparmio, 15 Genoa	NO	43,323	-	-	-	14,055	29,350
Arrow CMBS 2018 - 1	3 George's Dock IFSC Dublin 1	NO	292,700	-	149	154,800	137,900	20
AutoFlorence 1 S.r.l.	Via V.Alfieri, 1 Conegliano (TV)	NO	949,972	-	-	807,500	109,250	33,250
Autonoria 2019	1 Boulevard Haussmann, 75009 Paris	NO	949,985	-	-	674,500	228,000	47,500
Belvedere SPV	Via Vittorio Betteloni 2, Milano	NO	1,076,714	-	12,800	290,104	70,000	95,000
Berica ABS 3 S.r.l.	Via Battaglione Framarin, 18 Vicenza	NO	448,995	-	9,293	171,316	93,900	115,012
BP Mortgages S.r.l.	Via Gustavo Fara 26, 20100 Milano	NO	133,005	-	17,373	27,586	25,300	47,100
Brignole CO 2019-1 S.r.l.	Canada Square, Canary Wharf London, E14 5LB	NO	311,130	-	6,404	278,100	42,100	11,020
Brignole CQ 2019-1 S.r.l.	Canada Square, Canary Wharf London, E14 5LB	NO	167,918	-	1,726	139,600	31,000	6,820
Cartesian Residential Mortgages 4 S.A.	6, Rue Eugène Ruppert, L-2453 Luxembourg	NO	377,036	-	7,718	343,034	34,200	8,100
Civitas SPV S.r.l.	Via Senatore Guglielmo Pelizzo 8-1, 33043 Cividale del Friuli	NO	291,433	-	16,945	132,254	-	122,300
Deco 2015-Harp Limited Dac	George's Quay Dublin 2	NO	38,052	-	-	-	19,801	18,256
Deco 2019 - Vivaldi S.r.l.	Via Vittorio Betteloni 2, Milano	NO	222,230	-	-	122,000	81,000	19
Delft 2019 B.V.	Prins Bernhardplein 200 Amsterdam, 1097 JB	NO	134,440	-	1,939	96,930	34,700	2,800
Dilosk RMBS 1 Dac	16 Hume Street Dublin 2	NO	108,589	-	1,029	63,218	35,000	10,300
E-Carat 10	1 Boulevard Haussmann, 75009 Paris	NO	900,000	-	-	806,400	84,600	53,144
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	166,554	-	928	51,409	41,948	95,478
Fastnet Securities 12 Dac	3 George's Dock IFSC Dublin 1	NO	336,222	-	6,193	239,565	52,000	62,200
F-E Mortgages S.r.l.	Piazzetta Monte, 1 Verona	NO	89,108	-	-	-	57,075	7,630
Fino 1 Securitisation S.r.l.	Viale Luigi Majno, 45 Milano	NO	657,520	-	113,128	545,019	69,640	50,311
First Swiss Mobility 2017 2 Ag	c/o FRORIEP Legal AG, Bellerivestras. 201, CH 8008	NO	304,035	-	-	246,269	15,202	13,636
Grand Canal Securities 2 Dac	Kilmore House, Park Lane Dublin 1	NO	434,622	-	4,893	160,803	67,809	218,839
Heliconus S.r.l.	Piazzetta Monte, 1 Verona	NO	45,689	-	-	-	35,906	-

InterMoney Titulizacion, SGTF, S.A.	C/Principe de Vergara, 131 planta 3°- 28002 Madrid	NO	232,340	-	13,510	150,000	-	31,000
Jepson Residential 2019 - 1 DAC	125 Old Broad Street, London EC2N 1AR	NO	596,166	-	6,593	325,285	217,500	65,185
Lanterna Finance (2015) S.r.l.	Via Cassa di Risparmio, 15 Genoa	NO	269,604	-	14,641	223,120	-	-
Madeleine SPV S.r.l.	Via V.Alfieri, 1 Conegliano (TV)	NO	16,206	-	2,793	-	2,303	17,522
Mars 2006 S.r.l.	Via V.Alfieri, 1 Conegliano (TV)	NO	157,775	-	4,200	72,719	-	67,000
Miravet S.à.r.l.	Rue Eugène Ruppert 6, L-2453 Luxembourg	NO	349,810	-	8,440	241,150	64,885	52,506
Mulcair Securities Designated Activity Company	28 Fitzwilliam Place, Dublin 2, D02 P282, Ireland	NO	352,286	-	-	210,803	98,100	41,500
Norma Spv S.r.l.	Via V.Alfieri, 1 Conegliano (TV)	NO	417,242	-	240	8,801	167,217	241,465
Pepper Iberia Unsecured 2019 DAC	1-2 Victoria Building, Haddington Road, Dublin 4,	NO	203,429	-	11,010	166,900	42,500	14,000
Pietra Nera Uno S.r.l.	Via V.Alfieri, 1 Conegliano (TV)	NO	403,810	-	-	209,537	173,218	20,165
Quarzo S.r.l. 2019	Galleria del Corso,2, 20122 Milano	NO	899,931	-	3,915	783,000		117,000
Sabadell Consumo 1 Fondo de Titulizacion	C/Lagasca 120, 28006 Madrid	NO	878,044	-	118,577	798,791	119,113	71,320
Sestante Finance 1 S.r.l.	Via G. Negri, 10 Milan	NO	93,829	-	-	41,877	40,080	20,997
Sestante Finance 2 S.r.l.	Via G. Negri, 10 Milan	NO	164,788	-	-	70,049	52,366	6,250
Sharmrock Residential 2019 - 1 DAC	125 Old Broad Street, London EC2N 1AR	NO	326,123	-	3,755	186,412	119,700	28,610
Siena Mortagages 10-7 S.r.l.	Via V.Alfieri, 1 Conegliano (TV)	YES	1,484,985	-	178,457	648,995	817,600	69,193
Siena Npl 2018 S.r.l.	Via Piemonte, 38 Rome	NO	3,098,657	-	-	2,290,364	856,971	565,000
Storm 2016-I B.V.	Prins Bernhardplein 200 Amsterdam, 1097 JB	NO	1,287,627	-	24,635	1,192,627	95,000	-
Sunrise SPV Z80 S.r.l.	Via Vittorio Betteloni 2, Milano	NO	1,146,224	-	5,709	793,000	298,100	66,000
Tagus Sociedade de Titularizacao de Creditos S.A.	Rua Castilho, 20 Lisbon	NO	564,297	-	4,838	495,219	150	5,000
Taurus 2015-1 IT S.r.l.	Via V.Alfieri, 1 Conegliano (TV)	NO	115,000	-	7,247	78,574	30,676	-
Taurus 2018-1 IT S.r.l.	Via V.Alfieri, 1 Conegliano (TV)	NO	336,661	-	-	221,020	115,672	-
Titulisation de Activos	Orense 58, 5° Planta, 28020 Madrid	NO	33,977	-	-	11,525	21,200	-
Towers CQ S.r.l.	Canada Square, Canary Wharf London, E14 5LB	NO	265,439	-	10,121	94,954	87,100	110,340
Total			**23,894,777**	**-**	**694,629**	**15,888,482**	**5,033,680**	**2,933,240**

Note: the liabilities for third party securitisation do not show the remaining items for financial instruments issued, including the accumulated profits (losses) for the year.

With reference to securitisations subject to consolidation, note that Siena Mortgages 10-7 S.r.l. is a securitisation transaction carried out in 2010. The transaction took the form of the sale by BMPS to the vehicle of a portfolio of performing residential mortgage loans for approximately € 3.5 billion. The parent company did not derecognise the underlying receivables, because it maintained substantially all the risks and benefits associated with ownership of the receivables transferred.

C.4 Special purpose vehicles for securitisation (non-consolidated)

C.4 Special purpose vehicles for securitisation (non-consolidated)

31 12 2019

Accounting items / Type of structured entity	Asset accounting portfolios				Total assets (A)	Liability accounting portfolios	Total liabilities (B)	Net book value (C=A-B)	Maximum exposure to risk of loss (D)	Difference between exposure to risk of loss and book value (E=D-C)
	Financial assets held for trading	Financial assets obligatorily measured at fair value	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income		Financial liabilities held for trading				
2017 Popolare Bari RMBS S.r.l.	24,922,086	-	-	-	24,922,086	-	-	24,922,086	24,922,086	-
A-Best Fifteen S.r.l.	3,812,759	-	-	-	3,812,759	-	-	3,812,759	3,812,759	-
Argo Mortgage 2 S.r.l.	9,934,492	-	-	-	9,934,492	-	-	9,934,492	9,934,492	-
Arrow CMBS 2018 - 1	13,953,344	-	-	-	13,953,344	-	-	13,953,344	13,953,344	-
AutoFlorence 1 S.r.l.	7,000,377	-	-	-	7,000,377	-	-	7,000,377	7,000,377	-
Autonoria 2019	25,612,614	-	-	-	25,612,614	-	-	25,612,614	25,612,614	-
Belvedere SPV	22,245,052	-	-	8,898,021	31,143,073	-	-	31,143,073	31,143,073	-
Berica ABS 3 S.r.l.	9,180,000	-	-	-	9,180,000	-	-	9,180,000	9,180,000	-
BP Mortgages S.r.l.	6,370,898	-	-	-	6,370,898	-	-	6,370,898	6,370,898	-
Brignole CO 2019-1 S.r.l.	8,000,682	-	-	-	8,000,682	-	-	8,000,682	8,000,682	-
Brignole CQ 2019-1 S.r.l.	8,400,000	-	-	-	8,400,000	-	-	8,400,000	8,400,000	-
Cartesian Residential Mortgages 4 S.A.	8,195,448	-	-	-	8,195,448	-	-	8,195,448	8,195,448	-
Civitas SPV S.r.l.	349,070	-	-	-	349,070	-	-	349,070	349,070	-
Deco 2015-Harp Limited Dac	5,830,502	-	-	-	5,830,502	-	-	5,830,502	5,830,502	-
Deco 2019 - Vivaldi S.r.l.	15,742,196	-	-	-	15,742,196	-	-	15,742,196	15,742,196	-
Delft 2019 B.V.	4,791,401	-	-	-	4,791,401	-	-	4,791,401	4,791,401	-
Dilosk RMBS 1 Dac	2,008,260	-	-	-	2,008,260	-	-	2,008,260	2,008,260	-
E-Carat 10	20,023,750	-	-	-	20,023,750	-	-	20,023,750	20,023,750	-
European Residential Loan Securisation 2019 - NPL1 DAC	10,177,594	-	-	-	10,177,594	-	-	10,177,594	10,177,594	-
European Residential Loan Securitisation 2018 - 1 Dac	1,167,731	-	-	-	1,167,731	-	-	1,167,731	1,167,731	-

Fastnet Securities 12 Dac	3,617,020	-	-	-	3,617,020	-	-	3,617,020	3,617,020	-
F-E Mortgages S.r.l.	2,128,282	-	-	-	2,128,282	-	-	2,128,282	2,128,282	-
Fino 1 Securitisation S.r.l.	13,152,217	-	-	-	13,152,217	-	-	13,152,217	13,152,217	-
First Swiss Mobility 2017 2 Ag	1,660,514	-	-	-	1,660,514	-	-	1,660,514	1,660,514	-
Grand Canal Securities 2 Dac	1,264,717	-	-	-	1,264,717	-	-	1,264,717	1,264,717	-
Heliconus S.r.l.	9,236,336	-	-	-	9,236,336	-	-	9,236,336	9,236,336	-
InterMoney Titulizacion, SGTF, S.A.	5,000,039	-	-	-	5,000,039	-	-	5,000,039	5,000,039	-
Jepson Residential 2019 - 1 DAC	6,931,091	-	-	-	6,931,091	-	-	6,931,091	6,931,091	-
Lanterna Finance (2015) S.r.l.	10,049,304	-	-	-	10,049,304	-	-	10,049,304	10,049,304	-
Madeleine SPV S.r.l.	909,821	-	-	-	909,821	-	-	909,821	909,821	-
Mars 2006 S.r.l.	152,504	-	-	-	152,504	-	-	152,504	152,504	-
Miravet S.à.r.l.	4,443,147	-	-	-	4,443,147	-	-	4,443,147	4,443,147	-
Mulcair Securities Designated Activity Company	7,842,378	-	-	-	7,842,378	-	-	7,842,378	7,842,378	-
Norma Spv S.r.l.		43,584,979		-	43,584,979	-	2,607,794	40,977,185	40,977,185	-
Pepper Iberia Unsecured 2019 DAC	3,000,398	-	-	-	3,000,398	-	-	3,000,398	3,000,398	-
Pietra Nera Uno S.r.l.	24,185,079	-	-	-	24,185,079	-	-	24,185,079	24,185,079	-
Quarzo S.r.l. 2019	2,006,000	-	-	-	2,006,000	-	-	2,006,000	2,006,000	-
Sabadell Consumo 1 Fondo de Titulizacion	3,195,353	-	-	-	3,195,353	-	-	3,195,353	3,195,353	-
Sestante Finance 1 S.r.l.	5,128,184	-	-	-	5,128,184	-	-	5,128,184	5,128,184	-
Sestante Finance 2 S.r.l.	114,279	-	-	-	114,279	-	-	114,279	114,279	-
Sharmrock Residential 2019 - 1 DAC	29,029,128	-	-	-	29,029,128	-	-	29,029,128	29,029,128	-
Siena Npl 2018 S.r.l.	-	14,588,998	483,576,587	-	498,165,586	-	-	498,165,586	498,165,586	-
Storm 2016-I B.V.	4,489,537	-	-	-	4,489,537	-	-	4,489,537	4,489,537	-
Sunrise SPV Z80 S.r.l.	1,003,601	-	-	-	1,003,601	-	-	1,003,601	1,003,601	-
Tagus Sociedade de Titularizacao de Creditos S.A.	2,772,475	-	-	-	2,772,475	-	-	2,772,475	2,772,475	-
Taurus 2015-1 IT S.r.l.	228,585	-	-	-	228,585	-	-	228,585	228,585	-
Taurus 2018-1 IT S.r.l.	1,725,036	-	-	-	1,725,036	-	-	1,725,036	1,725,036	-
Titulisation de Activos	1,191,067	-	-	-	1,191,067	-	-	1,191,067	1,191,067	-
Towers CQ S.r.l.	44,603,766	-	-	-	44,603,766	-	-	44,603,766	44,603,766	-
Total	**396,778,113**	**58,173,977**	**483,576,587**	**8,898,021**	**947,426,698**	**-**	**2,607,794**	**944,818,904**	**944,818,904**	**-**

Note:
2017 Popolare Bari RMBS S.r.l. (POPBA 2017-TV 17/58): vehicle set up pursuant to Italian Law 130/1999. Securitisation having as collateral residential mortgage loans backed by first mortgages, concentrated mainly in the Apulia region. Originator: Banca Popolare di Bari S.p.A.
A-Best Fifteen S.r.l. (ABEST15 TV 17/18 SUB): vehicle set up pursuant to Italian Law 130/1999. Securitisation having as collateral loans for the purchase of motor vehicles originated in Italy by FCA Bank S.p.A.
Argo Mortgage 2 S.r.l. (ARGOM 2 B-TV 04/43 and ARGOM C-TV 04/43 SUB): vehicle set up pursuant to Italian Law 130/1999. Securitisation of residential mortgage loans not classified as bad distributed all over Italy. Originator: Banca Carige S.p.A.
Arrow CMBS 2018-1 (ARWC18 A 18/30 TV, ARWC18 A2 18/30 TV and ARWC 1B-TV 18/30 SUB): securitisation having as collateral leasing on commercial properties for office use originated in France, Belgium and the Netherlands.
Autoflorence 1 S.r.l. (AUTOF 1 A 12/2042 and AUTOF 1 B 12/42): vehicles set up pursuant to Law 130/1999. The subject of the securitisation was a portfolio of consumer loans granted by Findomestic Banca S.p.A. (Originator), mainly to finance the purchase of vehicles.
Autonoria 2019 (ANORI A 09/35, ANORI B 09/35 MEZ, ANORI C 09/35 MEZ): vehicle established jointly by France Titrisation and Bnp Paribas Securities Services and governed by the provisions of the French Monetary and Financial Code. Originator: BNP Paribas. The portfolio includes loans deriving from auto loan contracts and the relative accessory rights, stipulated with consumers residing in France.
Belvedere SPV S.r.l. is a vehicle set up pursuant to Italian Law 130/1999. The portfolio securitised, purchased from various sellers (Gemini SPV S.r.l., Sirius SPV S.r.l., Antares SPV S.r.l., SPV Project 1702 S.r.l. and Adige SPV S.r.l.) includes non-performing loans.
Berica ABS 3 S.r.l. (BERICA – TV 14/61 SUB): vehicle set up pursuant to Italian Law 130/1999. Multi-originator securitisation (Banca Popolare di Vicenza S.p.A. and Banca Nuova S.p.A.) which involves the sale without recourse of performing loans made up of residential mortgage loans granted to residents of Italy.
BP Mortgages S.r.l. (BPMO 1C-TV 07/43 SUB) vehicle set up pursuant to Italian Law 130/1999. Securitisation of performing residential property mortgage loans backed by voluntary mortgages distributed all over Italy. Originator: Banco BPM S.p.A.
Brignole CO 2019-1 S.r.l. (BRICO 2019-1 A 07/34 and BRICO 2019-1 B 07/34): vehicles set up pursuant to Law 130/1999. The portfolio includes monetary receivables and associated rights deriving from consumer loan contracts, granted by Creditis Servizi Finanziari S.p.A.
Brignole CQ 2019-1 S.r.l. (BRICQ 2019-1 A 03/36 and BRICQ 2019-1 B 03/36): vehicles set up pursuant to Law 130/1999. The portfolio includes monetary receivables and associated rights deriving from consumer loan contracts, granted by Creditis Servizi Finanziari S.p.A.
Cartesian Residential Mortgages 4 S.A. (CATSN 4 A 11/54 and CATSN 4 B 11/54): existing vehicle, organised under the laws of the Grand Duchy of Luxembourg. Securitisation of loans deriving from mortgages, guaranteed by residential properties located in the Netherlands. Originator: Venn Hypotheken B.V.
Civitas SPV S.r.l. (CIVIT 2012-1 A 10/2060): vehicle set up pursuant to Law 130/1999. Securitisation of a portfolio of residential mortgage loan contracts. Originator: Banca Popolare di Cividale S.c.p.A. and Banca di Cividale S.p.A.
Deco 2015-Harp Limited Dac (DECO15B TV 15/27 SUB): vehicle set up under Irish law.–Securitisation having as collateral mainly residential mortgage loans (71.8%) originated in Ireland.
Deco 2019 - Vivaldi S.r.l. is a vehicle set up pursuant to Italian Law 130/1999. Originator: Deutsche Bank AG, London Branch. The portfolio includes loans issued by Palmanova Propco S.r.l. and Franciacorta Retail S.r.l., associated with certain Italian outlets.
Delft 2019 B.V. (DELFT 2019-1 A 10/42): vehicle set up under Dutch law. Portfolio consisting of mortgages originating from ELQ Portefeuille I B.V. and Quion 50 B.V., guaranteed by residential real estate located in the Netherlands.
Dilosk RMBS No1 Designated Activity Company (DILSK1B-TV 15/51 SUB): Securitisation of mortgage loans guaranteed by residential properties situated in Ireland. Originator: Bank of Ireland.

E-CARAT 10 (ECAR 10 FR A 12/28, ECAR 10 FR B MEZ 12/28, ECAR 10 FR C MEZ 12/28): vehicle set up and regulated in compliance with provisions 214-166-1 and subsequent of the French Monetary and Financial Code. Originator: Opel Bank. Securitisation of retail loan contracts for new and used vehicles.
European Residential Loan Securitisation 2018 - 1 Dac (ERLS18 A 18/61 TV): vehicle set up under Irish law. Securitisation having as collateral a mix of performing and non-performing loans originated in Ireland.
European Residential Loan Securitisation 2019 - NPL1 Dac (ERLS 2019-NPL1 A 07/54, ERLS 2019-PL1 B 03/63): vehicle set up under Irish law. Securitisation of a portfolio including mortgage loans originating with Permanent TSB Plc (Originator) and guaranteed by residential and certain commercial properties located in Ireland.
Fastnet Securities 12 DAC (FSTNT B 16/56 TV SUB): vehicle set up under Irish law. Portfolio comprising mortgage loans originated by Permanent TSB Plc and guaranteed by residential properties situated in Ireland.
F-E Mortgages S.r.l. (FEMO 1C-TV 03/43 SUB): vehicle set up pursuant to Italian Law 130/1999. Securitisation of performing mortgage loans on residential properties situated in Italy. Originator: UniCredit S.p.A. (formerly FinecoBank S.p.A.).
Fino 1 Securitisation S.r.l. (FINO CL A 17/45 TV): vehicle set up pursuant to Italian Law 130/1999. Securitisation of loan contracts, credit facilities and loans disbursed in other technical types granted to natural persons and legal persons and classified as impaired financial assets. Originator: UniCredit S.p.A. and Arena NPL ONE S.r.l.
First Swiss Mobility 2017-2-AG (SWMOB 1B 17/27 1 SUB and SWMOB 2C 17/27 2 SUB): vehicle that manages a portfolio of loans disbursed in Switzerland in the form of loans and leasing for the purchase of motor vehicles.
Grand Canal Securities 2 DAC (GCS 2 A TV 17/58 and GCS 2B-TV 17/58 SUB): the vehicle manages a portfolio comprising mortgage loans guaranteed by properties situated in Ireland. Originator: Irish Nationwide Building Society and Springboard Mortgages Ltd.
Heliconus S.r.l (HELIC 2002-1 B 02/36): vehicle set up pursuant to Law 130/1999. Originator: Finecobank S.p.A. The subject of the securitisation is a portfolio of performing mortgages.
InterMoney Titulizacion, SGTF, S.A. (WZNK 2019-2 A 03/33): vehicle set up under Spanish law, securitisation of receivables deriving from credit cards. Originator: Wizink Bank, S.A.U.
Jepson Residential 2019-1 DAC (JPSON 2019-1 B 11/57): vehicle set up under Irish law. Securitisation of mortgages originating from Bank of Scotland Ltd, Start Mortgages DAC and Nua Mortgages Ltd (originators) and guaranteed by residential properties located in Ireland.
Lanterna Finance 2015 S.r.l. (LANTE 2015-1 A 10/65): vehicle set up pursuant to Law 130/1999. Securitisation of loans deriving from unsecured loan contracts and mortgages granted to small and medium enterprises. Originators: Banca Carige S.p.A., Banca del Monte di Lucca S.p.A., Cassa di Risparmio di Carrara S.p.A. and Cassa di Risparmio di Savona S.p.A.
Madeleine SPV S.r.l. (MADL B 14/38 3.5 SUB): vehicle set up pursuant to Italian Law 130/1999. The loans involved in the securitisation are salary-backed loans disbursed to Italian public and private employees. Originator: Pitagora S.p.A.
Mars 2600 S.r.l. (MARSS 2014-1 A1 10/50): vehicle set up pursuant to Law 130/1999. Originator: Banca Sella S.p.A. The subject of the securitisation is a portfolio of receivables deriving from residential mortgage loan contracts.
Miravet S.à R.l. (MIRAV 2019-1 A 05/65): vehicle set up under the laws of the Grand Duchy of Luxembourg. The subject of the securitisation is a portfolio of mortgage loans granted to companies and persons domiciled in Spain. Originator: Catalunya Banc S.A., Caixa d'Estalvis de Catalunya, Caixa d'Estalvis de Tarragona and Caixa d'Estalvis de Manresa.
Mulcair Securities Designated Activity Company (MULC 1 A 04/71 and MULC 1 B 04/71): vehicle established under Irish law. Securitisation of mortgage loans guaranteed by residential properties located in Ireland, originating from Bank of Ireland, Bank of Ireland Mortgage and ICS Building Society.
Pepper Iberia Unsecured 2019 DAC (PEPIB A 04/28 and PEPIB B 04/28 MEZ): vehicle established and registered in Ireland. The subject of the securitisation is a portfolio consisting of unsecured consumer loans originating from Pepper Finance Corporation, S.L.U. ("Pepper Finance") in Spain.

Norma SPV: in the context of a transaction to securitise non-performing loans originating in part from banks external to the MPS Group, on 1 July 2017 Banca MPS and MPS Capital Services arranged for the sale of a portfolio of non-performing loans disbursed in the real estate and shipping sectors. The portfolio sold to the vehicle Norma SPV S.r.l. consisted, as of the disposal date, of 19 loans totalling € 284.9 million, of which:

- 12 loans disbursed by Banca MPS totalling € 24.0 million in the real estate sector and € 145.3 million in the shipping sector;
- 7 loans disbursed by MPS Capital Services totalling € 28.8 million in the real estate sector and € 86.8 million in the shipping sector.

At 31 December 2019, the residual debt of the portfolio originated by the MPS Group amounted to € 224.50 million (of which € 127.20 million and € 97.30 million respectively transferred by Banca MPS and MPS Capital Services). To finance the purchase of this portfolio, on 21 July 2017 the vehicle issued ABS securities (the "securities") in classes A1, B, C and D for the real estate sector and ABS securities in classes A1, B, C1, C2 and D for the shipping sector. The senior classes of both the real estate and shipping operations were placed with institutional investors, while the mezzanine and junior classes were subscribed by each of the transferring banks in proportion to the loans transferred. Specifically, the MPS Group subscribed the following classes:

- Real Estate: Class B for a nominal amount of € 31.2 million; Class C for a nominal amount of € 4.2 million; Class D for a nominal amount of € 15.8 million.
- Shipping: Class B for a nominal amount of € 75.5 million; Class C1 for a nominal amount of € 32.7 million; Class C2 for a nominal amount of € 10.4 million; Class D for a nominal amount of € 105.6 million.

The sale of part of the notes did not lead to derecognition of the underlying loans from the financial statements of the transferring Banks, which substantially maintained all the risks and benefits associated with ownership of the receivables transferred.

Pietra Nera Uno S.r.l. (PNER1D TV 18/30 SUB, PNERA 1 A 18/30 TV, PNERA 1 B-TV 18/30 and PNERA1E TV 18/30 SUB): vehicle set up pursuant to Italian Law 130/1999. The loans involved in the securitisation are commercial mortgage loans connected with a number of Italian Outlets. Originator: BRE/Europe 7 NQ S.a r.l.

Quarzo S.r.l. (QUARZ A18/35 TV): vehicle set up pursuant to Italian Law 130/1999. Securitisation having as collateral performing consumer loan contracts originated in Italy. Originator: Compass Banca S.p.A.

Sabadell Consumo 1, Fondo de Titulizacion (SABAC 1 A 03/31 and SABAC 1 B 03/31): vehicle established under Spanish law. The subject of the securitisation is a portfolio of consumer loans. Originator: Banco de Sabadell S.A.

Sestante Finance 1 S.r.l (SESTA 1 C 12/40): vehicle set up pursuant to Law 130/1999. Securitisation of monetary receivables deriving from a portfolio of residential loans, classified as performing, originated with Meliorbanca S.p.A.

Sestante Finance 2 S.r.l (SESTA 2 A 07/42): vehicle set up pursuant to Law 130/1999. The subject of the securitisation is a portfolio consisting of loans originating with Meliorbanca and guaranteed by first level mortgages on residential properties, granted to households and real persons in the Republic of Italy.

Sharmrock Residential 2019 – 1 DAC (SROCK 2019-1 A 11/57, SROCK 2019-1 B 11/57): vehicle established under Irish law. Securitisation of mortgage loans guaranteed by residential properties situated in Ireland. Originators: Irish Nationwide Building Society, Bank of Scotland plc, Bank of Scotland (Ireland) Ltd, Start Mortgages DAC and Nua Mortgages Ltd.

Storm 2016-I B.V. (STORM A2-TV 16/54): vehicle set up under Dutch law. Securitisation having as collateral residential mortgage loans originated in the Netherlands. The originator is Obvion N.V.

Sunrise SPV Z80 S.r.l. (SUNRI 20019-2 A 10/44): vehicle set up pursuant to Law 130/1999. Originator: Agos Ducato S.p.A. The portfolio includes consumer loans and personal loan contracts, granted by Agos to real persons, classified as performing.

Tagus Sociedade de Titularizacao de Creditos S.A.: Portuguese vehicles which issued notes securitised with loans for the purchase/leasing of cars and trucks (AQUA 4B-TV 17/35 SUB) and with electricity receivables (VERSE 5 17/22 0.85, VERSE 6 18/23 1.1 and TAGST A1-TV 09/25).

Taurus 2015-1 IT S.r.l. (TAURS 2015-IT1 A 02/20): vehicle set up pursuant to Italian Law 130/1999. The subject of the securitisation is a portfolio of loans, guaranteed by various properties located in various Italian cities, originating with Bank of America NA, Milan branch.
Taurus 2018-1 IT S.r.l. (TAURUS A 18 TV 18/30): vehicle set up pursuant to Italian Law 130/1999. Securitisation having as collateral non-residential mortgage loans situated in Italy. Originator: Bank of America Merrill Lynch International Ltd.
Titulización de Activos S.G.F.T., S.A (TDA 15 B1 6/42 and TDA 15 B2 06/42): vehicle established under Spanish law. Securitisation of mortgage loans, granted by the following originators: Banco Guipuzcoano, Caja Cantabria, Caja de Ingenieros and Caixa Terrassa.
Towers CQ S.r.l. (TOWCQ-TV 16/33 SUB e TOW M 2.25 18/33 SUB): vehicle set up pursuant to Law 130/1999. This is a securitisation of salary- or pension-backed loans granted by Accedo S.p.A. (Originator).

The maximum exposure to risk of loss was determined as an amount equal to the book value. During the year of reference, the bank did not provide and has no intention to provide financial or any other type of support.

C.5 Servicer activity – own securitisations: collections of securitised receivables and reimbursement of securities issued by the special purpose vehicle for the securitisation

The bank does not act as a servicer for own securitisation transactions.

D. Disclosure on structured entities not consolidated in the accounts (other than special purpose vehicles for securitisation)

Qualitative information/Quantitative information

Accounting item / Type of structured entity	Asset accounting portfolios			Total assets (A)	Liability accounting portfolios	Total liabilities (B)	Net book value (C=A-B)	Maximum exposure to risk of loss (D)
	Financial assets held for trading	Financial assets obligatorily measured at fair value	Financial assets measured at amortised cost		Financial liabilities held for trading			
1. Special purpose v	-			-	-	-	-	-
2. UCITS	1,125,052	23,003	13,625	1,161,680	326,795	326,795	834,885	1,227,590
3. Other	-	-		-	-	-	-	-
Total	**1,125,052**	**23,003**	**13,625**	**1,161,680**	**326,795**	**326,795**	**834,885**	**1,227,590**

The aggregate includes, in correspondence to the column "Financial assets held for trading":

- € 92.8 million (€ 46.2 million at 31.12.2018) related to interests held by the Bank in units of Open-ended Investment Funds and Exchange Traded Funds that invest in equities, bonds and derivatives. These units are purchased for the purpose of hedging the risks generated by structured bonds issued and funds placed through the Parent Company's network or for the purpose of repurchase on the secondary market of structured funds of which the original structuring has been handled;
- € 1,032.3 million (€ 1,013.7 million at 31.12.2018) related to exposures in credit and financial derivatives with positive fair value with the following counterparties: Rainbow for € 227.7 million (€ 360.5 million at 31.12.2018) Anima for € 619.8 million (€ 374.1 million at 31.12.2018) Quaestio for € 13.3 million (€ 15.4 million at 31.12.2018) and with the Axa Im Deis investment funds for € 171.5 million (€ 263.8 million at 31.12.2018). Rainbow, Anima and Axa Im Deis are Irish-law funds managed respectively by Anima Asset Management and AXA Investment Managers. These funds are divided into segments that are purchased by MPS AXA Financial Limited and represent the funds to which are linked the performance of the Unit-Linked policies placed with its customers with the name "AXA MPS Valore Performance". The Quaestio funds operate under Luxembourg law, are managed by Questio Capital and sold on the MPS network. The Bank operates with Rainbow, Anima, Axa Im Deis and Quaestio as the counterparty with which the derivatives included in the Funds' assets are traded.

The column "Other financial assets obligatorily measured at fair value" includes:

- € 0.2 million related to the units of a closed-end real estate fund reserved for qualified investors (Fondo Cosimo I), held by the Bank. The fund's objective is to maximise the returns for its investors through both a growing dividend yield and enhancing the value of the assets in the portfolio.
- € 3.9 million related to units of closed-end multi-segment Italian alternative mutual investment funds (Idea CCR I and II). First Italian DIP (Debtor-in-possession) Financing funds, they pursue the purpose of contributing to relaunching medium-sized Italian businesses in financial difficulty, but with solid fundamentals.
- € 2.5 million related to units of a private contribution closed-end real estate investment fund (Athens RE Fund B) reserved for qualified investors. The fund, managed by Unipol Sai Investimenti SGR, holds prestigious tourist complexes located in certain Italian regions.
- € 0.4 million related to the units of a closed-end alternative real estate investment fund reserved for professional investors (Fondo Rainbow), held by the Bank. The fund's objective is to maximise the

returns for its investors by enhancing the value of investments made. The fund, managed by Serenissima SGR, holds some hotel complexes located in Apulia.
- € 16.1 million related to units of a reserved closed-end Italian alternative investment fund (Back2Bonis Fund). The Fund, managed by Prelios SGR, was established to improve the recovery performance and value of the loans acquired, by improving the value of the mortgaged assets.

The column "Financial assets measured at amortised cost" includes loans granted to the counterparty Rainbow Fund for € 3.1 million and to the Athens RE Fund B for € 10.5 million.

The column "Financial liabilities held for trading" includes:
- € 326.8 million (€ 167.0 million at 31.12.2018) related to the negative fair value of credit and financial derivatives with the following counterparties: Rainbow for € 42.3 million (€ 49.4 million at 31.12.2018), Anima for € 257.4 million (€ 96.8 million at 31.12.2018), Quaestio for € 6.0 million (€ 6.8 million at 31.12.2018) and with the AXA IM DEIS investment funds managed by AXA Investment Managers for € 21.0 million (€ 13.9 million at 31.12.2018).

The entities in question finance themselves by issuing units.
The maximum exposure to risk of loss was indicated as an amount equal to the book value for exposures in units in collective investment undertakings other than financial and credit derivatives, for which the reference is to the positive fair value plus the add-on (calculated taking into account also the positions with negative fair value).
During the year of reference, the Bank did not provide and has no intention of providing financial or any other type of support to the unconsolidated structured entities indicated above.
There are no non-consolidated structured entities sponsored by the Bank.

E. Sale transactions

A. Financial assets sold but not fully derecognised

Qualitative information

The assets indicated in the following tables for the portfolios "Financial assets held for trading" and "Financial assets measured at fair value through other comprehensive income" are debt and equity securities and have been sold in the context of repurchase agreements with repurchase obligations at maturity.
Repurchase agreements, as for similar securities lending operations described in paragraph 8 of the Notes to the Financial Statements - part B - Other transactions, are carried out, largely, to cover similar operations in the other direction in the context of the dynamic and complex management of Global Markets business.
Considering SFTs (Securities Financing Transactions) as a whole, there emerges a net total funding position, related to the financing of long positions in securities. The underlying assets of repurchase agreements are mainly Italian government securities, mostly BTPs. The bank-owned securities used for repurchase agreements are posted among assets in the balance sheet, under item 20. "Financial assets measured at fair value through profit or loss" and under item 30 "Financial assets measured at fair value through other comprehensive income", and the related benefits and risks remain, in any case, those of the Bank. Securities transferred are shown as "committed" but this status does not exclude the possibility of selling them, by covering the momentary lack of the availability of the security through securities lending or reverse repurchase agreements.
"Other financial assets obligatorily measured at fair value" includes loans sold as part of the "Norma Spv" securitisation, with the relative associated liabilities. Derecognition of the receivables occurred in 2020.

Multioriginator sales of loan portfolios classified as "unlikely to pay"

In September 2019, the MPS Group carried out a multioriginator sales transaction for a portfolio of loans classified as "unlikely to pay" and held with industrial and services companies located in Italy, with turnover of no less than € 50 million, to a Fund managed by Clessidra SGR S.p.A. Settlement of the price occurred through offsetting of the receivable due from the Fund, with the simultaneous subscription of the units of the Fund freed up.
The portfolio consists of receivables due to the MPS Group and other banking groups from 13 target companies (specifically 8 debtors for the MPS Group), for a total gross exposure of around € 272.2 million (€ 100.2 million for the MPS Group, mainly unsecured, accounting for 71% of total receivables sold, of which around € 91.3 million relative to the parent company and € 8.9 million to the Bank), sold for a price of around € 194.9 million (around € 77 million for the MPS Group). The net book value of the receivables as of the sale date was around € 71.4 million for the MPS Group (of which € 8.1 million for the Bank).
Also note that in November 2019 the Bank completed the sale of another position, which had already been transferred by the parent company, in the amount of around € 1.8 million in terms of gross exposure, with a sale value of € 1.3 million. Consequently, the Group's stake rose from the original 39.4% to 39.8%.

The Fund was established with the aim of improving the collection performance for the acquired receivables, by improving the value of the target companies by:

- managerial actions, possible based on the Fund's high level of involvement in the net financial position of the companies, as well as possible transactions to convert the receivables acquired into equity instruments for the companies in question;
- contribution of financial resources functional to improved industrial and financial turnaround processes.

The Fund has issued four categories of units, with different economic rights:

- category A shares reserved for the banks involved;

- category B and C shares intended for two categories of institutional investors contributing "new financing";
- category D shares reserved for the Fund management ream.

As indicated above, the category A shares subscribed by the MPS Group total 39.8% of the total and express, in terms of credit risk, verify significant exposure with respect to the receivables transferred. Given the high percentage of retained risks/benefits associated with the transaction, the Group has not derecognised the receivables transferred, which will therefore continue to be recognised in the Group's assets in their entirety and consequently, the Group has also not recognised the Fund units.

Quantitative information

E.1 Financial assets sold fully recognised and associated financial liabilities: carrying amounts

	Financial assets sold fully recognised				Associated financial liabilities		
	Carrying amount	of which: subject of securitisation transactions	of which: involved in sale contracts with agreement to repurchase	of which impaired	Carrying amount	of which: subject of securitisation transactions	of which: involved in sale contracts with agreement to repurchase
Financial assets held for trading	5,686,798	-	5,686,798	X	5,637,803	-	5,637,803
1. Debt securities	5,686,798	-	5,686,798	X	5,637,803	-	5,637,803
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	X	-	-	-
4. Derivatives	-	-	-	X	-	-	-
Other financial assets obligatorily measured at fair value	43,585	43,585	-	43,585	2,608	2,608	-
1. Debt securities	-	-	-	-	-	-	-
2. Equity securities	-	-	-	X	-	-	-
3. Loans	43,585	43,585	-	43,585	2,608	2,608	-
Financial assets designated at fair value	-	-	-	-	-	-	-
1. Debt securities	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-
Financial assets measured at fair value through other comprehensive income	63,867	-	63,867	-	53,043	-	53,043
1. Debt securities	63,867	-	63,867	-	53,043	-	53,043
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
Financial assets measured at amortised cost	8,191	-	-	8,191	-	-	-
1. Debt securities	-	-	-	-	-	-	-
2. Loans	8,191	-	-	8,191	-	-	-
Total 31 12 2019	**5,802,441**	**43,585**	**5,750,665**	**51,776**	**5,693,454**	**2,608**	**5,690,846**
Total 31 12 2018	**4,949,116**	**37,197**	**4,911,919**	**37,196**	**4,844,560**	**2,618**	**4,841,942**

Note: Repurchase agreements carried out using own securities "transferred and not derecognised" were entered into for approximately 56% with the Parent Company MPS and for approximately 42% with Cassa Compensazione e Garanzia

E.2 Financial assets sold partially recognised and associated financial liabilities: carrying amounts

This schedule was not completed because during the year in question the Bank did not have any of these assets.

E.3 Sale transactions with liabilities with recourse only on assets sold but not fully derecognised: fair value

	Fully recognised	Partially recognised	Total	
			31 12 2019	31 12 2018
Financial assets held for trading	-	-	-	-
1. Debt securities	-	-	-	-
2. Equity securities	-	-	-	-
3. Loans	-	-	-	-
4. Derivatives	-	-	-	-
Other financial assets obligatorily measured at fair value	43,585	-	43,585	37,197
1. Debt securities	-	-	-	-
2. Equity securities	-	-	-	-
3. Loans	43,585	-	43,585	37,197
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 securities	-	-	-	-
3. Loans	-	-	-	-
Financial assets measured at amortised cost	8,191	-	8,191	-
1. Debt securities	-	-	-	-
2. Loans	8,191	-	8,191	-
Total financial assets	**51,776**	**-**	**51,776**	**37,197**
Total associated financial liabilities	**2,608**	**-**	**X**	**X**
Net value 31 12 2019	**49,168**	**-**	**51,776**	**X**
Net value 31 12 2018	**34,579**	**-**	**X**	**34,579**

B. Financial assets sold and fully derecognised with recognition of continuing involvement

Qualitative information

Quantitative information

At 31 December 2019 none of these assets existed.

C - Financial assets sold and fully derecognised

Below are multioriginator sale transactions involving loan portfolios, to mutual investment funds, with attribution of the relative to units to the seller intermediaries.

Qualitative/quantitative information

On 27 December 2019, the MPS Group, UBI Banca and Banco BPM signed with AMCO and the Prelios Group the contract for the transaction known as Cuvée, creating a multi-originator platform to manage Unlikely to Pay (UTP) receivables linked to € 3 million to € 30 million loans to businesses in the real estate sector in the process of restructuring or suffering financial difficulties.

More specifically, the transaction involved the following steps:

a) sale of UTP loans by the seller banks to a securitisation company established pursuant to Law 130/1999 (SPV 130), not controlled by AMCO; with the sale of the loans, each seller bank acquired a receivable due from SPV 130 equal to the sale price;
b) sale by the seller banks to AMCO of the contractual relationships underlying the loans sold to SPV 130, involving residual commitments to disburse funds (a case which in the first phase did not apply to MPS Group);
c) contribution/sale to the Fund of the receivable held by the seller banks from SPV 130 for the sale transaction pursuant to point a); against this contribution/sale, the seller banks received Fund units in an amount equal to the sale price;
d) subsequent issue by SPV 130 of untranched notes, entirely subscribed by the Fund.

AMCO serves as the Master and Special Servicer for the securitisation, while Prelios Group serves as the Real Estate partner and manager of the Fund through Prelios SGR. This partnership made it possible to unite financial management skills with specific real estate sector skills, creating synergies and greater possibilities for recovering the loans. It is also possible for the Fund to issue new financing to support the turnaround of the companies and to complete worthy real estate projects.

During the initial phase of the transaction which ended in December 2019, 46 debtor positions were transferred to the Fund (7 debtor positions for MPS Group), for an overall total of around € 453 million at a price of around € 242 million (€ 43 million for the MPS Group). The Group transferred creditor positions of € 107.4 million (of which around € 55 million relative to the parent company and around € 52.4 million to the Bank) for a net book value, as of the sale date, of € 32 million. As payment for the sale, and as a consequence of the steps outlined above, the seller banks received units of the Fund. The MPS Group holds 17.7%.

The receivables sold were fully derecognised from the Group's assets as of 31 December 2019, while the units were recognised for a total of € 32.3 million, of which € 16.3 million for the parent company and € 16 million for the Bank. For more details on determination of the fair value of the units, please see part A of these Notes to the Financial Statements.

In the past, the Group has carried out an additional two multioriginator sales transactions, with full derecognition of the loan portfolio in the financial statements. The portfolios were sold to a mutual investment fund with assignment of the relative units to the seller intermediaries. It participated in the project of Idea Capital Funds S.g.r., a management company which established two multi-segment mutual investment funds known as Fondo Idea CRR I (2015) and Fondo Idea CRR II (2017). These funds are classified as closed end mutual funds, reserved for qualified investors, and intended to maximise the recovery rate for the impaired loans acquired and the new financing granted through industrial and financial restructuring of medium-size enterprises.

Relative to Fondo Idea CRR I, the net book value of the receivables of the sale date was € 9.3 million for the MPS Group (of which € 1.1 million for the Bank). The pool of seller banks received as payment for the sale units of Fondo Idea CRR I, relative to which MPS Group holds around 8.1% (of which the Bank 1%).
Relative to Fondo Idea CRR II, the net book value of the receivables of the sale date was € 29.8 million for the MPS Group (of which € 5.9 million for the Bank). The pool of seller banks received as payment for the sale units of Fondo Idea CRR II, relative to which MPS Group holds around 14.1% (of which the Bank 2.4%).

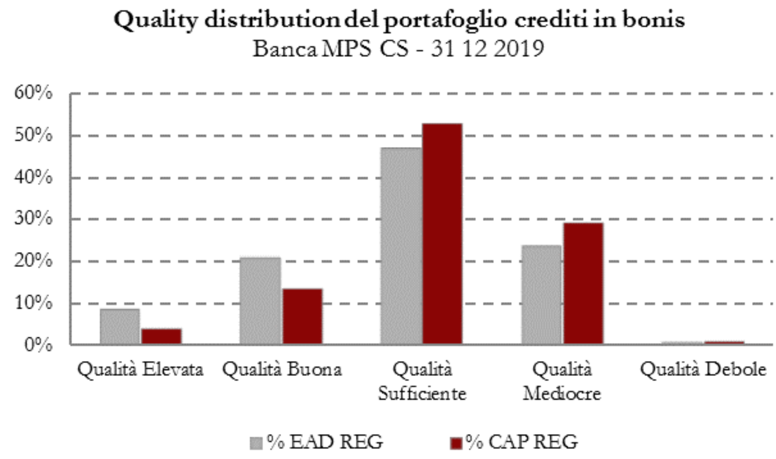
At 31 December 2019, the book value of these units in the Group's financial statements was, respectively, € 4.7 million for Fondo Idea CRR I (of which € 0.5 million for the Bank) and € 19.2 million for Fondo Idea CRR II (of which € 3.2 million for the Bank).
For more details on determination of the fair value of the units, please see part A of these Notes to the Financial Statements.

E.4 Covered bond transactions

The Bank issued no covered bank bonds.

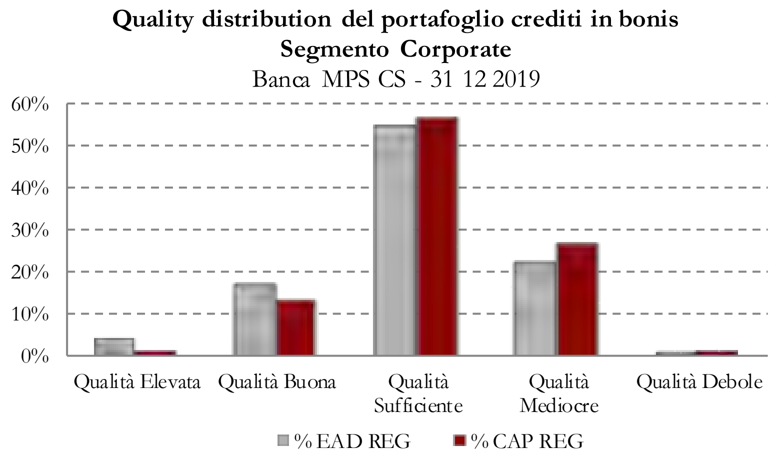
F. Credit risk measurement models

For the purposes of the quantitative disclosure on credit risk, the distribution of the credit quality of the Bank's portfolio at 31 December 2019 for risk exposure (EAD REG) and Regulatory Capital (CAP REG) is presented below. The chart below shows that 29.1% of the exposures at risk are granted to high- and good-quality customers (positions in financial assets are excluded), while 70.9% are granted to customers of sufficient or mediocre quality. The grading indicated below also includes the exposures to unsupervised banks, government bodies and financial and banking entities, not included in the AIRB models. For these counterparties, a credit standing assessment is any case attributed, using official ratings when available, or appropriate internally computed values.



Quality distribution del portafoglio crediti in bonis	Quality distribution of performing loan portfolio
Banca MPS CS – 31 12 2019	Banca MPS CS – 31 12 2019
Qualità Elevata	High Quality
Qualità Buona	Good Quality
Qualità Sufficiente	Sufficient Quality
Qualità Mediocre	Mediocre Quality
Qualità Debole	Weak quality
EAD REG	REG EAD
CAP REG	REG CAP

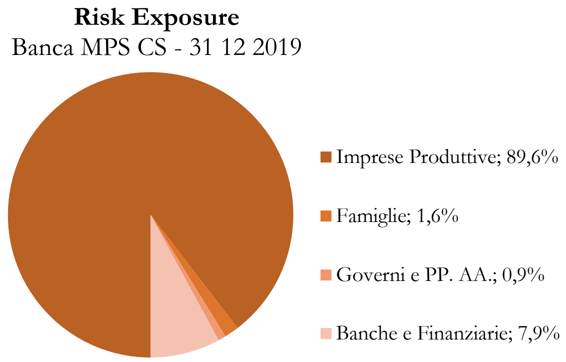
The following chart, by contrast, shows the distribution of the loan quality only in relation to the Corporate portfolio (mostly validated by the Supervisory Authority for use of the internal models relating to the PD and LGD parameters). We can note that the proportion of exposures with high and good quality at 31 December 2019 is 21.6% of total exposures, compared to 78.4% of exposures to borrowers with sufficient or mediocre quality.

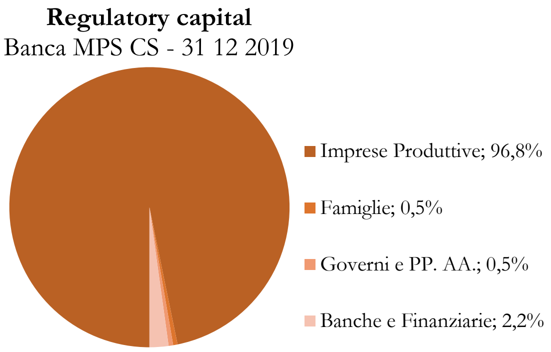


Quality distribution del portafoglio crediti in bonis	Quality distribution of performing loan portfolio
Segmenti Corporate	Corporate Segments
Banca MPS CS – 31 12 2019	Banca MPS CS – 31 12 2019
Qualità Elevata	High Quality
Qualità Buona	Good Quality
Qualità Sufficiente	Sufficient Quality
Qualità Mediocre	Mediocre Quality
Qualità Debole	Weak quality
EAD REG	REG EAD
CAP REG	REG CAP

The findings obtained at the end of 2019, indicate that the exposures at risk are mainly related to the sectors "Production Companies" (89.6% of total disbursements) and "Banks and Financial Firms" (7.9%). The remaining portion is divided between the "Family" and "Governments and Public Administration" sectors, with 1.6% and 0.9%, respectively.

In terms of Regulatory Capital, this is absorbed for 96.8% by the segment of "Production Company" customers. These are followed by "Banks and Financial Firms" with 2.2%, and "Governments and Public Administration" and "Households" both with 0.5%.

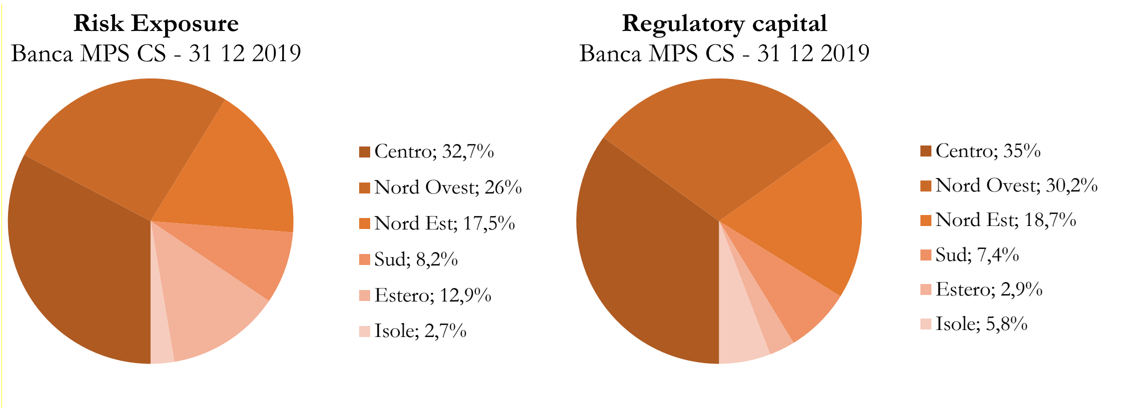




Esposizione a Rischio	Risk Exposure
Banca MPS CS – 31.12.2019	Banca MPS CS 31.12.2019
Imprese Produttive	Production Companies
Famiglie	Households
Governi e PP. AA.	Governments and Public Administration
Banche e Finanziarie	Banks and Financial
Capitale Regolamentare	Regulatory capital

Analysis of the geographic distribution of the Bank's customers shows that risk exposures are mainly concentrated in the Central regions (32.7%), followed by the North West and North East (with 26% and 17.5%, respectively), Foreign (12.9%), the South (8.2%) and the Islands (2.7%).

The absorption of Regulatory Capital also finds more explanation in the composition of lending more concentrated in the Centre (35%), the North-west (30.2%), the North-east (18.7%), the South (7.4%), the Islands (5.8%) and Foreign Countries (2.9%).

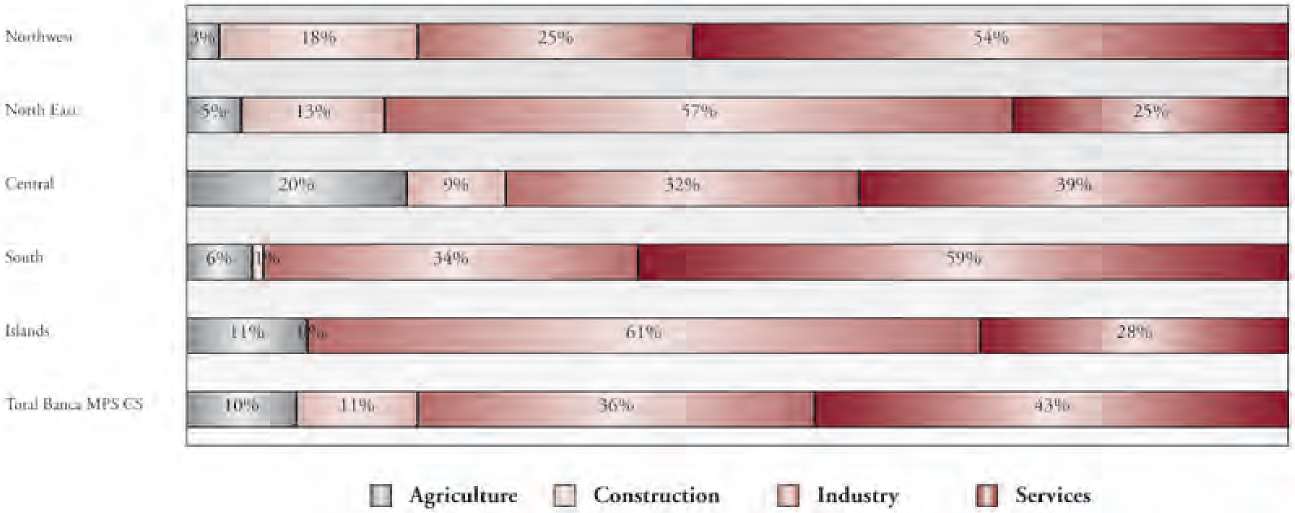


Esposizione a Rischio	Risk Exposure
Banca MPS CS – 31.12.2019	Banca MPS CS 31.12.2019
Centro	Central
Nord Ovest	Northwest
Nord Est	North East
Sud	South
Estero	Abroad
Isole	Islands
Capitale Regolamentare	Regulatory capital

The charts below, finally, show only for Corporate customers in Italy, the percentage distribution by individual Geographical Area of the exposure to Default and of the absorption of Regulatory Capital by business segment.

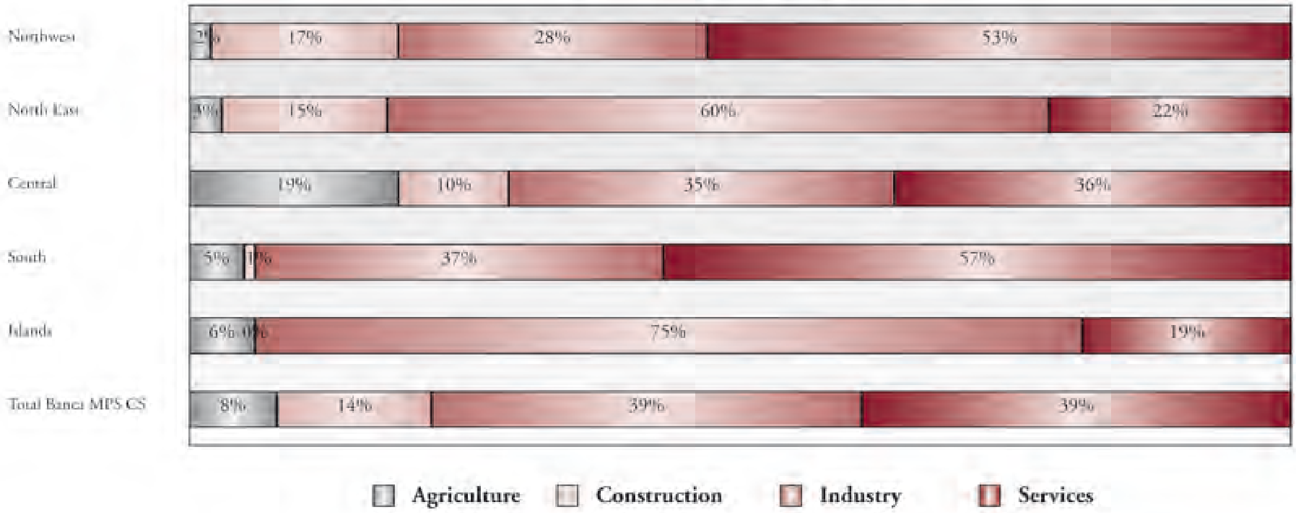
The highest portion of Exposure to Default of Companies is concentrated in the Services segment in all Geographical Areas, except in the North-east and the Islands, where Industry prevails with 57% and 61% respectively. Out of the total, the concentration on Services is 43% and is followed by that on Industry (36%), on Building with 11% and finally on Agriculture (10%).

BANCA MPS CAPITAL SERVICES
PERFORMING ITALIAN CORPORATE CUSTOMERS AT 31 12 2019
Distribution of Exposure at Default (EAD REG) by geographical area and business



Also as regards Regulatory Capital (CAP), the largest concentration is related to the Services sector. Only in the North-east and the Islands did the Industry sector dominate (60% and 75%, respectively).

BANCA MPS CAPITAL SERVICES
PERFORMING ITALIAN CORPORATE CUSTOMERS AT 31 12 2019
Distribution of Regulatory Capital by geographical area and business



Section 2 – Market risks

2.1 Interest rate risk and price risk – supervisory trading book

Market risks related to the Trading Book

The risk management model for market risks related to the Trading Book

The MPS Group's Regulatory Trading Book (RTB) is made up of the set of Regulatory Trading Books managed by the Banking Parent Company (BMPS) and by MPSCS. The RTBs of the other subsidiaries are closed to market risks. Transactions in derivatives, also brokered on behalf of the same customers, are centralised and the risk is monitored by MPSCS.

The market risks of the trading book are monitored for operating purposes in terms of Value-at-Risk (VaR). The Group Finance and Liquidity Committee is tasked with directing and coordinating the overall process for management of the Group's proprietary finance, ensuring consistency between the management actions of the different business units.
The Group's Trading Book is subject to daily monitoring and reporting by the Parent Company's Financial Risk Officer Area, on the basis of proprietary systems. Operational VaR is calculated independently with respect to the operating departments, using the internal risk measurement model implemented by the Risk Management Unit itself, in line with the leading international best practices. Solely for reporting purposes, on the subject of Market Risks the Group employs in any case the standardised methodology.

The operating limits on trading activities are expressed for each level of authority in terms of VaR diversified between risk factors and portfolios and monthly and annual Stop Loss and Stress. In addition, the credit risk of the trading book, besides being included in the VaR calculations and in the respective limits for the credit spread risk part, is also subject to specific operating limits with regard to bond issuer and concentration risk, which envisage notional ceilings for types of guarantor and rating classes.

The VaR is calculated with a confidence interval of 99% and a holding period of the positions of one business day. The method used is that of historic simulation with daily full revaluation of all the elementary positions, on a window of 500 historic readings of the risk factors (lookback period) with daily flow. The VaR calculated in this manner makes it possible to take into account all the effects of diversification between risk factors, portfolios and type of instruments traded. It is not necessary to hypothesise up front any functional form in the distributions of the returns of the activities and also the correlations between different financial instruments are implicitly captured in the VaR on the basis of the historic joint performance of the risk factors. The historical scenarios used in the model are constructed as the daily change, in terms of ratio, of the single risk factors; the shock created is applied to the current market level making the VaR measurement reactive to the changing market conditions.

Periodically, the daily management reporting flow on market risks is forwarded to the Risk Management Committee, to the Managing Director, to the Chairperson and to the Board of Directors of the Parent Company in the Risk Management Report, the instrument through which the Top Management and the Governing Bodies are informed about the Group's overall risk profile.

The macro-types of risk factors considered within the Internal Markets Risks Model are as follows:

- IR: interest rates on all the relevant curves, inflation curves and related volatility;

- EQ: equity prices, indexes and related volatility;
- CO: commodity prices;
- FX: exchange rates and related volatility;
- CS: credit spread levels.

The VaR (or diversified VaR, or Net VaR) is calculated and separated daily for internal management purposes, also with respect to other analysis dimensions:

- organisation/operations of the Portfolios,
- for Financial Instruments,
- for Risk Families.

It is then possible to assess the VaR in relation to each combination of these dimensions so as to be able to facilitate very detailed analyses of the phenomena which affect the portfolios.

With reference in particular to the risk factors, the following are identified: the Interest Rate VaR (IR VaR), the Equity VaR (EQ VaR), the Commodity VaR (CO VaR), the Forex VaR (FX VaR) and the Credit Spread VaR (CS VaR). The algebraic sum of these components gives the Gross VaR (or non-diversified VaR) which, compared with the diversified VaR, makes it possible to quantify the benefit of diversification between risk factors deriving from holding portfolios allocated on asset classes and risk factors that are not perfectly correlated. This information too can be analysed along all the aforesaid dimensions.

The model makes it possible to produce diversified VaR metrics for the entire Group, in order to be able to appreciate in an integrated manner all the diversification effects that can be generated among the banks of the Group, by virtue of the joint specific positioning implemented by the different business units.

Additionally, scenario analyses and stress tests are regularly conducted on the various risk factors with differentiated granularity levels for the entire structure of the Group portfolio tree and for all analysed categories of instruments.

Stress tests make it possible to assess the ability of the Bank to absorb sizeable potential losses upon the occurrence of extreme market events, in order to identify the measures to take to reduce the risk profile and preserve the capital.

Stress tests are developed on the basis of historical and discretionary scenarios. Historical scenarios are defined on the basis of actual disruptions historically recorded on the markets. These scenarios are identified on the basis of a time interval in which the risk factors were subjected to stress. No particular hypotheses are necessary with respect to the correlation between risk factors, observing what happened historically in the identified stress period.

Stress tests based on discretionary scenarios consist of hypothesising the occurrence of extreme variations in some market parameters (interest and exchange rates, stock market indexes, credit spreads and volatility) and of measuring the corresponding impact on the value of the portfolios, irrespective of their actual historical occurrence. The discretionary stress scenarios currently examined are simple (only one risk factor changes) and joint (several risk factors change simultaneously). Simple discretionary scenarios are calibrated to hit independently one category of risk factors at a time, hypothesising that the shocks will not propagate to the other factors. Joint discretionary scenarios instead are aimed at evaluating the impact of global shocks that simultaneously hit all types of risk factors.

Note that the VaR methodology described above is also applied for internal operating purposes to the portion of the Bank Book consisting of financial instruments which can be classified as held for *trading, or securities held in this portfolio and classified for accounting purposes among "financial assets measured at fair value through profit and loss", "financial assets measured at fair value through other comprehensive income" and "financial assets measured at amortised cost"*. The measurements and tables below refer only to the Regulatory Trading Book.

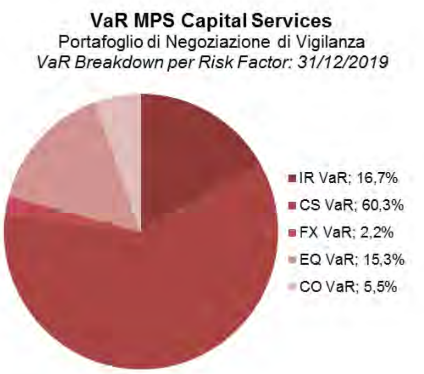
***

During 2019 the market risks of the Regulatory Trading Book of the subsidiary showed, in terms of VaR, a trend influenced mainly by the proprietary trading activity in the CS-IR segment (operations in Italian Government Securities and Long Futures) and, to a lesser extent, for Client Driven activities in the EQ segment (options and equity futures on the main market indices).

VaR volatility during the year, down with respect to 2018, is mainly due to trading activity linked to auction cycles for short-term Italian government securities. At present, VaR is sensitive to changes in short-term exposure to the Italian credit spread as it incorporates, in the tail scenarios seen in May and June 2018, a trend of notable expansion of returns on Italian government securities, which is more relevant in the short than the long term (i.e. increase in returns with flattening of the curve).

The gradual increase in VaR during the last quarter of the year is linked to the increase in exposure to Italian government securities (average exposure in nominal terms during the fourth quarter was 4.6 billion, with overall duration of less than one year).

Note that in August 2019 a new historic simulation tail scenario was added to the VaR model, relative to the increase in the Italian credit spread due to the government crisis.



In terms of VaR composition by risk factors, as of 31 December 2019 the MPSCS portfolio is mainly absorbed by the Credit Spread risk factor (CS VaR, 60.3%). This is followed by the interest-rate risk factor (IR VaR, 16.7%), the equity risk factor (EQ VaR, 15.3%), the commodity risk factor (CO VaR 5.5%) and the Forex risk factor (FX VaR 2.2%).

VaR MPS Capital Services Portafoglio di Negoziazione di Vigilanza	VaR MPS Capital Services Supervisory Trading Book
Var Breakdown per Risk Factor: 31/12/2019	VaR Breakdown per Risk Factor: 31/12/2019

MPS Capital Services
VaR PNV 99% 1 day in EUR/mln

	VaR	Date
Period End	8.72	31/12/2019
Minimum	3.19	23/09/2019
Maximum	9.55	23/12/2019
Average	5.67	

During 2019 MPSCS's RTB VaR oscillated between a minimum of € 3.19 million at 23 September 2019 and a maximum of € 9.55 million at 23 December 2019 recording an average value of € 5.67 million. The RTB VaR at 31 December 2019 was € 8.72 million.

VaR model backtesting

The MPS Group has implemented a structure of retrospective tests in compliance with the current regulations for Market Risks within its risk management system.

Backtesting involves checks carried out on the results of the VaR model with respect to the daily change in the portfolio value, in order to evaluate the predictive ability of the model in terms of the accuracy of the risk measurements calculated. If the model is robust, then the periodic comparison of the daily estimate of the VaR at t-1 with the daily results of trading activity on t should show that the effective losses are higher than the VaR with a frequency in line with that defined by the confidence level.

In the light of the current regulatory provisions, the Financial Risk Officer Area has found it appropriate to carry out the test using theoretical and effective backtesting, and to integrate it within the Group's management reporting systems.

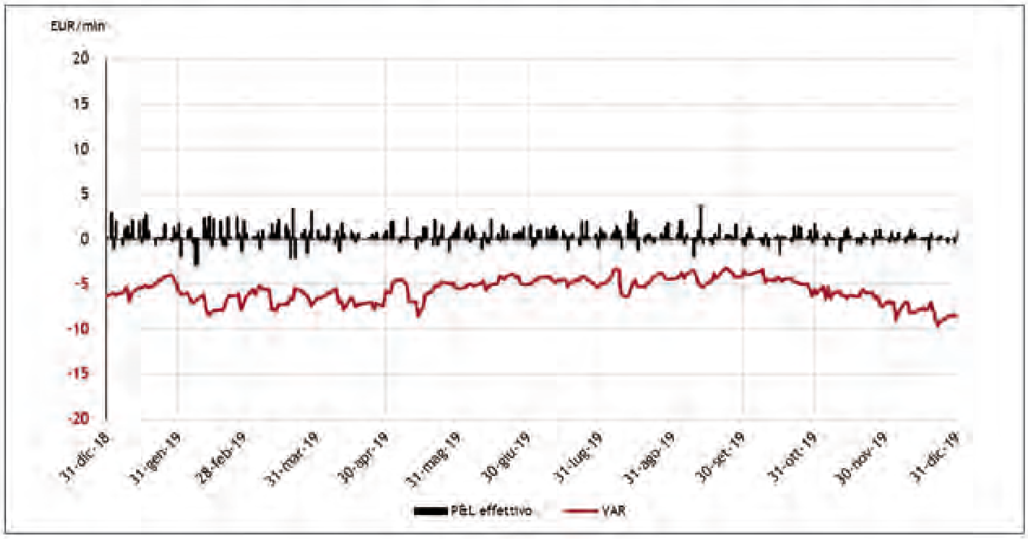
The first type of test (Theoretical Backtesting) has greater statistical significance in reference to the evaluation of the accuracy of the VaR model ("non-contaminated test").

The second type of test (Effective Backtesting), answers the need to verify the predictive reliability of the VaR model in reference to the actual operations of the Bank (daily trading losses and gains), net of the effects of interest maturing between day t-1 and t for bonds and the effect of fees.

These "net" P&L results are compared with the VaR of the previous day. In the case that losses are greater than those predicted by the model, an exception is recorded.

The graph below shows the results of the Effective Backtesting of the internal Market Risk Model, relative to the MPS CS Supervisory Trading Portfolio, for the year 2019:

MPS CAPITAL SERVICES EFFECTIVE BACK TESTING OF SUPERVISORY TRADING BOOK



There are no exceptions resulting from the retrospective test in 2019.

Qualitative information

A. General aspects

A.1 Interest Rate Risk

The Bank's trading activity is carried out by the Global Markets Department. The Bank manages a portfolio of its own which contains trading positions on rates and on credit. In general, interest rate positions are taken on through the purchase or sale of bonds, as well as through the construction of positions in listed derivatives (for example futures) and OTC instruments (for example IRSs, swaptions). The activity is carried out exclusively on the Bank's own behalf, with absolute return targets, in compliance with the delegated limits in terms of VaR and monthly and annual Stop Loss.
As regards the credit risk present in the trading book, in general the positions on securities are managed both by purchase or sale of bonds issued by companies, and through the construction of synthetic positions in derivative instruments. The activity aims to obtain long or short positions on single issuers, or a long or short exposure on particular types of securities. The activity is carried out exclusively on the Bank's own behalf, with absolute return targets, and in compliance with the further specific issuer and concentration risk limits.

A.2 Price Risk

With reference to the price risk factor the Bank manages an owned portfolio and assumes trading positions on equities, indexes and commodities. In general, equity security positions are taken on through the purchase or sale of shares, as well as through the construction of positions in listed derivatives (for example futures) and OTC instruments (for example options). The activity is carried out exclusively on the Bank's own behalf, with absolute return targets, in compliance with the delegated limits of VaR and monthly and annual Stop Loss. The trading is carried out by the Global Markets Department.

B. Interest rate risk and price risk: management processes and measurement methods

With regard to the market risk management process pertaining to management and the methods for gauging the interest rate risk and the price risk, reference should be made to the matters already described in the section "The risk management model for market risks inherent to the trading portfolio".

Quantitative information

1. Supervisory trading book: breakdown by residual life (repricing date) of the on-balance-sheet financial assets and liabilities and financial derivatives

This table is not provided in that a sensitivity analysis is provided for interest rate and price risk for the supervisory trading book on the basis of internal models.

2. Supervisory trading book: breakdown of exposures for equity securities and stock indexes for the main stock market countries

This table is not provided in that a sensitivity analysis is provided for interest rate and price risk for the supervisory trading book on the basis of internal models.

3. Supervisory trading book - internal models and other methods for sensitivity analysis

The interest rate and price risk of the Trading Book is monitored in terms of VaR and scenario analysis.

3.1 Interest Rate Risk

The positions are managed by special desks, each with its own specific operating limits. Each desk adopts an integrated risk management approach (also for risks other than interest rate risk, when permitted) in order to benefit from the natural hedges deriving from simultaneously holding positions whose risk factors are not perfectly correlated.
The simulated interest rate scenarios are:

- parallel shift of 100 bps on all the interest rate curves and inflation curves;
- parallel shift -100 bps on all the interest rate curves and inflation curves;
- parallel shift of 1 point on all the volatility surfaces of all the interest rate curves.

The positions pertaining to the Trading Portfolio are all classified, for accounting purposes, as "*financial assets measured at fair value through profit and loss*"; market value changes are recorded directly in the income statement. The overall effect of the scenario analyses is presented below.

MPS Capital Services Trading Portfolio
Figures in € millions

Risk Family	Scenario	Total Effect
Interest Rate	+ 100 bps on all curves	11.16
Interest Rate	- 100 bps on all curves	(13.32)
Interest Rate	+1 point interest rate volatility	0.48

To complete the interest rate risk analysis, the sensitivity analysis of the MPSCS Trading Book credit spread risk linked to the volatility of issuers' credit spreads is reported below. The simulated scenario for the sensitivity analysis is:

- parallel shift of 1bp on all credit spreads.

MPS Capital Services Trading Portfolio
Figures in € millions

Risk Family	Scenario	Total Effect
Credit Spread	+ 1bp on all curves	(0.64)

3.2 Price Risk

The positions are managed by special desks, each with its own specific operating limits. Each desk adopts an integrated risk management approach (also for risks other than the rate risk, when allowed) in order to benefit from the natural hedges deriving from simultaneously holding positions whose risk factors are not perfectly correlated.

The simulated price scenarios are:

- 1% of each equity, commodity, index price;
- -1% of each equity, commodity, index price;

- 1 point on all the volatility surfaces of all the equity and commodity risk factors.

The positions pertaining to the Trading Portfolio are all classified, for accounting purposes, as "*financial assets measured at fair value through profit and loss*"; market value changes are recorded directly in the income statement. The overall effect of the scenario analyses for the Equity and Commodity segments is presented below:

MPS Capital Services Trading Portfolio

Figures in € millions

Risk Family	Scenario	Total Effect
Equity	+1% Equity Prices (prices, indexes)	(3.02)
Equity	-1% Equity Prices (prices, indexes)	2.89
Equity	+1 point Equity Volatility	0.71

MPS Capital Services Trading Portfolio

Figures in € millions

Risk Family	Scenario	Total Effect
Commodity	+1% commodity prices	(0.01)
Commodity	-1% commodity prices	0.01
Commodity	+1 point commodity volatility	0.00

2.2 Interest Rate Risk and Price Risk - Banking Book

Qualitative information

A. General aspects, management processes and gauging methods of the interest rate risk and price risk

A.1 Interest Rate Risk

In accordance with the international best practices, the Banking Book or Banking Portfolio contains the Bank's commercial operations connected with the transformation of the maturities of accounting assets and liabilities, of the Treasury, of foreign branches and of hedging derivatives.
The definition of the perimeter of the banking book (aligned with that of the regulatory banking book) and the process of centralising management of the Asset and Liability Management (ALM) is governed by the Parent Company's Board of Directors in line with the instructions provided in the supervisory regulations (Circular 285 issued by the Bank of Italy). The framework involves the centralisation of ALM in the Parent Company's Finance, Treasury and Capital Management Area (FTCMA) and the definition and monitoring of the operating limits in view of the interest rate risk of the Montepaschi Group's Banking Book.

The operating and strategic choices of the Banking Book, adopted by the Finance and Liquidity Committee and monitored by the Parent Company's Risk Management Committee, are based first of all on exposure to the interest rate risk for a change in the economic value of the assets and liabilities of the Banking Book, applying a parallel shift of 25 bps, 100 bps and 200 bps, the latter in accordance with the provisions of the "second pillar" of the Basel Regulations. Sensitivity analyses of the Interest Margin are also regularly carried out for different interest rate change assumptions. The ALM model of the Montepaschi Group, incorporates in the measurements of the exchange rate risk a behavioural model which takes into account the phenomenon of early repayments of mortgage loans (prepayment risk). The economic value sensitivity measurements are carried out excluding the development of the cash flows from the components not directly related to interest rate risk.

The Group is engaged in the continual updating of the risk measurement methods, through a gradual refinement of the estimation models, in order to include the main phenomena that over time modify the interest-rate risk profile of the banking book.

The Group has adopted a system for governing and managing interest rate risk which, in accordance with the provisions of the Supervisory Authority, employs:

- a quantitative model, on the basis of which the exposure of the Group and of its individual companies/structures to interest rate risk is calculated, in terms of risk indicators;
- risk monitoring processes, aimed at verifying compliance with the operating limits assigned to the Group as a whole and to individual business units;
- risk control and management processes, aimed at carrying out adequate initiatives to optimise the risk profile and to activate any necessary corrective actions.

Within the aforesaid system, the Parent Company centralises the following responsibilities:

- definition of the policies for managing the Group's Banking Book and controlling the related interest rate risk;
- coordination of the implementation of the aforesaid policies within the companies included in the reference perimeter;
- governing the Group's short, medium and long term interest rate risk, both overall and in terms of each individual company, through the centralised operating management.

In its governing function, therefore, the Parent Company defines criteria, policies, responsibilities, processes, limits and instruments for managing the interest rate risk.

The Group companies, among which the Bank, included in the application perimeter are responsible for complying with the interest rate policies and risk limits defined by the Parent Company and with the capital requirements set by the competent Supervisory Authorities.

Within the defined model, the Parent Company's Finance, Cash and Capital Management Department is responsible for the operating management of the exchange and liquidity risk of the Group as a whole.

Specifically, within the FTCMA, the Strategic Risk Governance Service handles the short-term interest rate risk and the structural interest rate risk. The Area also monitors and manages hedges in accordance with the accounting policies, single monitoring for the formation of the internal interest rates of the "network" (BMPS and other Group companies) for the Euro and currency transactions with maturities beyond the short-term.

A.2 Price Risk

The Banking Book for the Bank subject to price risk consists of equity investments, equity securities and UCITS measured at fair value. In particular, equity securities classified among "financial assets at fair value through other comprehensive income" include € 20.6 million in parent company shares acquired in 2017 due to "burden sharing", which are netted at the consolidated level. Activities involving UCITS are carried out solely through direct purchases of funds/SICAVS and without using derivative contracts. Banking Book exposure to commodities is nil.

Gauging of price risk is carried out on equity positions held for mainly strategic or institutional/instrumental purposes.

The tool used to measure price risk for equity securities and UCITS other than equity investments is Value-at-Risk (VaR). The methodology is described in Section 2 – "Market Risks" in this Part E of the Notes to the Financial Statements.

As part of price rick governance strategies for the banking book, stress tests are regularly performed to determine the Group's ability to absorb potential losses in the case of extreme events.

With reference to the component consisting of equity investments, the internal measurement system uses a measure derived from the regulatory approach, using the standardised method, to determine internal capital. This method entails the exposures in equity instruments being assigned a risk-weighting factor of 100% or 150% if at high risk, unless they have to be deducted from Own Funds. The mechanisms of deduction from Own Funds were innovated by the new supervisory rules (CRD4/CRR), which further widened the perimeter including also investments in non-significant financial sector subjects (<10%), and which introduced excesses on the deduction.

Quantitative information

1. Banking book: breakdown by residual life (repricing date) of the financial assets and liabilities

This table is not provided in that a sensitivity analysis is provided for interest rate and price risk for the supervisory trading book on the basis of internal models.

2 Banking book: internal models and other methods for sensitivity analysis

2.1 Interest Rate Risk

The Bank's sensitivity, at 31 December 2019, presented a risk exposure profile due to a rise in interest rates. The economic value at risk for a 100 bps parallel shift of the rates curves at year end amounted to € -20.27 million and € 16.10 million for a shift of -100 bps.
The sensitivity of MPS Capital Service's net interest income (margin sensitivity) in the event of a rise in interest rates of 100 bps amounted at the end of 2019 to € -2.69 million (€ -9.85 million for -100 bps).

2.2 Price Risk

Below is the scenario analysis which includes all the management positions taken on by the bank in equity securities and UCITS measured at fair value (e.g. securities classified among "financial assets measured at fair value through other comprehensive income" and "financial assets obligatorily measured at fair value"):

MPS Capital Services Bank Book

Figures in € millions

Risk Family	Scenario	Effect on operating income and economic result	Effect on Shareholders' Equity	Total Effect
Equity	+1% Equity Prices (prices, indexes)	0.24	0.21	0.45
Equity	-1% Equity Prices (prices, indexes)	(0.24)	(0.21)	(0.45)
Equity	+1 point Equity Volatility	0.00	0.00	0.00

The effect of parent company actions on the sensitivity analyses reported above, representing almost the entirety of securities classified as "financial assets measured at fair value through other comprehensive income" is netted at the consolidated level.

For the sake of completeness, note that the scenario analysis outlined above excludes equity investments not measured at fair value.

2.3 Exchange risk

Qualitative information

A. Exchange rate risk: general aspects, management processes and measurement methods

A.1 Regulatory trading book

Exposure to exchange rate risk is of a limited amount and derives mainly from the role played by the Bank in the activity of:

- trading of structured products and of the related hedges put in place, which, owing to their characteristics, entail exposure in non-euro currencies;
- market maker for derivatives carried out for the purpose of hedging the MPS Group's corporate customers.

Operations are in fact concentrated mainly on the crosses of the main G7 currencies.
The activity is essentially based on trading and on the aggregate management of risks with a short-term view and with a substantial hedging of the risks originated from commercial transactions. As a risk mitigation strategy, the Bank obtains funding in the same currency as the assets, through deposits with the Parent Company (when necessary) or through the synthetic transformation of funding into Euro. The main financial instruments used in this segment are spot forwards, options and futures. The risks are measured and monitored, as in the other segments, via sensitivity tests and VaR; consequently reference should be made to the description provided above. Management of this risk takes place by aggregating all the risk factors indicated above using the Risk Management system of the Murex application. The activity is carried out mainly by the Global Markets Department, through its own desks that manage their own exposure individually within the delegated limits and in keeping with the trading strategy.

A.2 Banking book

With regard to this type of portfolio, the exchange rate risk is represented by losses which the Bank could incur due to sudden fluctuations in the exchange rates should foreign currency loans and deposits not be balanced. Typically, foreign currency investments are financed by deposits expressed in the same currency without incurring any significant exchange rate risk. At the reporting date of these financial statements the Bank had an essentially balanced foreign exchange position for the banking book.

B. Exchange rate risk hedging activities

Quantitative information

1. Distribution by currency of assets, liabilities and derivatives

Items	Currencies					
	US Dollar	British Pound	Yen	Canadian Dollar	Swiss Franc	Other currencies
A. Financial assets	**547,811**	**1,192**	**748**	**2,721**	**16,372**	**19,545**
A.1 Debt securities	348,866	39	-	-	1,661	3
A.2 Equity securities	62,756	1,073	663	191	1,691	1,088
A.3 Loans to banks	22,495	49	4	2,530	13,020	18,454
A.4 Loans to customers	113,694	31	81	-	-	-
A.5 Other financial assets	-	-	-	-	-	-
B. Other Assets	**10**	**-**	**-**	**-**	**-**	**-**
C. Financial liabilities	**145,717**	**61,024**	**3,668**	**-**	**-**	**21,062**
C.1 Due to banks	120,264	61,024	3,668	-	-	21,062
C.2 Due to customers	25,453	-	-	-	-	-
C.3 Debt securities	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	**-**	**-**	**-**	**-**	**-**	**-**
E. Financial derivatives						
- Options						
+ long positions	217,657	7,116	1,065	-	371	644
+ short positions	66,652	-	1,727	-	-	154,697
- Other						
+ long positions	848,596	55,898	8,881	257	3,685	177,000
+ short positions	1,572,980	10,036	11,285	283	71	25,452
Total assets	**547,821**	**1,192**	**748**	**2,721**	**16,372**	**19,545**
Total liabilities	**145,717**	**61,024**	**3,668**	**-**	**-**	**21,062**
Differences (+/-)	**402,104**	**(59,832)**	**(2,920)**	**2,721**	**16,372**	**(1,517)**

2. Internal models and other sensitivity analysis methods

The exchange risk is monitored in terms of VaR and analysis scenarios (for the methodology, please refer to the paragraph "The risk management model for market risks related to the trading book").

The simulated scenarios on exchange rates are:

- 1% of all exchange rates against EUR;
- -1% of all exchange rates against EUR;

- 1 point on all volatility surfaces of all exchange rates.

The effect on the operating income and on the income for the year was estimated considering positions classified as "Financial assets held for trading" and "Financial assets obligatorily measured at fair value"; changes in market value are recorded directly in the income statement. On the other hand, the effect on shareholders' equity is estimated with reference to positions classified as "financial assets measured at fair value through other comprehensive income" and the relative hedges under the fair value hedge regime (FVH). The total effect is reflected by the algebraic sum of the two components. A summary of the scenario analysis follows:

MPS Capital Services

Figures in € millions

Risk Family	Scenario	Effect on operating income and economic result	Effect on Shareholders' Equity	Total Effect
Forex	+1% exchange rates against EUR	0.40	0.00	0.40
Forex	-1% exchange rates against EUR	0.07	0.00	0.07
Forex	+1 point Forex volatility	0.38	0.00	0.38

The effect on shareholders' equity is nil in that there are no positions in other currencies in "financial assets measured at fair value through other comprehensive income".

Section 3 – Derivative instruments and hedging policies

3.1 Derivative instruments held for trading

A. Financial derivatives

A.1 Financial derivatives held for trading: period-end notional values

Underlying assets/Type of derivatives	Total 31 12 2019				Total 31 12 2018			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Debt securities and interest rates	**-**	**373,622,607**	**3,744,410**	**25,026**	**-**	**362,303,289**	**4,288,181**	**-**
a) Options	-	17,544,950	1,110,572	-	-	33,588,331	1,435,378	-
b) Swap	-	353,727,499	1,842,889	-	-	325,621,716	1,978,325	-
c) Forward	-	-	790,949	25,026	-	-	874,478	-
d) Futures	-	2,350,158	-	-	-	3,093,242	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity securities and stock market indices	**-**	**8,978,361**	**6,095**	**197,327**	**-**	**10,447,200**	**6,845**	**43,080**
a) Options	-	6,853,139	6,095	177,737	-	8,604,912	6,845	20,363
b) Swap	-	1,718,315	-	-	-	1,445,575	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	406,907	-	19,590	-	396,713	-	22,717
e) Other	-	-	-	-	-	-	-	-
3. Currencies and gold	**-**	**3,148,548**	**29,533**	**-**	**-**	**3,770,900**	**21,834**	**-**
a) Options	-	720,049	7,080	-	-	1,193,138	21,834	-
b) Swap	-	1,097,508	-	-	-	1,392,082	-	-
c) Forward	-	1,330,991	22,453	-	-	1,174,955	-	-
d) Futures	-	-	-	-	-	10,725	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	**-**	**450,608**	**10,249**	**-**	-	520,463	-	-
5. Other	**-**	**-**	**-**	**-**		-	-	-
Total	**-**	**386,200,124**	**3,790,287**	**222,353**	**-**	**377,041,852**	**4,316,860**	**43,080**

Note: for completeness, we note that complex contracts such as collar, strangle, straddle, etc. are represented, breaking the instruments down into the elementary options.

A.2 Financial derivatives held for trading: positive and negative gross fair value – breakdown by products

Underlying assets/Type of derivatives	Total 31 12 2019				Total 31 12 2018			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Positive fair value								
a) Options	-	128,433	14,124	10,087	-	259,688	13,236	4,489
b) Interest rate swap	-	5,454,612	78,323	-	-	4,246,211	75,220	-
c) Cross currency swap	-	4,552	-	-	-	10,224	-	-
d) Equity swap	-	32,384	-	-	-	17,418	-	-
e) Forward	-	15,623	12,478	-	-	9,822	-	-
f) Futures	-	1,507	-	-	-	2,395	-	-
g) Other	-	25,178	11	-	-	25,865	-	-
Total	**-**	**5,662,289**	**104,936**	**10,087**	**-**	**4,571,623**	**88,456**	**4,489**
2. negative fair value								
a) Options	-	227,655	566	2,079	-	276,437	1,228	4
b) Interest rate swap	-	3,873,945	889	-	-	2,439,089	1,059	-
c) Cross currency swap	-	50,442	-	-	-	33,327	-	-
d) Equity swap	-	42,467	-	-	-	30,642	-	-
e) Forward	-	12,878	533	5	-	22,376	37,643	-
f) Futures	-	448	-	-	-	3,721	-	-
g) Other	-	20,475	40	-	-	17,464	-	-
Total	**-**	**4,228,310**	**2,028**	**2,084**	**-**	**2,823,056**	**39,930**	**4**

A.3 OTC financial derivatives held for trading: notional values, positive and negative gross fair value by counterparties

Underlying asset	Central counterparties	Banks	Other financial companies	Others
Contracts not included in netting agreements				
1) Debt securities and interest rates				
- notional value	X	797,480	671,883	2,275,046
- positive fair value	X	-	2,825	94,819
- negative fair value	X	-	1,012	862
2) Equity securities and stock market indices				
- notional value	X	760	5,335	-
- positive fair value	X	783	6,469	-
- negative fair value	X	-	-	-
3) Currencies and gold				
- notional value	X	22,453	-	7,080
- positive fair value	X	-	-	30
- negative fair value	X	57	-	58
4) Commodities				
- notional value	X	-	-	10,249
- positive fair value	X	-	-	11
- negative fair value	X	-	-	40
5) Other				
Contracts included in netting agreements				
1) Debt securities and interest rates				
- notional value	-	190,409,284	182,439,741	773,582
- positive fair value	-	2,206,730	3,179,516	120,415
- negative fair value	-	1,804,162	2,125,895	1,814
2) Equity securities and stock market indices				
- notional value	-	1,818,976	7,159,385	-
- positive fair value	-	42,072	63,526	-
- negative fair value	-	26,767	177,627	-
3) Currencies and gold				
- notional value	-	2,984,032	164,515	-
- positive fair value	-	21,525	1,400	-
- negative fair value	-	69,009	1,695	-
4) Commodities				
- notional value	-	248,757	201,851	-
- positive fair value	-	22,502	4,605	-
- negative fair value	-	14,425	6,917	-
5) Other				

A.4 Residual life of OTC financial derivatives held for trading: notional values

Underlying elements / Residual life	Up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	189,829,272	129,882,808	57,654,936	377,367,016
A.2 Financial derivatives on equity securities and stock indexes	5,390,352	3,453,025	141,079	8,984,456
A.3 Financial derivatives on foreign currencies and gold	2,077,140	1,100,941	-	3,178,081
A.4 Financial derivatives on commodities	430,729	30,128	-	460,857
A.5 Other financial derivatives	-	-	-	-
Total 31 12 2019	**197,727,493**	**134,466,902**	**57,796,015**	**389,990,410**
Total 31 12 2018	**114,268,799**	**216,901,904**	**50,188,010**	**381,358,713**

In this table the remaining life is determined with reference to the contractual maturity of the derivatives in question, except for the interest rate swaps (IRSs) with variable notional capital, for which the remaining life has been calculated with reference to the single IRS into which they can be broken down.

B. Credit derivatives

B.1 Credit derivatives held for trading: period-end notional values

Transaction categories	Derivatives held for trading	
	on one item	on several items (basket)
1. Protection purchases		
a) Credit default products	531,558	250,000
b) Credit spread products	-	-
c) Total rate of return swaps	-	-
d) Other	-	-
Total 31 12 2019	**531,558**	**250,000**
Total 31 12 2018	**523,552**	**279,400**
2. Protection sales		
a) Credit default products	3,631,888	230,000
b) Credit spread products	-	-
c) Total rate of return swaps	-	-
d) Other	-	-
Total 31 12 2019	**3,631,888**	**230,000**
Total 31 12 2018	**2,715,109**	**288,570**

B.2 Credit derivatives held for trading: positive and negative gross fair value – breakdown by products

Portfolio / Type of derivative	Positive fair value	
	Total 31 12 2019	Total 31 12 2018
1. Positive fair value		
a) Credit default products	8,171	14,596
b) Credit spread products	-	-
c) Total rate of return swaps	-	-
d) Other	-	-
Total	**8,171**	**14,596**
2. negative fair value		
a) Credit default products	130,209	56,429
b) Credit spread products	-	-
c) Total rate of return swaps	-	-
d) Other	-	-
Total	**130,209**	**56,429**

B.3 OTC credit derivatives held for trading: notional values, positive and negative gross fair value by counterparties

Underlying asset	Central counterparties	Banks	Other financial companies	Others
Contracts not included in netting agreements				
1) Protection purchase				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
2) Protection sale				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts included in netting agreements				
1) Protection purchase				
- notional value	-	366,880	414,679	-
- positive fair value	-	1,200	-	-
- negative fair value	-	1,525	10,182	-
2) Protection sale				
- notional value	-	234,823	3,627,065	-
- positive fair value	-	898	6,073	-
- negative fair value	-	-	118,502	-

B.4 Residual life of OTC credit derivatives held for trading: notional values

Underlying elements / Residual life	Up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total
1. Protection sales	350,721	1,998,875	1,512,292	3,861,888
2. Protection purchases	350,721	300,837	130,000	781,558
Total 31 12 2019	**701,442**	**2,299,712**	**1,642,292**	**4,643,446**
Total 31 12 2018	**229,000**	**2,638,347**	**939,285**	**3,806,632**

B.5 Credit derivatives connected with the fair value option: annual changes

Not present in the financial statements.

3.2 Accounting hedges

Qualitative information

A. Fair value hedging activities

Interest rate hedging is intended to immunise the banking book against fair value changes in deposits and loans caused by changes in the interest rate curve or to reduce the variability of cash flows linked to a specific asset/liability.
The Bank holds a position which covers interest rate risk with a fair value hedge, for an interest rate swap (IRS) with a nominal value of € 19 million.
The Bank's fair value hedge has the form of a specific hedge for a specifically identified asset, represented by a bond held in the portfolio.

B. Cash flow hedging activities

The Bank does not have any of these types of hedges in place.

C. Foreign investment hedging activities

The Bank does not have any of these types of hedges in place.

D. Hedging instruments

The sources of ineffectiveness in a hedging relationship can generally be attributed to the following aspects:

- derivative trading using non-market parameters;
- mistakes in estimating the hedging percentage;
- notional amortisation plan not aligned with that seen in the hedged instrument.

The ineffectiveness of the hedge is recognised in the income statement and evaluated to determine the possibility of continuing to apply hedge accounting rules.

E. Elements covered

The element covered with the hedge accounting operation is a fixed rate bond, partially covered, with the risk covered being "interest rate risk".
The Dollar Offset Method is used to determine the effectiveness of the hedge. This method is based on the ratio between cumulative fair value changes in the hedging instrument (from the start of the hedge), attributable to the risk covered and past fair value changes in the hedged element.

Quantitative information

A. Financial hedging derivatives

A.1 Financial hedging derivatives: period-end notional values

Underlying assets/Type of derivatives	Total 31 12 2019				Total 31 12 2018			
	Over the counter				Over the counter			
		Without central counterparties				Without central counterparties		
	Central counterparties	With netting agreements	Without netting agreements	Organised markets	Central counterparties	With netting agreements	Without netting agreements	Organised markets
1. Debt securities and interest rates	**-**	**18,985**	**-**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swap	-	18,985	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity securities and stock market indices	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swap	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Currencies and gold	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swap	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
5. Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**-**	**18,985**	**-**	**-**	**-**	**-**	**-**	**-**

A.2 Financial hedging derivatives: positive and negative gross fair value – breakdown by products

Underlying assets/Type of derivatives	Total 31 12 2019				Total 31 12 2018			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Positive fair value								
a) Options	-	-	-	-	-	-	-	-
b) Interest rate swap	-	1,547	-	-	-	-	-	-
c) Cross currency swap	-	-	-	-	-	-	-	-
d) Equity swap	-	-	-	-	-	-	-	-
e) Forward	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	**-**	**1,547**	**-**	**-**	**-**	**-**	**-**	**-**
2. negative fair value								
a) Options	-	-	-	-	-	-	-	-
b) Interest rate swap	-	-	-	-	-	-	-	-
c) Cross currency swap	-	-	-	-	-	-	-	-
d) Equity swap	-	-	-	-	-	-	-	-
e) Forward	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Note: the market value of the sole hedging derivative was subject to offsetting on the basis of IAS 32, paragraph 42 and, therefore, is not recognised under item 50. "Hedging derivatives" in the Assets.

A.3 OTC financial hedging derivatives: notional values, positive and negative gross fair value by counterparties

Underlying asset	Central counterparties	Banks	Other financial companies	Others
Contracts not included in netting agreements				
1) Debt securities and interest rates				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
2) Equity securities and stock market indices				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
3) Currencies and gold				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
4) Commodities				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts included in netting agreements				
1) Debt securities and interest rates				
- notional value	-	-	18,985	-
- positive fair value	-	-	1,547	-
- negative fair value	-	-	-	-
2) Equity securities and stock market indices				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Currencies and gold				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4) Commodities				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Residual life of OTC financial hedging derivatives: notional values

Underlying elements / Residual life	Up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	-	-	18,985	18,985
A.2 Financial derivatives on equity securities and stock indexes	-	-	-	-
A.3 Financial derivatives on foreign currencies and gold	-	-	-	-
A.4 Financial derivatives on commodities	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31 12 2019	**-**	**-**	**18,985**	**18,985**
Total 31 12 2018	-	-	-	-

B. Credit hedging derivatives

The schedules in this section are not completed because in both the current year and the comparison year the Bank did not hold credit hedging derivatives.

C. Non-derivative hedging instruments

D. Instruments hedged

E. Effects of hedging transactions on shareholders' equity

The tables in Sections C, D and E are not completed because the Bank made use of the option, offered at first time application of IFRS 9, to continue to use that established under international accounting standard IAS 39 for hedge accounting of all types of hedges, both micro and macro.

3.3 Other information on derivative instruments held for trading and for hedging

A. Financial and credit derivatives

A.1 OTC financial and credit derivatives: net fair value by counterparty

Underlying asset	Central counterparties	Banks	Other financial companies	Others
A. Financial derivatives				
1) Debt securities and interest rates				
- notional value	-	191,206,764	183,130,609	3,048,628
- positive fair value	-	-	2,825	94,819
- negative fair value	-	-	1,012	862
2) Equity securities and stock market indices				
- notional value	-	1,819,736	7,164,720	-
- positive fair value	-	783	6,469	-
- negative fair value	-	-	-	-
3) Currencies and gold				
- notional value	-	3,006,486	164,515	7,080
- positive fair value	-	-	-	30
- negative fair value	-	57	-	58
4) Commodities				
- notional value	-	248,757	201,851	
- positive fair value	-	-	-	11
- negative fair value	-	-	-	40
5) Other				
- notional value	-	-	-	-
- positive fair value	-	694,172	933,827	118,600
- negative fair value	-	315,133	113,739	-
B. Credit derivatives				
1) Protection purchase				
- notional value	-	366,880	414,679	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
2) Protection sale				
- notional value	-	234,823	3,627,065	-
- positive fair value	-	-	-	-
- negative fair value	-	-	4,238	-

Section 4 – Liquidity risk

Qualitative information

A. Generals aspects, management procedures and gauging methods for liquidity risk

During 2019 the Group continued to strengthen and make more efficient the strategic and operating processes for managing liquidity risk, paying particular attention to development of the Liquidity Stress Test Framework and integration of concentration risk metrics in the context of the decision-making processes.

Group Liquidity Risk Framework

Several years ago the Group adopted a Liquidity Risk Framework, understood as the set of tools, methods, organisational and governance systems which ensures both compliance with national and international regulations and adequate management of the liquidity risk in the short (Operating Liquidity) and medium/long term (Structural Liquidity), under normal business conditions and in the event of turbulence. The Montepaschi Group's liquidity risk reference model is a "centralised" type, which involves management of short-term liquidity reserves and medium/long-term financial balance at the parent company level, guaranteeing solvency on an individual and consolidated basis for the subsidiaries.
Internal assessment of liquidity adequacy is a process that falls within the more general Risk Management macro-process, in direct connection with the Risk Appetite Framework (RAF), part of the annual creation of the Risk Appetite Statement (RAS) and its relative thresholds.
Overall internal assessment of liquidity is carried out periodically as part of the strategic Internal Liquidity Adequacy Assessment Process (ILAAP), consisting mainly of:

- ILAAP Outcomes, that is assessments of a quantitative type (inherent risk) and qualitative type (risk management and controls) on the risk positioning prepared by the Risk Control Unit and submitted to the Board of Directors. This document is accompanied by the Liquidity Adequacy Statement (LAS), a summary statement issued by the Board of Directors that expresses its vision and knowledge with regards to liquidity adequacy management;
- Ongoing ILAAP, which involves periodic analysis of liquidity adequacy, made concrete through reports submitted to the company bodies.

Liquidity Risk Management

Management of the Group's Operating Liquidity pursues the purpose of ensuring the Group's capacity to satisfy the short-term cash payment commitments. The essential condition for normal operational continuity of the banking activity is to maintain a sustainable difference between the incoming and outgoing cash flows in the short term. From an operating point of view, the measure of reference in this sphere is the difference between the accumulated net cash flow and the Counterbalancing Capacity, i.e. the liquidity reserve which allows for dealing with stress conditions in the short term, as well as the regulatory liquidity coverage ratio (LCR) - delegated regulation. From the point of view of the very short term, the Group has adopted the system of analysis and monitoring of the intraday liquidity with the objective of guaranteeing the normal development of the treasury day and its ability to meet its intra-day payment commitments.
Management of the Group's Structural Liquidity aims to ensure the financial balance of the structure according to due dates over a period of time of more than one year, at both Group level and at that of the single companies. Maintaining an adequate dynamic ratio between medium/long term liabilities and assets is aimed at avoiding pressure in respect of both present and future short term collections. Gap ratios serve as the reference metric, measuring the ratio between total loans and funding maturing after 12 months and 5 years, as well as the ratio between loans and commercial funding, in addition to the regulatory net stable funding ratio (NSFR), based

on the BCBS definition (Basel Committee for Bank Supervision). The Group has also defined and formalised the Asset Encumbrance management and monitoring framework with the objective of analysing:

- the overall degree of commitment for total assets;
- the existence of a sufficient quantity of assets that can be committed but are free;
- the Group's ability to transform bank assets into eligible assets (or equivalently to commit non-eligible assets in bilateral operations);

and the Concentration Risk monitoring framework, with the objective of analysing:

- concentration in terms of funding sources, both in terms of counterparty and channel;
- concentration in terms of the assets which make up the Group's liquidity reserves.

The liquidity position is monitored both under normal conditions in the course of business and in Stress Scenarios of a specific and/or combined nature (with adverse and extreme intensity) based on the Liquidity Stress Test Framework. These exercises are intended to:

- promptly identify the Bank's main vulnerabilities relative to liquidity risk;
- calculate Group survival time under stress conditions;
- allow for surveillance levels to be prudentially determined, then applied to Liquidity Risk measurement matrices as part of the annual Risk Appetite Statement.

In the context of the Risk Appetite Framework, the Liquidity Risk Framework contemplates the identification of the liquidity risk tolerance thresholds, understood as maximum exposure to risk deemed sustainable under normal business conditions and incorporating situations of stress. The short term and medium/long term limits for liquidity risk are based on the definition of these Risk Appetite thresholds.

The operating limits system, known as Liquidity Risk Limits, is defined so as to promptly identify any nearing of the risk tolerance threshold defined in the annual process to develop the Risk Appetite Statement.

For immediate warning of possible vulnerability of the liquidity position, the Group has set up Early Warnings, distinguishing them as generic or specific according to whether the purpose of the single indicator is to warn of possible critical aspects regarding the entire economic contest, or specifically to the Group.

Group liquidity management

Management of operating and structural liquidity is governed by the parent company's Liquidity Management Department, which is responsible for defining and implementing short and medium/long-term funding strategies.

With reference to management of operating liquidity, the department manages the Group's liquidity reserves, in order to guarantee the Bank's ability to face planned and unplanned outflows, making use of the various instruments available on the interbank market (unsecured deposits, collateralised deposits, repos), as well as operations with the Central Bank.

With reference to management of structural liquidity, the Liquidity Management Department pursues the objectives detailed in the annual Funding Plan which outlines the medium/long-term strategies in operational terms defined in the Liquidity and Funding Strategy. In this latter document the Group defines guidelines for funding activities in terms of risk appetite, with a three year time horizon, in compliance with the multi-year risk tolerance thresholds relative to operating and structural liquidity, both internal and regulatory, as defined in the

Group's Risk Appetite Statement (RAS).

Additionally, the Liquidity Management Department, in support of the Funding Plan, prepares the *Contingency Funding Plan*, the operating tool to manage liquidity risk that defines action strategies in the case of extreme liquidity tensions, establishing procedures and actions that can be readily put into place to obtain financing sources in the case of emergency. The strategies to be applied are defined on a case by case basis by the Executive Committee during the Liquidity Stress/Crisis session, in consideration of the type, duration and intensity of the crisis and the reference scenario at the time the crisis occurs.

Quantitative information

1.A Breakdown by contractual residual maturity of financial assets and liabilities - Euro

Items/Maturities	On demand	From over 1 day to 7 days	From over 7 days to 15 days	From over 15 days to 1 month	From over 1 month to 3 months	From over 3 month to 6 months	From over 6 months to 1 year	From over 1 year to 5 years	Over 5 years	Unspecified duration
Cash assets	**3,088,523**	**2,146,850**	**451,828**	**2,571,010**	**1,166,178**	**1,084,978**	**3,811,903**	**5,164,532**	**4,139,292**	**128,222**
A.1 Government securities	135	-	13	6,541	217,653	183,204	2,742,994	1,402,512	837,821	-
A.2 Other debt securities	20,276	3,825	2,141	92,329	61,361	69,581	52,104	325,608	1,222,098	829
A.3 UCITS units	59,447	-	-	-	-	-	-	-	-	-
A.4 Loans	3,008,665	2,143,025	449,674	2,472,140	887,164	832,193	1,016,805	3,436,412	2,079,373	127,393
- Banks	2,285,907	304,457	97,871	1,860,190	187,899	77,238	190,709	1,230,965	-	4,663
- Customers	722,757	1,838,568	351,803	611,950	699,264	754,955	826,095	2,205,447	2,079,373	122,731
On-balance-sheet liabilities	**5,031,375**	**7,793,430**	**376,702**	**2,743,632**	**558,309**	**780,924**	**1,116,821**	**4,374,062**	**2,102,445**	**-**
B.1 Current accounts and deposits	1,955,766	349,904	299,936	672,351	-	490,045	530,445	3,667,603	1,986,387	-
- Banks	1,952,589	349,904	299,936	672,351	-	490,045	530,445	3,667,603	1,986,387	-
- Customers	3,177	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	3,373	6,209	-	9,582	450,000	-	-
B.3 Other liabilities	3,075,609	7,443,526	76,766	2,067,908	552,100	290,879	576,794	256,459	116,058	-
Off-balance sheet transactions										
C.1Financial derivatives with exchange of capital										
- Long positions	36,774	548,707	159,130	705,853	1,079,696	1,369,232	280,619	590,150	528,245	-
- Short positions	591,883	1,607,117	317,847	62,915	1,305,014	454,610	316,720	351,939	409,310	-
C.2Financial derivatives without exchange of capital										
- Long positions	5,409,941	-	-	120	-	-	257	-	-	-
- Short positions	3,871,651	-	-	-	-	-	-	-	-	-
C.3Deposits and loans										
- Long positions	-	9,646,011	-	400,748	-	-	115,323	-	-	-
- Short positions	-	9,646,011	-	400,748	-	-	115,323	-	-	-
C.4Irrevocable commitments to grant finance										
- Long positions	32,974	3,158,615	-	1,576	100,232	-	454,223	478,040	268,779	-
- Short positions	647,417	3,158,615	-	-	100,232	-	437,283	150,892	-	-
C.5 Financial guarantees given	27	-	-	-	-	71	-	-	22	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	1,760,250	1,642,292	-
- Short positions	-	-	-	-	-	-	-	1,760,250	1,642,292	-
C.8 Credit derivatives without exchange of principal										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	9,733	-	-	-	-	-	-	-	-	-

1.B Breakdown by contractual residual maturity of financial assets and liabilities - Other currencies

Items/Maturities	On demand	From over 1 day to 7 days	From over 7 days to 15 days	From over 15 days to 1 month	From over 1 month to 3 months	From over 3 month to 6 months	From over 6 months to 1 year	From over 1 year to 5 years	Over 5 years	Unspecified duration
Cash assets	**115,967**	**-**	**22**	**6,630**	**221,378**	**188,797**	**2,764,376**	**1,675,826**	**881,356**	**-**
A.1 Government securities	10	-	13	6,541	217,653	183,204	2,742,994	1,402,512	837,821	-
A.2 Other debt securities	45	-	9	79	1,636	3,126	15,036	178,374	34,076	-
A.3 UCITS units	56,345	-	-	-	-	-	-	-	-	-
A.4 Loans	59,567	-	-	10	2,089	2,467	6,346	94,940	9,459	-
- Banks	49,439	-	-	10	782	-	663	5,105	554	-
- Customers	10,128	-	-	-	1,308	2,467	5,682	89,835	8,905	-
On-balance-sheet liabilities	**123,948**	**-**	**-**	**-**	**71,129**	**15,020**	**68**	**19,868**	**1,574**	**-**
B.1 Current accounts and deposits	99,084	-	-	-	70,712	14,952	-	-	-	-
- Banks	99,084	-	-	-	70,712	14,952	-	-	-	-
- Customers	-	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	24,864	-	-	-	417	68	68	19,868	1,574	-
Off-balance sheet transactions										
C.1Financial derivatives with exchange of capital										
- Long positions	29,375	45,766	388,785	47,727	379,696	225,386	48,130	88,662	178	-
- Short positions	39,879	3,489	44,152	445,681	557,628	403,485	192,355	126,658	16	-
C.2Financial derivatives without exchange of capital										
- Long positions	249,912	-	-	-	-	-	-	-	-	-
- Short positions	132,460	-	-	-	-	-	-	-	-	-
C.3Deposits and loans										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4Irrevocable commitments to grant finance										
- Long positions	-	-	-	-	-	-	-	1,552	-	-
- Short positions	1,552	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	186,933	380,986	133,523	59,462	-	-
- Short positions	-	-	-	-	186,933	380,986	133,523	59,462	-	-
C.8 Credit derivatives without exchange of principal										
- Long positions	5,494	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

1.2. Self-securitisation transactions

Nothing to report at 31 December 2019.

Section 5 – Operational risks

Qualitative information

A. General aspects, management procedures and gauging methods for operational risks

General aspects and Framework Structure

With an administrative provision issued on 12 June 2008, the Montepaschi Group was authorised by the Bank of Italy to use internal models for determining the capital requirements to cover credit and operational risks.

The adoption of the advanced model (AMA) requires banks to:

- develop an internal organisation which defines the roles of the bodies and the corporate departments involved in the operational risk management process;
- develop a control department for gathering and storage of data, calculation of the requirement, assessment of the risk profile and reporting;
- check on the quality of the management system and compliance with the legislative prescriptions on an ongoing basis;
- delegate the internal auditing body to make periodic checks on the Operational Risk management system;
- guarantee over time that the system is effectively used in the corporate operations (use tests).

For this purpose, the Montepaschi Group has developed an integrated system for the management of operational risk, an internal framework built on a governance model which sees all the companies in the scope of application of the AMA model involved. The approach defines the standards, methods and instruments which make it possible to assess the exposure to risk and the effects of the mitigation for each business area.

The advanced approach is conceived in such a way as to combine all the main disclosure sources in a standardised manner (information or data), both qualitative and quantitative (mixed Loss Distribution Approach - Scenario Model).

The quantitative component, of the Loss Distribution Approach (LDA) type, is based on the gathering, analysis and statistical modelling of the historical figures on internal and external loss (provided by the DIPO Consortium – Italian Database of Operating Losses).

The qualitative component is focused on the valuation of the risk profile of each unit and is based on the identification of relevant scenarios. In this context, the involvement of the companies in the AMA scope takes place through the identification of the processes and risks to be assessed, the assessment of the risks by the individuals responsible for the process, the identification of possible mitigation plans, discussions with the relevant units of the priorities and technical-economic feasibility of the mitigation measures.

This is followed by the monitoring of the implementation of the planned measures and of compliance with targets and deadlines.

The Framework identifies the operational risk control unit as the Group Operational Risk Management (ORM) Department (within the parent company's Chief Risk Officer Department).

The Group ORM calculates the capital requirement for covering the operational risks by means of the use of various components of the model (internal data, external data, context and control factors, qualitative analysis) supports the Top Management's decision making process with a view to creating value by retaining, mitigating and transferring the detected risks and it collects, also for the other companies in the perimeter, the internal loss data and identifies the risks to be assessed in qualitative analyses.

All the main domestic banking and financial components come within the perimeter of the advanced approach (AMA), while for the remaining components and for the foreign companies the basic approaches are instead adopted. At 31 December 2019 the coverage of the internal model, in terms of the relevant indicator, was more than 95%.

The ORM has also set up a reporting system that provides timely information about operational risks to the Top Management, which translates the strategic principles of the management system into specific management policies. The reports are regularly submitted to the Risk Management Committee and the decision-making bodies.

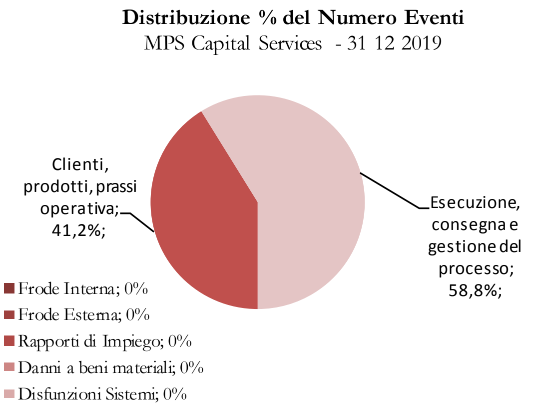
The adoption of the AMA model has assured, over time, a more knowledgeable management of operational risk, guaranteeing in practice a progressive reduction in the operational risk of the Bank and the Group.

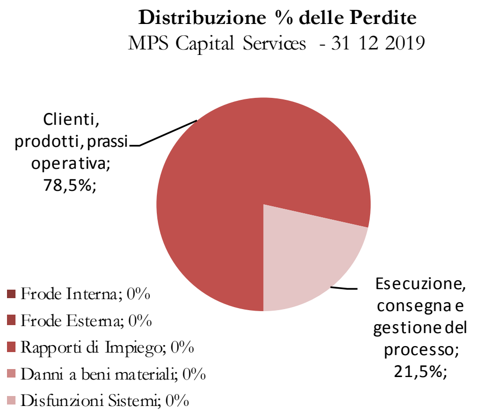
As of 30 June 2017, the Advanced Measurement Model underwent a change involving an increase in the historical depth of internal loss data, going from 5 to 10 years, as well as the introduction of a scaling mechanism for external data, in order to prevent unexpected oscillations in the requirement.

Quantitative information

The percentage distribution of the number of events and of the operating losses recorded in 2019 is given below, divided into the various risk classes mainly linked to the Bank's business, represented in practice by the offer of solutions to a wide range of financial and credit problems (medium and long-term credit products and those of a specialist type, corporate finance assets, capital market products and structured loans):

- **customers, products and operating procedures**: losses deriving from breaches relating to professional obligations vis-à-vis customers or from the nature or features of the product or service provided;
- **process execution, delivery and handling**: losses due to shortfalls in the finalization of the transactions or the handling of the processes, as well as losses due to relations with commercial counterparties, sellers and suppliers.





Distribuzione % del Numero Eventi	% Distribution of Number of Events
Clienti, prodotti, prassi operativa	Customers, products and operating procedures
Esecuzione, consegna e gestione del processo	Execution, delivery and process management
Frode interna	Internal Fraud
Frode esterna	External fraud
Rapporti di impiego	Lending Ratios
Danni a beni materiali	Damages to property, plant and equipment
Disfunzioni sistemi	System malfunctions
Distribuzione % delle perdite	% Distribution of Losses

At 31 December 2019 the numbers of operational risk events were substantially stable while operating losses were down compared to 2018.

The types of events with an impact on the income statement were associated with non-fulfilment of professional obligations relative to customers ("Clients, products, operating practices: 78.5% of the total) and shortcomings in the completion of operations or in the management of processes ("Execution, delivery and process management": 21.5% of the total).

Contingent liabilities related to legal actions

The risks inherent in or related to legal disputes – understood as such those involving judicial bodies and arbitrators – are subject to specific and careful examination by the Bank. In the case of disputes for which the outflow of economic resources to fulfil the implicit legal obligation is estimated as "*probable*", and it also seems possible to make a reliable estimate of the related amount, Provisions for Risk and Charges are set aside with statistical or analytical criteria. If an outflow of economic resources is possible, or when, although it is probable, it is not possible to make a reliable estimate of the financial expense, the contingent liability must be described in the Notes to the Financial Statements. As provided for in paragraph 92 of IAS 37, in extremely rare cases the indication of some or all the information required by the said standard on the subject of disclosure could have a serious adverse effect on the company's position in a dispute with third parties. In these cases the company does not have the obligation to provide the detailed information, but can limit itself to indicating the general nature of the dispute, explaining in any case the reasons that underlie the simplified disclosure.

At 31 December 2019, there were legal disputes pending with a total *petitum*, when quantified, of € 421,324 thousand.
Specifically:

- € 32,963 thousand as the *petitum* relative to disputes classified as having a "probable" risk of loss, for which provisions of € 17,227 thousand have been allocated, of which € 510 thousand for a dispute associated to credit collection and € 16,717 thousand relative to other legal disputes, mainly relative to usury and compound interest;
- € 131,121 thousand as the *petitum* relative to disputes classified as having a "possible" risk of loss;
- € 257,240 thousand as the *petitum* relative to disputes classified as having a "remote" risk of loss.

For legal action with the greatest significance, for macro-category or individually, the main characteristics are illustrated below:

Dispute regarding breach of Italian Law 108/1996 on the subject of usury

The notion that the interest conventionally established constitutes usury is the subject of numerous legal actions following, mainly, a judgement of the Court of Cassation (no. 350 of 2013) which, placing itself apparently in contrast with the indications of the Bank of Italy (whose latest clarifications were issued in July 2013), ruled that "*for the purposes of application of art. 644 of the Italian Criminal Code, and of art. 1815 of the Italian Civil Code, paragraph 2, usury is understood as interest that exceeds the limit established by law at the moment in which it is promised or at least agreed, for any reason, therefore also as default interest*". From the enunciation of this legal principle, we have seen the affirmation of a theory that leads to free loans if the current threshold interest rate is exceeded at the moment of signing, with a simplistic operation of adding together the standard and default interest rates (adding together the interest charged on the loan and interest on arrears). This position has been rejected by the majority of jurisprudence which has considered the addition of standard and default interest rates a logical not to mention a legal error.

In view of the prevailing orientation of the jurisprudence there has been a subsequent diversification of disputes on the subject of usury. In particular we have seen a growing number of actions in which, for the purposes of counting the threshold rate, any expenses (such as fees for early settlement or fees for contractual termination) are also added to the standard interest, expenses and charges received by the Bank under the terms of the contract.

MPS Capital Services Banca per le Imprese S.p.A./Etika Esco S.p.A. dispute

The joint stock company Etika Esco (hereafter, for the sake of brevity, hereinafter "Plaintiff" or "Company") launched a legal action against the Bank with the Court of Florence, alleging the illegitimacy of the Bank's conduct as, after approving a loan of € 20,000,000.00 in favour of a company being set up (hereinafter "Newco Sviluppo Marina Velca") which was to have been wholly controlled by the Plaintiff, did not proceed with the signing of the contract and the consequent disbursements.

It must first be noted that the operation, the subject of an enquiry completed with the resolution of 7 September 2016, was structured to enable the Newco Sviluppo Marina Velca to complete a project for construction of a property complex of approximately 300 houses, and the renovation and expansion of a golf course, in an area owned by Sviluppo Marina Velca S.r.l., situated in the Municipality of Tarquinia (hereinafter "Property Project").
The Property Project involved an Italian closed-end investment fund which, through a Luxembourg-law special purpose vehicle, held 100% of the capital of Sviluppo Marina Velca S.r.l.
The Bank had already intervened in support of the said project granting, in 2012, to Sviluppo Marina Velca S.r.l. a loan of € 9,400,000.00 (hereinafter the "2012 Loan"), which fell due on 31 July 2014 and of which there remained at September 2016, the period of approval of the loan involved in the legal action, approximately € 11,000,000.00 for principal, past-due interest, default and ancillary charges.

The Company taking over in the Property Project required the acquisition by Etika Esco of a special purpose vehicle (identified as Rell's Risorse s.r.l.) which was to have purchased the shares of Sviluppo Marina Velca S.r.l. before proceeding to a merger by incorporation. The purchase of the shares of Sviluppo Marina Velca S.r.l. would have required the intervention of the Bank, as guaranteed creditor, in order to authorise the transfer of the shares subject to pledge guaranteeing the 2012 Loan.
Having explained the context of the operation planned by the Company, we can now illustrate briefly the allegations formulated in relation to the Bank's conduct.

The Plaintiff complains in fact that, after an appointment had been fixed with a notary for transfer of the shares of Sviluppo Marina Velca S.r.l., the Bank communicated only the day before that it could not attend owing to what it claimed were internal delays.

Having missed this appointment for no reason, the Bank was then said to have assumed an attitude of closure in relation to the Plaintiff, no longer answering the many requests to carry out the loan operation up to 15 March 2017, when the Bank communicated, with arguments and justifications said by the Company to be wholly insufficient, the expiry and/or revocation of the resolution of 7 September 2016.
The Plaintiff asserts that the conditions set by the Bank for the effectiveness of the resolution of 7 September 2016 were all met and, for those not fulfilled, should be considered as fulfilled under the terms of art. 1359 of the Italian Civil Code due to the actions and negligence of the Bank.

The non-completion of the operation to acquire the shares of Sviluppo Marina Velca s.r.l., first, and then of the loan contract with consequent non-disbursement of the amounts, was said to have caused enormous damage to the Company which was quantified at approximately € 96,000,000.00 of which: i) approximately € 46,000,000.00 as lost profit as it had not been able to achieve, in the role of General Contractor, the revenue deriving from construction of the Property Project and emerging damage consequent to the requests for payment of the penalties provided for in the construction contracts signed with a view to the aforesaid activity and ii) € 50,000,000.00 as further damage that will accrue while awaiting the amount that will be considered just.

The Bank joined the case regularly replying that none of the conditions detailed in the letter communicating that the loan had been resolved was fulfilled. It was also stressed that a few days after the operation was approved (17 October 2016) the Company had asked the Bank for an advance on the first disbursement of € 2,600,000.00 to be guaranteed with a mortgage to be granted by the said incorporating company Sviluppo Marina Velca S.r.l., a request from which there emerged a worrying lack of liquidity in the Company which, instead, was supposed to invest, during the construction of the Property Project much more of its own funds.

The changes in creditworthiness that emerged following the aforementioned request for pre-financing, had not only led the Bank to deny the said new disbursement, but also to re-examine, in view of the Company's manifest lack of liquidity, the operation already resolved arriving at a final decision not to confirm and, therefore, to revoke the said resolution granting the loan also in the light, besides, of the non-observance of the conditions to arrive at the signing of the loan contract.

During the further investigation carried out by the Bank it emerged that the hidden promoter of the operation was also a person with a seriously unfavourable previous record to whom the Bank had previously refused a loan for the same project.

Concluding its arguments the Bank made a counterclaim asking for the Plaintiff to be found guilty of vexatious litigation under the terms of art. 96 of the Italian Code of Civil Procedure.

The parties filed the briefs granted by the investigating Judge, pursuant to article 183, paragraph VI, Italian Code of Civil Procedure.
With the rejoinder pursuant to art. 183, paragraph 6, no. 1 of the Italian Code of Civil Procedure filed by Etika Esco on 21 February 2019 it was specified that the total petitum is not € 96,000,000.00 because the damage suffered as a consequence of the facts described in the pleading amounts to € 46,188,000.00 "*or in any case to a sum of not less than € 50,000,000.00 or more, due for the further damage that in the meantime will accrue for these reasons to the plaintiff, or, subordinately, to the payment of the different amount, also lower, which will be arrived at during the case and/or at which the Judge arrives for the purpose as an equitable amount*".

At the hearing to discuss the evidence, pursuant to article 184, Italian Code of Civil Procedure, the investigating Judge to the parties' requests under advisement. With an order of 26 January 2020, the Judge held that "*The evidence presented, with reference to the claims, exceptions made by the parties and the documentation offered by them, are superfluous with regards to the decision. Therefore, a hearing must be set to specify the findings.*"

The hearing was postponed to 16 November 2021 for the specification of the findings.

MPS Capital Services Banca per le Imprese S.p.A./IMMOBILIARE C2 and guarantors

Immobiliare C2 launched a legal action against the Bank, claiming a series of breaches in the execution of disbursements provided for in relation to the work progress as in the financing contract stipulated on 9/2/2007 for € 2,000,000.00 and disbursed for € 1,129,000.00, as well as a total lack of pre-contractual disclosure in relation to the derivative stipulated at the time of the loan, later replaced with another in 2010. The lack of subsequent disbursements as well as the differentials accruing on the derivative are claimed to have created damages to the Plaintiff, which has quantified these in the amount of € 5,000,000.00, without a division being made between the claim for compensation relative to the loan and the derivative.

In the legal action taken by Immobiliare C2, the real persons serving as guarantors are also involved who, in addition to adhering to the claims made by the aforementioned company, make further claims relative to the exceeding of the threshold rate in relation to both the interest paid and interest on arrears.
With regards to the derivative, the judge, in the light of the presence of the arbitration clause in the relative framework agreement, declared themselves lacking jurisdiction.

In relation to the non-disbursement of the financing by the Bank, this circumstance is due to the lack of the administrative authorisations needed to continued with the financed project (a hotel) which, therefore, led initially to the interruption of the project and subsequently abandonment of the same.

With regards to claims regarding usury in the financing contract, despite the generic nature of the same, the investigating Judge provided for technical consulting, the result of which appears to be positive for the Bank, given that the consultant did not find that the threshold rate was exceeded when determining the interest paid, nor relative to the interest on arrears.

Nonetheless, the question raised by the Judge with regards to exceeding the threshold rate involved certain checks on all charges, even only possible ones (e.g. the fee for early repayment), relative to which the technical consultant had to determine whether the threshold rate had been exceeded by adding all interest, interest on arrears and fees, as well as all expenses established in the contract, with the assumption that the Bank would return the sum of € 26,860.00 as interest paid and fees. Relative to interest on arrears, never paid by Immobiliare C2, the amount accrued of € 9,558.18 would, therefore, not be due.

The hearing was postponed to 21 December 2020 for the specification of the findings.

Part F - Information on Equity

Section 1 - The Bank's capital

A. Qualitative information

The Group pursues strategic objectives focused on the quantitative and qualitative strengthening of the capital, on structural rebalancing of the liquidity and on achieving sustainable levels of profitability, compatible with the risks assumed.
With this in view the capital management, planning and allocation activities are of fundamental importance for guaranteeing observance over time both of the minimum capital requirements established by the regulations and by the supervisory authorities and of the degree of risk appetite approved by the Group's strategic supervisory body.

To this end, in the context of the Risk Appetite Framework (RAF), every year the target levels of capitalisation are estimated and the capital is allocated to the business units according to the development expectations and the estimated risk and return levels, verifying that the capital endowment is sufficient to guarantee observance of the minimum requirements: in the context of the RAF prospective capital adequacy assessments are carried out on a multi-annual time horizon, in both normal and stressful conditions. The analyses are carried out both at the Group level and at the level of all the single legal entities subject to regulatory capital requirements. The Group uses methods to measure proper profitability relative to risk also within the RAF, monitoring and managing the overall expected risk/return profile.

Achievement of the targets and compliance with the minimum regulatory requirements are monitored continuously during the year.

The formal corporate processes in which the RAF is applied on at least an annual basis are the budget, the Risk Appetite Statement and ICAAP. These processes are also consistent with the Recovery Plan, in particular guaranteeing that the recovery indicators (RPI) are included among the Key Risk Indicators (KRI) and that the relative alert thresholds are aligned.

The concepts of capital used are the regulatory supervisory ones: Common Equity Tier 1, Tier 1 and Own Funds; in addition in the context of the RAPM metrics the Invested Capital is also used; this consists of the amount of own capital pertaining to the shareholders (equity) needed to achieve the Common Equity Tier 1 figures, both established in advance as target levels and achieved afterwards as final results.

The risk capital concepts used are the regulatory requirements and correspond to risk weighted assets (RWA), determined on the basis of the rules established in the regulatory provisions, and internal capital, defined by the Group in compliance with the Economic Outlook required under the relative ECB guidelines. In the context of the RAPM metrics both measurements are used.

B. Quantitative information

B.1 The Bank's capital: breakdown

Shareholders' equity items	Total 31 12 2019	Total 31 12 2018
1. Share capital	1,669,516	1,669,516
2. Share premiums	-	-
3. Reserves	(326,600)	(407,280)
- of profits	(326,600)	(407,280)
a) legal	-	-
b) statutory	-	-
c) treasury shares	-	-
d) other	(326,600)	(407,280)
-other	-	-
4. Equity instruments	-	-
5. Treasury shares (-)	-	-
6. Valuation reserves	(141,063)	(141,441)
- Equity securities designated at fair value through other comprehensive income	(138,539)	(137,125)
- Equity security hedges designated at fair value through other comprehensive income	-	-
- Financial assets (other than equity securities) measured at fair value through other comprehensive income	273	(1,872)
- Foreign investment hedging	-	-
- Cash flow hedging	-	-
- Hedging instruments (undesignated elements)	-	-
- Exchange differences	-	-
- Non-current assets and asset groups held for sale	-	-
- Financial liabilities designated at fair value through profit or loss (changes in own creditworthiness)	-	-
- Actuarial gains (losses) relating to defined-benefit pension plans	(2,797)	(2,445)
- Special revaluation laws	-	-
Profit (Loss) for the year (+/-)	36,562	80,699
Total	**1,238,415**	**1,201,494**

B.2 Valuation reserves of financial assets measured at fair value through other comprehensive income: breakdown

Assets / Balances	Total 31 12 2019		Total 31 12 2018	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	1,030	(653)	-	(2,581)
2. Equity securities	-	(138,539)	-	(137,125)
4 Loans	-	-	-	-
Total	**1,030**	**(139,192)**	**-**	**(139,706)**

Note: the values indicated are gross of tax effects.

B.3 Valuation reserves of financial assets measured at fair value through other comprehensive income: annual changes

	Debt securities	Equity securities	Loans
1. Opening balances	**(2,581)**	**(137,125)**	**-**
2. Positive changes	**3,110**	**26**	**-**
2.1 Fair value increases	3,110	-	-
2.2 Credit risk write-downs			
2.3 Transfer to income statement of negative reserves from realisation	-	-	-
2.4 Transfers to other shareholder's equity components (equity securities)	-	26	-
2.5 Other changes	-	-	-
3. Negative changes	**152**	**1,440**	**-**
3.1 Fair value decreases	152	1,440	-
3.2 Write-backs for credit risk	-	-	-
3.3 Transfer to income statement of positive reserves from realisation	-	-	-
3.4 Transfers to other shareholder's equity components (equity securities)			
3.5 Other changes	-	-	-
4. Closing balances	**377**	**(138,539)**	**-**

Note: the values indicated are gross of tax effects.

B.4 Valuation reserves for defined benefit plans: yearly changes

	INTERNAL FUNDS	EXTERNAL FUNDS	TFR	Tax effect	31 12 2019
Opening balances	**(1,910)**	**-**	**(1,207)**	**672**	**(2,445)**
Revaluation of net liabilities/assets for defined benefits:	-	-	-	-	-
Yield of plan assets net of interest	-	-	-		-
Actuarial gains/losses deriving from changes in demographic assumptions	(119)	-	-	33	(86)
Actuarial gains/losses deriving from past experience	(204)	-	29	48	(127)
Actuarial gains/losses deriving from changes in financial assumptions	(93)	-	(98)	53	(138)
Changes in the effect of limitations on the availability of a net asset for defined benefit plans	-	-	-		-
Gains/losses from fund discharges envisaged in the terms of the plan	-	-	-		-
Other changes	-	-	-		-
Closing balances	**(2,326)**	**-**	**(1,276)**	**806**	**(2,796)**

Section 2 - Own funds and capital ratios

For information on own funds and capital ratios, please see the Report on Operations and the disclosure on own funds and capital adequacy contained in the disclosure to the public ("Third Pillar") provided at the consolidated level, as provided for in Bank of Italy Circular 262 of 22 December 2005 – 6th update.

Part G - Business Combinations regarding companies or business units

Section 1 – Transactions carried out during the year

During the year, no business combination transactions were carried out regarding companies or business segments.

Section 2 – Transactions carried out after the end of the year

Nothing to report.

Section 3 – Retrospective corrections

No correction to report.

Part H - Transactions with related parties

In accordance with IAS 24 "key management personnel" includes the following: Directors, Statutory Auditors, General Manager, Assistant General Managers, Heads of Departments who are assigned autonomous decision-making powers.

1. Information about the remuneration of key management personnel

Items/Balances	Total 31 12 2019	Total 31 12 2018
Short-term benefits	1,425	1,462
Indemnity for the termination of the employment relationship	-	-
Total	**1,425**	**1,462**

2. Information on transactions with related parties

In accordance with the accounting standard IAS 24 the Bank has identified its related parties and has complied with the consequent disclosure obligations. The following tables show the accounting effects of transactions carried out with related parties.

On 19 December 2019, Banca Monte dei Paschi di Siena S.p.A. issued the new "Group Directive on management of regulatory requirements relative to related parties, associated companies and obligations for bank representatives" which contains, in a single document, the Group governing conflicts of interest on the subject of transactions with related parties under the terms of CONSOB Regulation no. 17221/2010, with associated subjects under the terms of Bank of Italy Circular no. 263/2006 in Title V, chapter 5, and those on obligations of bank representatives under the terms of art. 136 of the CLB.

In particular, the Directive sets forth the principles and rules to be followed to oversee the risk deriving from situations of possible conflict of interest with certain subjects close to the Parent Company's decision-making centres. The Directive is addressed to the Parent Bank and to all the subsidiaries, including MPS Capital Services S.p.A., which adopted it with a resolution of its Board of Directors on 05 February 2020.

The Directive was published on the Bank's website and the full version can be consulted at the following web address:
https://www.gruppomps.it/static/upload/ope/operazioni_con_parti_collegate_e_soggetti_collegati.pdf

2.a Transactions with the Parent Company and with companies of the MPS Banking Group

	Parent Company	MPS Group Companies	Total	% of financial statement item
Total financial assets	**6,241,112**	**41,317**	**6,282,429**	**22.649%**
Financial assets held for trading	930,901	13,997	944,898	9.013%
Financial assets designated at fair value			-	
Financial assets obligatorily measured at fair value	-	-	-	0.000%
Financial assets at fair value through other comprehensive income	20,647	78	20,725	19.576%
Loans to banks	5,285,314	26,414	5,311,728	84.779%
Loans to customers	-	-	-	0.000%
Other assets	4,250	828	5,078	2.886%
Total financial liabilities	**15,944,460**	**1,724**	**15,946,184**	**59.119%**
Financial liabilities measured at amortised cost	15,621,690	-	15,621,690	68.968%
Financial liabilities held for trading	315,464	-	315,464	7.398%
Financial liabilities designated at fair value	-	-	-	0.000%
Other liabilities	7,306	1,724	9,030	15.596%
Guarantees issued and commitments	**38,352**	**-**	**38,352**	**0.763%**
Income statement				
Interest and similar income	53,873	-	53,873	17.935%
Interest expense and similar charges	(118,925)	(11)	(118,936)	67.870%
Fee income	226	-	226	0.457%
Fee expense	(16,153)	-	(16,153)	55.501%
Net value adjustments for credit risk	7	1	8	0.192%
Operating costs and other expenses and income	(12,965)	(9,548)	(22,513)	27.152%

2.b Transactions with key management personnel and other related parties

	Values at 31/12/2019					
	Associates	Key management personnel	Other related parties	MEF Scope	Total	% of financial statement
Total financial assets	**15,447**	**1,114**	**3,499**	**6,421,592**	**6,441,652**	23.22%
Financial assets held for trading	300		3,499	5,883,693	5,887,492	56.156%
Financial assets designated at fair value	-	-	-	-	-	0.000%
Financial assets obligatorily measured at fair value	-	-	-	-	-	0.000%
Financial assets at fair value through other comprehensive income	-	-	-	2,220	2,220	2.097%
Loans to banks	-	-	-	-	-	
Loans to customers	15,147	1,114	-	535,679	551,940	5.201%
Other assets	-	-	-	-	-	0.000%
Total financial liabilities	**-**	**-**	**104**	**165,784**	**165,888**	
Financial liabilities measured at amortised cost	-	-	-	163,970	163,970	0.724%
Financial liabilities held for trading	-	-	104	1,814	1,918	0.045%
Financial liabilities designated at fair value	-	-	-	-	-	0.000%
Other liabilities	-	-	-	-	-	0.000%
Guarantees issued and commitments	**-**	**-**	**-**	**53,587**	**53,587**	0.743%
Income statement						
Interest and similar income	32	1	26	33,082	33,141	11.033%
Interest expense and similar charges	-	-	-	(953)	(953)	0.544%
Fee income	-	-	750	5,806	6,556	13.270%
Fee expense	-	-	-	-	-	0.000%
Dividends and similar income	-	-	-	121	121	7.159%
Net write-downs (-)/write-backs (+) for impairment	4,048	-	-	1,327	5,375	115.801%

2.c Fees paid to the independent auditing firm and the bodies belonging to its network *pursuant to article 149 duodecies of CONSOB Resolution No. 15915 of 3 May 2007)*

Type of services	Party providing service	Total
Independent auditing	Ernst & Young S.p.A.	183
Certification services	Ernst & Young S.p.A.	4
Management consulting/other services	Ernst & Young Financial Business Advisors S.p.a.	-
Total		**187**

Note: the amounts indicated above are net of VAT and ancillary expenses.

GROUP PARENT COMPANY OR EU PARENT BANK

The Bank belongs to the MPS Group and is controlled by Banca Monte dei Paschi di Siena S.p.A., which exercises management and coordination activities.
The basic data of the most recent financial statements (2018) approved by the parent company are provided below.

2.1 Corporate Name: **BANCA MONTE DEI PASCHI DI SIENA S.p.A.**

2.2 Headquarters: Piazza Salimbeni, 3 - Siena, Italy

Other details:
Share capital € 10,328,618,260.14
Siena Companies Registry Registration Number, VAT Number and
Tax Code: 00,884,060,526
Banking Register No. 325 Code No. 1030.6
Register of Banking Groups Code No. 1030.6
Enrolled in the Banking Register of the Bank of Italy no. 5274
Member of the Interbank Deposit Protection Fund and
the National Guarantee Fund

FINANCIAL STATEMENTS OF THE PARENT COMPANY BANCA MONTE DEI PASCHI DI SIENA AS OF 31.12.2018

Balance Sheet *(amounts in € millions)*

Assets		Liabilities and Shareholders' Equity	
Cash and cash equivalents	934	Financial liabilities measured at amortised cost	109,734
Financial assets measured at fair value through profit or loss	2,552	Financial liabilities held for trading	624
Financial assets measured at fair value through other comprehensive income	10,533	Financial liabilities designated at fair value	370
Financial assets measured at amortised cost	101,603	Hedging derivatives	908
Hedging derivatives	258	Value adjustments to financial liabilities subject to macro-hedging	18
Value adjustment to financial assets subject to macro hedging	167	Tax liabilities	0
Equity investments	2,653	Other liabilities	3,322
Property, plant and equipment	1,026	Employee severance indemnities	185
Intangible assets	14	Provisions for risks and charges	1,385
Tax assets	3,319		
Non-current assets	72	**Total liabilities**	**116,546**
Other assets	1,727	**Shareholders' equity**	**8,312**
Total Assets	**124,858**	**Total Liabilities and Shareholders' Equity**	**124,858**

Income Statement *(amounts in €*

Interest and similar income	2,187
Interest expense and similar charges	(665)
Net interest income	**1,522**
Fee income	1,661
Fee expense	(188)
Net fee and commission income	**1,473**
Dividends and similar income	99
Net trading gains (losses)	32
Net hedging gains (losses)	(17)
Gains (losses) on disposal or repurchase of:	39
Net gains/(losses) on financial assets and liabilities measured at fair value	(112)
Operating income	**3,036**
Net value adjustments for credit risk	(554)
Gains (losses) on contractual changes without cancellations	(8)
Net income from financial management	**2,474**
Administrative expenses	(2,718)
Net provisions for risks and charges	(75)
Net value adjustments on property, plant and equipment	(76)
Net value adjustments on intangible assets	(25)
Other operating income/charges	247
Operating costs	**(2,647)**
Profit (loss) from equity investments	(334)
Goodwill value adjustments	-
Gains (losses) on disposal of investments	-
Profit (Loss) from continuing operations before tax	**(507)**
Income taxes for the year on current operations	395
Profit (Loss) from current operations net of taxes	**(112)**
Gain (Loss) on discontinued operations, net of taxation	-
Profit (Loss) for the period	**(112)**

Part I - Share-based Payments

Qualitative information

Description of share-based payment agreements

In order to pursue the objective of increasing alignment of management's interests with those of shareholders, the Regulatory Provisions of remuneration and incentive policies and practices establish that at least 50% of variable remuneration disbursed to the "most significant personnel" is attributed through the assignment of shares or financial instruments linked to shares, paid out over a minimum time horizon of 3-5 years. "Variable remuneration" means variable components linked to performance or other parameters as well as amounts paid as incentives for the early termination of employment relationships for the portion which exceeds that due under the law ("severance").

In line with the cited regulatory provisions, the MPS Group has adopted annual Performance Shares Plans since 2017. As had already occurred in 2018, at its meeting on 11 April 2019, the Shareholders' Meeting of the parent company approved, for financial year 2019, a Treasury Share Plan exclusively destined for the payment of any severance due to personnel of the MPS Group. The contents and operating methods for these plans are found in the "Remuneration Policies" published on the parent company's website at https://www.gruppomps.it/corporate-governance/remunerazione.html.

Payment of performance shares for Plans through 2017, which did not provide for the material assignment of shares but rather the payment of an amount indexed to the value of the shares identified at the time, can be classified for accounting purposes as "cash settled share based payments", pursuant to accounting standard IFRS 2 Share-based payments. The payable corresponding to the sums to be paid will be paid in cash and recognised at the end of the year of service; the total amount will depend on the price of the performance shares, which will be measured at fair value, calculated as the best estimate of the amount due in consideration of the various conditions established under the plans, measured with reference to the fair value of the shares assigned each year and the value of the parent company's shares. When estimating the fair value of the shares on the measurement date, any vesting conditions established are not taken into consideration (e.g. time in service or conditions regarding achievement of results), with the exception of market conditions. Vesting conditions must be considered by adjusting the number of assignments included when measuring the liability deriving from the operation; market conditions (as well as any non-accrual conditions) must instead be considered when estimating the fair value of the liability deriving from the operation and the relative cost recognised in the income statement.

The 2018 and 2019 plans, which provided for the assignment of parent company shares when the vesting conditions were met, falls under the scope of accounting standard IFRS 2 as equity-settled share-based payments, in the context of which instruments representing equity are attributed as a counter-entry to a shareholders' equity reserve. In this context, the cost of severance established in the Plans and the corresponding increase in shareholders' equity are measured at the fair value of the shares which will be assigned; when estimating the fair value of the shares as of the measurement date any vesting conditions established are not considered (e.g. time in service or conditions regarding achievement of results), with the exception of market conditions. Vesting conditions must be considered by adjusting the number of financial instruments included when measuring the amount of the operation, so that the value recognised in the financial statements for services received as the fee for the financial instruments will be based on the number of these which will effectively have accrued at the end; market conditions must instead be considered when estimating the fair value of the shares assigned.

The fair value of the performance shares and own shares assigned is determined, pursuant to article 9, paragraph 4 of the Consolidated Income Tax Law (TUIR), on the basis of the arithmetic average of the prices for the MPS share recorded in the thirty days prior to the assignment date.

Quantitative information

The Bank's Shareholders' Meeting, on 9 December 2019, approved the 2019 Remuneration Report, compliant in its contents with the analogous Report approved by the Shareholders' Meeting of Banca Monte dei Paschi di Siena on 11 April 2019 under the terms of Art. 123-ter of the Consolidated Finance Act.

As occurred for the Plans approved for 2018 and 2017, no utilisations were seen during the year for the Plan approved for 2019.

Part L – Segment Reporting

The segment reporting is prepared by the Parent Company Banca Monte dei Paschi di Siena S.p.A. in part L of the Notes to the Financial Statements to its consolidated financial statements as of 31 December 2019.

Part M – Leasing Information

Section 1 – Lessee

Qualitative information

As lessee, the Bank stipulates real estate leasing contracts, mainly for business use. These are real estate leases which house internal offices.

The stipulation of leasing contracts relative to real estate for residential use also falls under leasing activities, used for employees while seconded to other offices. The apartments are then involved in sub-lease contracts between the Bank and the employees, considered to be out of the scope of the standard at first time application.

At 31 December 2019 there were 8 leases payable for business use and 26 contracts for employee use. During the year 8 contracts were terminated.

With regards to contracts for vehicles, these are for the most part long-term leases involving structural and fringe benefit vehicles for employees. In consideration of the marginal nature of vehicle leasing contracts in relation to the value of the assets, corresponding to the rights of use, recognised as a whole in the financial statements pursuant to IFRS 16, no additional disclosure is made with regards to this type of contract.

The bank is not exposed to outgoing cash flows which are not already reflected in the measurement of leasing liabilities. More specifically, any exposures deriving from extension options are included in the leasing liabilities recognised in the financial statements, in that the bank considers initial renewal to be certain. The other cases referenced in the standard (variable payments linked to leasing, residual value guarantees, leasing commitments not yet operational) are not contained in contracts stipulated as the lessee.

Restrictions or agreements imposed by leases are not present - understood respectively as contractual restrictions on the use of the asset or, for example, clauses which require that the lessee complies with covenants - nor are sales or retroleasing agreements.

In line with the structure adopted by the MPS Group, the Bank recognises as costs:

- short-term leases in the case of assets such as real estate and technology, when the relative contracts have a maximum duration of twelve months and do not contain any extension options.
- leases of modest value, that is with a value at start of less than € 5,000, mainly for mobile telephony.

Quantitative information

The table below provides information about depreciation/amortisation expense for assets consisting of rights of use, broken down by the underlying asset class.

1. Assets / Income components

Assets / Balances	Total	
	31 12 2019	31 12 2018
Amortisation/depreciation expense on assets consisting of rights of use acquired through leasing	**1,840**	**-**
a) land	-	-
b) buildings	1,753	-
c) furniture	-	-
d) electronic systems	-	-
e) other	87	-
B.Outgoing cash flows not included in measurement of leasing liabilities	**-**	**-**
a) variable payments due for leasing	-	-
b) amounts deriving from extension options	-	-
b) amounts deriving from termination options	-	-
d) amounts guaranteeing residual values, not expected to be paid	-	-
Total	**1,840**	**-**

The Bank utilised the option not to redetermine on a uniform basis the comparative data of the year of first application of IFRS 16.

ATTACHMENTS TO THE NOTES TO THE FINANCIAL STATEMENTS

PENSION FUND OF MPS Capital Services Banca per le Imprese S.p.A.

STATEMENT OF ACCOUNT as of 31 DECEMBER 2019

PENSION FUND OF MPS CAPITAL SERVICES BANCA PER LE IMPRESE S.P.A.

EXPLANATORY NOTE TO STATEMENT OF ACCOUNT AS OF 31 December 2019
(amounts in Euro)

The "MPS Capital Services Banca per le Imprese S.p.A. Pension Fund", enrolled in the Special Section of the Covip Register, under No. 9134 is the result of the historic and legal continuation of the supplementary pension scheme set up on 1 January 1974.
The "Fund" is made up of two separate segments with specific endowments aimed at guaranteeing the two benefit systems, in detail:

- the "defined benefit" segment of the "Fund" contains provisions, payable by the company, aimed at adapting the assets of the segment to the actuarial reserve estimated annually by an independent actuary;
- the section of the "defined contribution" Fund has its own separate and autonomous capital. The following are paid into the said section, which does not have a separate legal identity:
  - contributions payable by the Bank and the fund Members;
  - the portion of the employee severance indemnity allocated by the members enrolled to increase the endowment; the assets and liabilities referring to the operations of the segment are recorded in the related items of the Bank's balance sheet, despite maintaining separate asset autonomy with respect to the Bank;
  - the economic results deriving from the financial management of the assets, carried out by parties qualified to perform collective management of savings;

  The assets, liabilities, costs, revenues and commitments referring to the segment's operations are not recorded in the Bank's financial statements.

The "Fund" is managed by the Bank's Board of Directors, which avails itself of advisory opinions and the support of a Supervisory Committee; the management of the positions of the members and any other activities, necessary or useful for the "Fund", are carried out by a Manager appointed by the Bank's Board of Directors.

A) REGIME A "DEFINED BENEFIT" SECTION

The value of the Actuarial reserve as of 31.12.2019 was € 4,039,034 and it is recorded under liability item **100b** in the liabilities of the Bank's balance sheet.
It is the value estimated so as to guarantee the periodic disbursement of the supplementary benefits of the legal pension to 36 members, all retired, of which 14 men and 10 women receiving a direct pension, along with 12 women receiving an indirect and survivor's pension.
The periodic benefits disbursed in 2019 amounted to € 505,188.
During the year, it was necessary to increase the fund by **€ 436,242 (€ 20,048 for interest costs and € 416,194 for actuarial losses)** to adjust it to the value of the mathematical reserve as calculated by the actuary.
No other members may join the Segment, by effect of the changes made to the Fund Regulations as a result of the collective agreements, but also on the basis of current law provisions.

B) REGIME A "DEFINED CONTRIBUTION" SECTION

Total net assets as of 31 December 2019 amounted to € 50,834,357.
During 2019, the Bank paid over the contributions payable by the Company to the "Fund" **(€ 557,969)**, along with those payable by the members to their chosen extent; the portions of employee severance indemnity were also paid over to the extents indicated by said employees in accordance with the Regulations and in compliance with the law **for a total of € 5,645,801.**
From the segment there were capital outflows for "transfers and redemptions" of € 4,242,755 and disbursements in the form of capital of € 207,191.
The disbursements by way of advances on the total position accrued concerned requests for a total of € 925,692 in 2019.
A total of 543 persons are enrolled in the segment of the "Fund" as of 31 December 2019, of which **477** are active, **18** enrolled only in the "Guaranteed" line, and **48** are no longer active.

B.1) FINANCIAL MANAGEMENT INFORMATION

The resources of the "Fund" have been spread over seven different investment lines, of which one aimed at receiving the severance indemnity conferred tacitly, in accordance with Article 8, paragraph 9 of Italian Legislative Decree No. 252/2005 (hereinafter, for the sake of brevity, "Guaranteed Line").
The afore-mentioned investment lines correspond to as many asset management schemes open with the Parent Company and managed by the Asset Management Service, with the exception of the so-called Guaranteed Line managed through an AXA-MPS insurance product. The contributions to said investment lines were made on the basis of the individual choice expressed by each member.
The features of the investment lines are as follows:

Description	*Line* **C001** GPM 386133	*Line* **C002** GPM 386134	*Line* **C003** GPM 386135	*Line* **C004** GPM 386164	*Line* **C005** GPM 386072	*Line* **C006** GPM 386163	***Guaranteed*** *line*
Time Horizon (years)	*7-10*	*10-20*	*20-30*	*5*	*5*		*Collective policy*
- Risk free (monetary)				60%	42%	100%	
- Bond component	73%	52%	35%	33%	44%		
- Equity component	27%	48%	65%	7%	14%		

2019 annual return and average returns during the period from asset management

	GPM 386133 (Line C001)	*GPM 386134 (Line C002)*	*GPM 386135 (Line C003)*	*GPM 386164 (Line C004)*	*GPM 386072 (Line C005)*	*GPM 386163 (Line C006)*	*Guaranteed line*
2019 Return	**9.15%**	**12.13%**	**15.08%**	**3.29%**	**4.91%**	**0.47%**	**3.10%**
Annual average return for five-year period **2015/2019**	**3.24%**	**4.37%**	**5.38%**	**1.25%**	**1.62%**	**0.01%**	**2.86%**
Annual average return for three-year period **2017/2019**	**3.04%**	**4.11%**	**5.12%**	**1.06%**	**1.59%**	**-0.10%**	**3.09%**

N.B. The figures express only the performance of the asset management portfolios underlying the single segments

The values of the individual portions of the different lines during the five years 2015–2019 are as follows:

date	*Line C001*	*Line C002*	*Line C003*	*Line C004*	*Line C005*	*Line C006*	*Guaranteed line*
31/12/2015	**1.592**	**1.776**	**1.944**	**1.231**	**1.323**	**1.070**	*(1)*
31/12/2016	**1.636**	**1.827**	**2.010**	**1.247**	**1.346**	**1.070**	*(1)*
31/12/2017	**1.675**	**1.908**	**2.131**	**1.257**	**1.364**	**1.073**	*(1)*
31/12/2018	**1.640**	**1.839**	**2.029**	**1.246**	**1.345**	**1.062**	*(1)*
31/12/2019	**1.790**	**2.062**	**2.335**	**1.287**	**1.411**	**1.067**	*(1)*

(1) the insurance policy provides for the management of individual positions

With regard to the management policies of the GPM of the Pension Fund of MPS Capital Services Banca per le Imprese S.p.A., the details for financial year 2019 are as follows.
The monetary component of the portfolios was characterised by a positioning of substantial neutrality in terms of financial duration with respect to the benchmark index and by the investment in very short-term Italian corporate issues with high creditworthiness, mainly at floating rates. The investment in securities issued by the Republic of Italy at a fixed and floating rate with average maturities of about six months accounts for most of the monetary portfolio. The significant shrinking of the BTP Bund spread during 2019 contributed to significant *over performance* of the monetary component with respect to the benchmark, for all management lines.
The bond component of the portfolios was characterised by an underweight positioning relative to the reference index in terms of financial average duration for most of the year. The portfolio continued to maintain diversification in terms of exposures to core and peripheral countries, limiting the core component to solely German government securities, concentrated on the medium-long part of the curve, and differentiating between Italian and Spanish bonds for the periphery. This positioning contributed very positively to the absolute performance of the bond component, which in relative terms was penalised by the underweight of the duration, in particular during the second half when the downward trend in rates accelerated.
The stock component was characterised by investment in ETFs, selected by geographic area, which allowed for a greater degree of diversification. The allocation was kept substantially neutral during the year. The contribution from the stock component was decidedly positive in absolute terms, following the extraordinary rally on markets globally, with a particular impact during the second half of the year

when the publication of forecast data for the cycle which was better than expected fed expectations of a recovery in profit growth. The performance of the stock component was also positive in relative terms, due to the light overweight in the UK market.

B.2) INFORMATION ON THE FINANCIAL STATEMENTS

The segment's financial statements are represented by a statement of account comprising a balance sheet and income statement, supplemented by the information contained in these explanatory notes. The income statement not only registers the profit or loss, but also the changes which derive from the gathering of the contributions and from the conversion of the individual positions into benefits under the form of capital or a life annuity.
The financial statements are drawn up by showing preference for the representation of substance over form; they are expressed in Euro.

B.2.1 Measurement of the investments and description of the portfolio

The securities have been valued at market value in observance of the accounting approach for financial instruments established by CONSOB.
As of 31 December 2019, there were no derivative contract transactions present in the portfolio.

B.2.2 Criteria for estimating the expenses and income

The charges and income have been recorded on an accrual basis, irrespective of the date of collection or payment.
Interest on benefits and redemptions is calculated at the performance index known as of the date of leaving the Fund, net of taxation.
The tax regime of the defined contribution segment of the pension fund is disciplined by Article 17 of Italian Legislative Decree No. 252/2005 and subsequent amendments and additions.

The Fund Manager

PENSION FUND OF MPS CAPITAL SERVICES BANCA PER LE IMPRESE S.P.A.

BENEFITS OF THE "DEFINED CONTRIBUTION" SEGMENT

STATEMENT OF ACCOUNT AS OF 31 December 2019

(amounts in Euro)

BALANCE SHEET

	ACCUMULATION PHASE ASSETS	31/12/2019	31/12/2018
10	**Direct investments**	**-**	**-**
20	**Assets under management**	**52,190,915**	**45,445,575**
	20-a) Bank deposits	863,287	387,347
	20-b) Receivables for repurchase agreements	-	-
	20-c) Securities issued by Governments or by international bodies	27,640,134	25,264,828
	20-d) Listed debt securities	586,011	775,149
	20-e) Listed equity securities	-	-
	20-f) Unlisted debt securities	-	-
	20-g) Unlisted equity securities	-	-
	20-h) UCITS Units in collective investment undertakings	22,025,920	18,337,872
	20-i) Options purchased	-	-
	20-l) Accrued income and prepaid expenses	208,642	380,032
	20-m) Result guarantees released to pension fund	-	-
	20-n) Other assets of financial operations	550,565	-
	20-o) Investments in insurance operations	316,356	300,347
	20-p) Margins and receivables on forward/future transactions	-	-
30	**Result guarantees acquired on individual positions**	**-**	**-**
40	**Assets of administrative operations**	**588,702**	**286,625**
	40-a) Cash and bank deposits	583,150	286,311
	40-b) Intangible fixed assets	-	-
	40-c) Property, plant and equipment	-	-
	40-d) Other assets of administrative operations	5,552	314
50	**Tax credits**	**2,706**	**405,492**
	TOTAL ACCUMULATION PHASE ASSETS	**52,782,323**	**46,137,692**

	ACCUMULATION PHASE LIABILITIES	31/12/2019	31/12/2018
10	**Liabilities of welfare operations**	**1,186,796**	**490,563**
	10-a) Payables of welfare operations	1,186,796	490,563
20	**Liabilities of financial operations**	**9,156**	**8,215**
	20-a) Payables for repurchase agreements	-	-
	20-b) Options issued	-	-
	20-c) Accrued expenses and deferred income	-	-
	20-d) Other liabilities of financial operations	9,156	8,215
	20-e) Payables on forward/future transactions	-	-
30	**Result guarantees recognised on individual positions**	-	-
40	**Liabilities of administrative operations**	**64,573**	**(1,140)**
	40-a) Employee severance indemnity	-	-
	40-b) Other liabilities of administrative operations	64,437	(1,283)
	40-c) Deferral of contributions for coverage of administrative charges	136	143
50	**Tax payables**	**687,441**	**2,987**
	TOTAL ACCUMULATION PHASE LIABILITIES	**1,947,966**	**500,625**
100	**Net assets destined for benefits**	**50,834,357**	**45,637,067**

The item "Tax liabilities" represents the substitute tax applied to the results of financial operations.

INCOME STATEMENT

		31/12/2019	31/12/2018
10	**Balance of welfare operations**	**300,256**	**(436,462)**
	10-a) Contributions for benefits	5,645,801	4,634,098
	10-b) Advances	(925,692)	(1,194,270)
	10-c) Transfers and redemptions	(4,242,755)	(3,515,181)
	10-d) Transformations into annuities	-	-
	10-e) Disbursements under the form of principal	(207,191)	(280,320)
	10-f) Premiums for ancillary benefits	(61,665)	(80,789)
	10-g) Periodic benefits	-	-
	10-h) Other welfare outgoings	-	-
	10-i) Other welfare incomings	91,758	-
20	**Result of financial operations**	-	-
30	**Result of indirect financial operations**	**6,022,352**	**(1,903,724)**
	30-a) Dividends and interest	686,567	722,257
	30-b) Profits and losses from financial transactions	5,335,785	(2,625,981)
	30-c) Fees and commission on securities lending	-	-
	30-d) Income and charges for repurchase agreements	-	-
	30-e) Spread on result guarantees issued to the pension fund	-	-
40	**Operating charges**	**(35,092)**	**(34,119)**
	40-a) Management company	(35,092)	(34,119)
	40-b) Custodian bank	-	-
50	**Margin of financial operations (20)+(30)+(40)**	**5,987,260**	**(1,937,843)**
60	**Balance of administrative operations**	-	-
	60-a) Contributions to cover administrative expenses	128	151
	60-g) Sundry expenses and income	8	(8)
	60-i) Deferral of contributions to cover administrative expenses	(136)	(143)
		-	-
70	**Change in net assets destined for benefits pre-substitute tax (10)+(50)+(60)**	**6,287,516**	**(2,374,305)**
		-	-
80	**Substitute tax**	**(1,090,226)**	**404,174**
		-	-
	Change in net assets destined for benefits (70)+(80)	**5,197,290**	**(1,970,131)**

STATEMENT OF ACCOUNT AT 31 December 2019 - BREAKDOWN BY INVESTMENT LINE

(amounts in Euro)

BALANCE SHEET

	ACCUMULATION PHASE ASSETS	C001	C002	C003	C004	C005	C006	C007
10	**Direct investments**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
20	**Assets under management**	**9,781,065**	**16,574,628**	**16,264,722**	**2,588,439**	**4,393,833**	**2,271,872**	**316,356**
	20-a) Bank deposits	181,747	247,203	209,069	92,901	78,623	53,744	-
	20-b) Receivables for repurchase agreements	-	-	-	-	-	-	-
	20-c) Securities issued by Governments or by international bodies	6,925,616	8,269,177	5,425,794	2,102,448	3,463,391	1,453,708	-
	20-d) Listed debt securities	-	-	-	191,977	191,977	202,057	-
	20-e) Listed equity securities	-	-	-	-	-	-	-
	20-f) Unlisted debt securities	-	-	-	-	-	-	-
	20-g) Unlisted equity securities	-	-	-	-	-	-	-
	20-h) UCITS Units in collective investment undertakings	2,622,022	7,996,767	10,589,319	184,462	633,350	-	-
	20-i) Options purchased	-	-	-	-	-	-	-
	20-l) Accrued income and prepaid expenses	51,680	61,481	40,540	16,651	26,492	11,798	-
	20-m) Result guarantees released to pension fund	-	-	-	-	-	-	-
	20-n) Other assets of financial operations	-	-	-	-	-	550,565	-
	20-o) Investments in insurance operations	-	-	-	-	-	-	316,356
	20-p) Margins and receivables on forward/future transactions	-	-	-	-	-	-	-
30	**Result guarantees acquired on individual positions**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
40	**Assets of administrative operations**	**110,777**	**177,034**	**201,540**	**28,148**	**51,437**	**19,766**	**-**
	40-a) Cash and bank deposits	109,967	176,163	200,549	27,269	50,910	19,603	-1,311
	40-b) Intangible fixed assets	-	-	-	-	-	-	-
	40-c) Property, plant and equipment	-	-	-	-	-	-	-
	40-d) Other assets of administrative operations	810	871	991	879	527	163	1,311
50	**Tax credits**	**-**	**-**	**-**	**-**	**-**	**2,706**	**-**
	TOTAL ACCUMULATION PHASE ASSETS	**9,891,842**	**16,751,662**	**16,466,262**	**2,616,587**	**4,445,270**	**2,294,344**	**316,356**

	ACCUMULATION PHASE LIABILITIES	C001	C002	C003	C004	C005	C006	C007
10	**Liabilities of welfare operations**	**686,402**	**173,721**	**234,044**	**47,928**	**28,260**	**16,441**	**-**
	10-a) Payables of welfare operations	686,402	173,721	234,044	47,928	28,260	16,441	-
20	**Liabilities of financial operations**	**1,559**	**3,060**	**3,339**	**352**	**629**	**217**	**-**
	20-a) Payables for repurchase agreements	-	-	-	-	-	-	-
	20-b) Options issued	-	-	-	-	-	-	-
	20-c) Accrued expenses and deferred income	-	-	-	-	-	-	-
	20-d) Other liabilities of financial operations	1,559	3,060	3,339	352	629	217	-
	20-e) Payables on forward/future transactions	-	-	-	-	-	-	-
30	**Result guarantees recognised on individual positions**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
40	**Liabilities of administrative operations**	**11,370**	**19,243**	**22,273**	**4,513**	**4,511**	**2,663**	**-**
	40-a) Employee severance indemnity	-	-	-	-	-	-	-
	40-b) Other liabilities of administrative operations	11,370	19,243	22,137	4,513	4,511	2,663	-
	40-c) Deferral of contributions for coverage of administrative charges	-	-	136	-	-	-	-
50	**Tax payables**	**111,846**	**246,274**	**293,915**	**8,318**	**25,814**	**-**	**1,274**
	TOTAL ACCUMULATION PHASE LIABILITIES	**811,177**	**442,298**	**553,571**	**61,111**	**59,214**	**19,321**	**1,274**
100	**Net assets destined for benefits**	**9,080,665**	**16,309,364**	**15,912,691**	**2,555,476**	**4,386,056**	**2,275,023**	**315,082**

INCOME STATEMENT

		C001	C002	C003	C004	C005	C006	C007
10	**Balance of welfare operations**	**(795,742)**	**52,198**	**(359,933)**	**(166,842)**	**657,251**	**868,860**	**44,464**
	10-a) Contributions for benefits	910,878	987,506	1,152,717	429,725	942,348	1,168,843	53,784
	10-b) Advances	(311,885)	(140,818)	(257,001)	(37,476)	(113,351)	(65,161)	-
	10-c) Transfers and redemptions	(1,383,366)	(714,974)	(1,312,131)	(407,927)	(182,644)	(232,393)	(9,320)
	10-d) Transformations into annuities	-	-	-	-	-	-	-
	10-e) Disbursements under the form of principal	-	(60,272)	-	(146,919)	-	-	-
	10-f) Premiums for ancillary benefits	(11,369)	(19,244)	(19,866)	(4,245)	(4,512)	(2,429)	-
	10-g) Periodic benefits	-	-	-	-	-	-	-
	10-h) Other welfare outgoings	-	-	-	-	-	-	-
	10-i) Other welfare incomings	-	-	76,348	-	15,410	-	-
20	**Result of financial operations**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
30	**Result of indirect financial operations**	**984,790**	**2,158,830**	**2,548,556**	**103,048**	**242,454**	**10,142**	**(25,468)**
	30-a) Dividends and interest	165,593	208,384	156,097	51,288	76,623	28,582	-
	30-b) Profits and losses from financial transactions	819,197	1,950,446	2,392,459	51,760	165,831	(18,440)	(25,468)
	30-c) Fees and commission on securities lending	-	-	-	-	-	-	-
40	**Operating charges**	**(6,080)**	**(11,709)**	**(12,714)**	**(1,413)**	**(2,372)**	**(804)**	**-**
	40-a) Management company	(6,080)	(11,709)	(12,714)	(1,413)	(2,372)	(804)	-
	40-b) Custodian bank	-	-	-	-	-	-	-
50	**Margin of financial operations (20)+(30)+(40)**	**978,710**	**2,147,121**	**2,535,842**	**101,635**	**240,082**	**9,338**	**(25,468)**
60	**Balance of administrative operations**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	60-a) Contributions to cover administrative expenses	(4)	(7)	143	(1)	(2)	(1)	-
	60-g) Sundry expenses and income	4	7	(7)	1	2	1	-
	60-i) Deferral of contributions to cover administrative expenses	-	-	(136)	-	-	-	-
70	**Change in net assets destined for benefits pre-substitute tax (10)+(50)+(60)**	**182,968**	**2,199,319**	**2,175,909**	**(65,207)**	**897,333**	**878,198**	**18,996**
80	**Substitute tax**	**(163,368)**	**(390,153)**	**(480,440)**	**(15,184)**	**(38,992)**	**(815)**	**(1,274)**
	Change in net assets destined for benefits (70)+(80)	**19,600**	**1,809,166**	**1,695,469**	**(80,391)**	**858,341**	**877,383**	**17,722**

CERTIFICATION REPORT

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MPS Capital Services S.p.A.

Bilancio d'esercizio al 31 dicembre 2019

Relazione della società di revisione indipendente
ai sensi dell'art. 14 del D. Lgs. 27 gennaio 2010, n. 39 e
dell'art. 10 del Regolamento (UE) n. 537/2014

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Relazione della società di revisione indipendente ai sensi dell'art. 14 del D. Lgs. 27 gennaio 2010, n. 39 e dell'art. 10 del Regolamento (UE) n. 537/2014

All'Azionista della
MPS Capital Services S.p.A.

Relazione sulla revisione contabile del bilancio d'esercizio

Giudizio

Abbiamo svolto la revisione contabile del bilancio d'esercizio della MPS Capital Services S.p.A. (la "Società" o la "Banca"), costituito dallo stato patrimoniale al 31 dicembre 2019, dal conto economico, dal prospetto della redditività complessiva, dal prospetto delle variazioni del patrimonio netto, dal rendiconto finanziario per l'esercizio chiuso a tale data e dalla nota integrativa.

A nostro giudizio, il bilancio d'esercizio fornisce una rappresentazione veritiera e corretta della situazione patrimoniale e finanziaria della Società al 31 dicembre 2019, del risultato economico e dei flussi di cassa per l'esercizio chiuso a tale data, in conformità agli International Financial Reporting Standards adottati dall'Unione Europea nonché ai provvedimenti emanati in attuazione dell'art. 43 del D. Lgs. 18 agosto 2015, n. 136.

Elementi alla base del giudizio

Abbiamo svolto la revisione contabile in conformità ai principi di revisione internazionali (ISA Italia). Le nostre responsabilità ai sensi di tali principi sono ulteriormente descritte nella sezione *Responsabilità della società di revisione per la revisione contabile del bilancio d'esercizio* della presente relazione. Siamo indipendenti rispetto alla Società in conformità alle norme e ai principi in materia di etica e di indipendenza applicabili nell'ordinamento italiano alla revisione contabile del bilancio. Riteniamo di aver acquisito elementi probativi sufficienti ed appropriati su cui basare il nostro giudizio.

Aspetti chiave della revisione contabile

Gli aspetti chiave della revisione contabile sono quegli aspetti che, secondo il nostro giudizio professionale, sono stati maggiormente significativi nell'ambito della revisione contabile del bilancio dell'esercizio in esame. Tali aspetti sono stati da noi affrontati nell'ambito della revisione contabile e nella formazione del nostro giudizio sul bilancio d'esercizio nel suo complesso; pertanto su tali aspetti non esprimiamo un giudizio separato.

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Abbiamo identificato i seguenti aspetti chiave della revisione contabile:

Aspetti chiave	Risposte di revisione
Classificazione e valutazione dei crediti verso clientela	
I crediti verso clientela valorizzati al costo ammortizzato, il cui ammontare è indicato nella voce 40 b) dello Stato Patrimoniale del bilancio d'esercizio, rappresentano, al 31 dicembre 2019, il 37% del totale attivo. Il processo di classificazione dei crediti verso clientela nelle diverse categorie di rischio e di valutazione degli stessi è rilevante per la revisione contabile sia perché il valore dei crediti è significativo per il bilancio nel suo complesso, sia perché le relative rettifiche di valore sono determinate dagli amministratori attraverso l'utilizzo di stime che presentano un elevato grado di soggettività. Tra queste assumono particolare rilievo: • l'identificazione delle evidenze di riduzione di valore del credito, il valore recuperabile delle garanzie acquisite, la determinazione dei flussi di cassa attesi e la tempistica di incasso degli stessi, i costi che si ritiene verranno sostenuti per il recupero dell'esposizione creditizia; • per quanto concerne le valutazioni di tipo statistico: la definizione di categorie di crediti omogenee in termini di rischio di credito, la determinazione delle probabilità di default (Probability of Default – "PD") e della relativa perdita stimata (Loss Given Default – "LGD") sulla base dell'osservazione storica dei dati per ciascuna classe di rischio e di fattori forward looking, anche di tipo macroeconomico; • la determinazione dei parametri di significativo incremento del rischio per la classificazione nei diversi stage di riferimento. L'informativa sulla classificazione e valutazione dei crediti verso clientela è riportata dagli amministratori nella Parte A -	In relazione a tali aspetti, le nostre procedure di revisione, svolte anche mediante il supporto di nostri esperti di risk management e di sistemi informativi, hanno incluso, tra l'altro: • la comprensione delle policy, dei processi e dei controlli posti in essere dalla Banca in relazione alla classificazione ed alla valutazione dei crediti verso clientela e lo svolgimento di procedure di conformità sui controlli ritenuti chiave, compresi quelli relativi ai presidi informatici; • lo svolgimento di procedure di validità finalizzate alla verifica della corretta classificazione e valutazione delle posizioni creditizie e dei titoli inclusi nella voce crediti verso clientela; • la comprensione della metodologia utilizzata in relazione alle valutazioni di tipo statistico, della ragionevolezza delle ipotesi adottate anche per tener conto delle informazioni forward looking nei parametri di PD, LGD ed Exposure at Default ("EAD") nonché lo svolgimento di procedure di conformità e validità, finalizzate alla verifica dell'accurata determinazione dei parametri di PD, LGD ed EAD, rilevanti ai fini della determinazione delle rettifiche di valore; • lo svolgimento di procedure di analisi comparativa del portafoglio dei crediti verso clientela e dei relativi livelli di copertura, e analisi degli scostamenti maggiormente significativi; • l'analisi delle cessioni intervenute nell'esercizio, anche attraverso operazioni di cartolarizzazione, e dei relativi presupposti per la cancellazione contabile;

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Politiche Contabili, nella Parte B – Informazioni sullo stato patrimoniale – sezione 4 – Attività finanziarie valutate al costo ammortizzato, nella Parte C – Informazioni sul conto economico – sezione 8.1 – Rettifiche di valore nette per rischio di credito relativo ad attività finanziarie valutate al costo ammortizzato e nella Parte E - Informazioni sui rischi e sulle relative politiche di copertura - sezione 1 - Rischio di credito della nota integrativa.	• l'analisi dell'adeguatezza dell'informativa resa in nota integrativa.

Aspetti chiave	Risposte di revisione
Recuperabilità delle imposte differite attive	
La Banca ha iscritto al 31 dicembre 2019, nella voce 100 dell'attivo "Attività fiscali" Euro 74 milioni di imposte differite attive ("DTA") e, nella voce 120 dell'attivo "Altre attività", Euro 137 milioni di crediti verso la consolidante fiscale, riconducibili a perdite fiscali ed altre differenze temporanee deducibili la cui recuperabilità dipende dalla disponibilità di redditi imponibili futuri. La valutazione della recuperabilità di tali attivi (c.d. *probability test*, previsto dal principio contabile internazionale IAS 12) è un aspetto rilevante per la revisione contabile sia perché il loro valore è significativo per il bilancio nel suo complesso, sia perché la valutazione è basata su un modello che prevede l'utilizzo di assunzioni e stime che presentano un elevato grado di soggettività. Tra queste assumono particolare rilievo, quelle relative alla determinazione dei redditi imponibili futuri, all'ampiezza dell'arco temporale prevedibile per il recupero delle DTA ed alla corretta interpretazione della normativa fiscale applicabile. L'informativa circa le valutazioni svolte dagli amministratori in relazione alla recuperabilità dei menzionati attivi è riportata nella Parte A – Politiche Contabili, nella Parte B - Informazioni sullo stato patrimoniale – sezione 10 – Le attività fiscali e le passività fiscali e nella Parte C – Informazioni sul conto economico – sezione 19 – Le imposte sul	In relazione a tali aspetti, le nostre procedure di revisione hanno incluso, tra l'altro: • la comprensione della *policy*, del processo e dei controlli posti in essere dalla Banca in relazione alla valutazione della recuperabilità delle DTA; • l'analisi, anche mediante il supporto di nostri esperti in materia di valutazioni aziendali, dei piani aziendali utilizzati ai fini della stima dei risultati utili per la determinazione dei redditi imponibili; • l'analisi, anche mediante il supporto di nostri esperti in materia fiscale, della ragionevolezza delle assunzioni e dei parametri utilizzati per lo sviluppo del *probability test* sulla base della normativa fiscale applicabile alle diverse fattispecie di differenze temporanee deducibili; • lo svolgimento di procedure di validità sulla completezza e accuratezza dei dati utilizzati per la determinazione dei redditi imponibili futuri inclusi nel *probability test*; • l'analisi dell'adeguatezza dell'informativa resa in nota integrativa.

reddito dell'esercizio dell'operatività corrente,
della nota integrativa.

Responsabilità degli amministratori e del collegio sindacale per il bilancio d'esercizio

Gli amministratori sono responsabili per la redazione del bilancio d'esercizio che fornisca una rappresentazione veritiera e corretta in conformità agli International Financial Reporting Standards adottati dall'Unione Europea e ai provvedimenti emanati in attuazione dell'art. 43 del D. Lgs. 18 agosto 2015, n. 136, nei termini previsti dalla legge, per quella parte del controllo interno dagli stessi ritenuta necessaria per consentire la redazione di un bilancio che non contenga errori significativi dovuti a frodi o a comportamenti o eventi non intenzionali.

Gli amministratori sono responsabili per la valutazione della capacità della Società di continuare ad operare come un'entità in funzionamento e, nella redazione del bilancio d'esercizio, per l'appropriatezza dell'utilizzo del presupposto della continuità aziendale, nonché per una adeguata informativa in materia. Gli amministratori utilizzano il presupposto della continuità aziendale nella redazione del bilancio d'esercizio a meno che abbiano valutato che sussistono le condizioni per la liquidazione della Società o per l'interruzione dell'attività o non abbiano alternative realistiche a tali scelte.

Il collegio sindacale ha la responsabilità della vigilanza, nei termini previsti dalla legge, sul processo di predisposizione dell'informativa finanziaria della Società.

Responsabilità della società di revisione per la revisione contabile del bilancio d'esercizio

I nostri obiettivi sono l'acquisizione di una ragionevole sicurezza che il bilancio d'esercizio nel suo complesso non contenga errori significativi, dovuti a frodi o a comportamenti o eventi non intenzionali, e l'emissione di una relazione di revisione che includa il nostro giudizio. Per ragionevole sicurezza si intende un livello elevato di sicurezza che, tuttavia, non fornisce la garanzia che una revisione contabile svolta in conformità ai principi di revisione internazionali (ISA Italia) individui sempre un errore significativo, qualora esistente. Gli errori possono derivare da frodi o da comportamenti o eventi non intenzionali e sono considerati significativi qualora ci si possa ragionevolmente attendere che essi, singolarmente o nel loro insieme, siano in grado di influenzare le decisioni economiche degli utilizzatori prese sulla base del bilancio d'esercizio.

Nell'ambito della revisione contabile svolta in conformità ai principi di revisione internazionali (ISA Italia), abbiamo esercitato il giudizio professionale e abbiamo mantenuto lo scetticismo professionale per tutta la durata della revisione contabile. Inoltre:

- abbiamo identificato e valutato i rischi di errori significativi nel bilancio d'esercizio, dovuti a frodi o a comportamenti o eventi non intenzionali; abbiamo definito e svolto procedure di revisione in risposta a tali rischi; abbiamo acquisito elementi probativi sufficienti ed appropriati su cui basare il nostro giudizio. Il rischio di non individuare un errore significativo dovuto a frodi è più elevato rispetto al rischio di non individuare un errore significativo derivante da comportamenti od eventi non intenzionali, poiché la frode può implicare l'esistenza di collusioni, falsificazioni, omissioni intenzionali, rappresentazioni fuorvianti o forzature del controllo interno;
- abbiamo acquisito una comprensione del controllo interno rilevante ai fini della revisione

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contabile allo scopo di definire procedure di revisione appropriate nelle circostanze e non per esprimere un giudizio sull'efficacia del controllo interno della Società;

- abbiamo valutato l'appropriatezza dei principi contabili utilizzati nonché la ragionevolezza delle stime contabili effettuate dagli amministratori e della relativa informativa;
- siamo giunti ad una conclusione sull'appropriatezza dell'utilizzo da parte degli amministratori del presupposto della continuità aziendale e, in base agli elementi probativi acquisiti, sull'eventuale esistenza di una incertezza significativa riguardo a eventi o circostanze che possono far sorgere dubbi significativi sulla capacità della Società di continuare ad operare come un'entità in funzionamento. In presenza di un'incertezza significativa, siamo tenuti a richiamare l'attenzione nella relazione di revisione sulla relativa informativa di bilancio ovvero, qualora tale informativa sia inadeguata, a riflettere tale circostanza nella formulazione del nostro giudizio. Le nostre conclusioni sono basate sugli elementi probativi acquisiti fino alla data della presente relazione. Tuttavia, eventi o circostanze successivi possono comportare che la Società cessi di operare come un'entità in funzionamento;
- abbiamo valutato la presentazione, la struttura e il contenuto del bilancio d'esercizio nel suo complesso, inclusa l'informativa, e se il bilancio d'esercizio rappresenti le operazioni e gli eventi sottostanti in modo da fornire una corretta rappresentazione.

Abbiamo comunicato ai responsabili delle attività di governance, identificati ad un livello appropriato come richiesto dai principi di revisione internazionali (ISA Italia), tra gli altri aspetti, la portata e la tempistica pianificate per la revisione contabile e i risultati significativi emersi, incluse le eventuali carenze significative nel controllo interno identificate nel corso della revisione contabile.

Abbiamo fornito ai responsabili delle attività di governance anche una dichiarazione sul fatto che abbiamo rispettato le norme e i principi in materia di etica e di indipendenza applicabili nell'ordinamento italiano e abbiamo comunicato loro ogni situazione che possa ragionevolmente avere un effetto sulla nostra indipendenza e, ove applicabile, le relative misure di salvaguardia.

Tra gli aspetti comunicati ai responsabili delle attività di governance, abbiamo identificato quelli che sono stati più rilevanti nell'ambito della revisione contabile del bilancio dell'esercizio in esame, che hanno costituito quindi gli aspetti chiave della revisione. Abbiamo descritto tali aspetti nella relazione di revisione.

Altre informazioni comunicate ai sensi dell'art. 10 del Regolamento (UE) n. 537/2014

L'assemblea degli azionisti della MPS Capital Services S.p.A. ci ha conferito in data 28 aprile 2014 l'incarico di revisione legale del bilancio d'esercizio della Società per gli esercizi dal 31 dicembre 2014 al 31 dicembre 2022 e, a seguito della nomina di un nuovo revisore presso la Capogruppo, ha ulteriormente deliberato in data 9 dicembre 2019 il termine dell'incarico con l'esercizio chiuso al 31 dicembre 2019 ai sensi dell'art. 4, comma 1, lettera b), del D.M. 261/2012.

Dichiariamo che non sono stati prestati servizi diversi dalla revisione contabile vietati ai sensi dell'art. 5, par. 1, del Regolamento (UE) n. 537/2014 e che siamo rimasti indipendenti rispetto alla Società nell'esecuzione della revisione legale.

Confermiamo che il giudizio sul bilancio d'esercizio espresso nella presente relazione è in linea con

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quanto indicato nella relazione aggiuntiva destinata al collegio sindacale, nella sua funzione di comitato per il controllo interno e la revisione contabile, predisposta ai sensi dell'art. 11 del citato Regolamento.

Relazione su altre disposizioni di legge e regolamentari

Giudizio ai sensi dell'art. 14, comma 2, lettera e), del D. Lgs. 27 gennaio 2010, n. 39

Gli amministratori della MPS Capital Services S.p.A. sono responsabili per la predisposizione della relazione sulla gestione della MPS Capital Services S.p.A. al 31 dicembre 2019, inclusa la sua coerenza con il relativo bilancio d'esercizio e la sua conformità alle norme di legge.

Abbiamo svolto le procedure indicate nel principio di revisione (SA Italia) n. 720B al fine di esprimere un giudizio sulla coerenza della relazione sulla gestione con il bilancio d'esercizio della MPS Capital Services S.p.A.al 31 dicembre 2019 e sulla conformità delle stesse alle norme di legge, nonché di rilasciare una dichiarazione su eventuali errori significativi.

A nostro giudizio, la relazione sulla gestione è coerente con il bilancio d'esercizio della MPS Capital Services S.p.A. al 31 dicembre 2019 ed è redatta in conformità alle norme di legge.

Con riferimento alla dichiarazione di cui all'art. 14, comma 2, lettera e), del D. Lgs. 27 gennaio 2010, n. 39, rilasciata sulla base delle conoscenze e della comprensione dell'impresa e del relativo contesto acquisite nel corso dell'attività di revisione, non abbiamo nulla da riportare.

Milano, 11 marzo 2020

EY S.p.A.
Davide Lisi
Davide Lisi
(Revisore Legale)

6

REPORT OF THE BOARD OF STATUTORY AUDITORS

MM CAPITAL SERVICES BANCA PER LE IMPRESE SPA
Registered office in Florence - Via Pancaldo 4
Share capital: € 1,669,516,282.20 fully paid-in
Register of Companies of Florence and Tax ID No. 00816530482 - Company subject to management and coordination by Banca Monte dei Paschi di Siena S.p.A., sole shareholder

REPORT OF THE BOARD OF AUDITORS TO THE SHAREHOLDERS' MEETING CALLED FOR THE APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 31 DECEMBER 2019
(pursuant to article 153, Italian Legislative Decree 58/1998 and article 2429, Italian Civil Code)

To the shareholder Banca Monte dei Paschi di Siena SpA

This report, prepared pursuant to article 153 of Legislative Decree 58/1998 (Consolidated Law on Finance - TUF), provides information on the activities carried out by the Board of Statutory Auditors during the year ending on 31 December 2019, in compliance with the reference regulations, also taking into account the Behavioural Standards for Boards of Statutory Auditors recommended by the National Council of Chartered Accountants and Accounting Experts, the provisions contained in the Guidelines for Boards of Statutory Auditors for the subsidiaries of the Monte dei Paschi di Siena Banking Group and the pertinent regulations issued by the Bank of Italy and CONSOB.

Given that the Board of Statutory Auditors in its current form was appointed by the Shareholders' Meeting held on 21 May 2019, for the period in which the previous Board was in office the regulatory activities carried out were determined on the basis of the minutes prepared pursuant to article 2404, paragraph 3 of the Italian Civil Code.

Also note that for financial year 2019, from June to December, this Board of Statutory Auditors was subject to a self-assessment audit on the part Management Search srl of Milan, in order to ascertain its independence and adequacy in terms of composition and function, taking into account the size, complexity and business carried out by the Bank, as well as that requested in the Regulatory Provisions contained in Bank of Italy circular 285 of 17 December 2013.

The process ended on 24 February of this year, with a positive assessment in terms of the composition, functioning and exercising of the powers of the collegial body.

The Financial Statements and Report on Operations were sent to the Board of Statutory Auditors by the Board of Directors on 24 February 2020, to comply with the legal requirements.

1. Monitoring of compliance with the law and the Articles of Association

The Board of Statutory Auditors monitored compliance with the law and the Articles of Association, as indicated below.

1.1 Participation at meetings of the company bodies, meetings of the Board of Statutory Auditors and meetings with company departments, exchanges of information with the independent auditing firm

During 2019, the Board of Statutory Auditors also carried out its activities through participation in the following meetings:

- *Meetings of company bodies*: the Board of Statutory Auditors participated at all meetings of the Board of Statutory Auditors obtaining, in compliance with that established in article 2381, paragraph 5 of the Italian Civil Code and in the Articles of Association, prompt and suitable information on the general trends in management, the foreseeable outlook and on the economic results achieved, as well as relative to the most significant transactions, in terms of size and/or features, carried out by the Company; Shareholders' Meetings held during the year, at which it was able to determine they were carried out in compliance with the law, Bank of Italy regulations and the Articles of Association.

In consideration of this, the Board of Statutory Auditors notes that operations, as well as the most significant transactions, were carried out in compliance with the operational guidelines of the Group and in respect of the commitments it has made with domestic and European regulatory authorities.

- *Board of Statutory Auditors meetings*: the Board of Statutory Auditors, for the tasks assigned to it, held 16 (sixteen) meetings, during which it made use of, in order to carry out its own activities, the assistance of the Internal Audit and other first and second level corporate control departments, both from the Bank and the parent company, for the departments located within the latter.

  The Board of Statutory Auditors, relative to the regulatory provisions, also met 1 (one) time with the corresponding body from Banca Monte dei Paschi di Siena for the periodic exchange of information, as well as to report on control and administration systems and general business performance.

- *Meetings with the independent auditing firm*: for the periodic exchange of information, 3 (three) meetings were held with the independent auditing firm, during which the economic/financial situation for the period was also examined, also for the purposes of checks regarding regulatory capital and to share items subject to significant attention during the audit of the financial statements.

  Note that in order to harmonise the auditing process for the entire Group under the responsibility of the parent company's independent auditing firm, as allowed under the regulatory provisions, after receiving a favourable opinion from the Board of Statutory Auditors the Bank revoked the appointment given to the current independent auditing firm in advance, which therefore will end after approval of these financial statements.

- *Board induction*: the Board of Statutory Auditors also participated in the Board Induction sessions provided for the members of the Board of Directors, the Auditors and the managers of the main company departments, in execution of the training plan aimed at providing appropriate technical skills to members of the administrative and control bodies, to allow them to knowledgeably carry out their roles.

  The sessions in which the current control body participated regarded: *(i)* Risk adjusted performance measures *(ii)* Transactions with related parties *(iii)* Regulatory framework and capital adequacy *(iv)* Risk Management. The sessions dedicated to "*Finance Perimeter*" and "*NPE Strategy: focus on derecognition structures*" were carried out during the term of the previous control body.

The sessions were prepared and carried out by the Department Managers of the relevant structures.

1-2 Considerations on the transactions of the greatest economic, financial and equity significance carried out by the Company and their compliance with the law and Articles of Association.

Among the transactions of the greatest economic, financial and equity significance carried out during the year, we note the disposal of loans relative to 773 positions, ownership of which can be traced solely to the Bank, for a total gross amount of € 742.8 million and a net amount of € 283 million.

This transaction was part of the execution of the Group's 2017/2021 restructuring plan (NPL Strategy), approved by the European Commission, following the revision carried out during the year with regards to the objectives of the program to deleverage the portfolio of bad loans.

Also note that in implementation of the parent company's Real Estate Disposal project, the combined sale of two bordering commercial real estate assets located in Florence was compromised.

Additionally, we note the withdrawal from the outsourcing contract with Juliet S.p.A., which had been assigned to manage flows associated with bad loans. The exit from the contract offered significant value with a positive effect on the profits for the year.

Finally, we note the reverse stock split transaction involving ordinary shares resolved by the Extraordinary Shareholders' Meeting on 9 December 2019, regularly executed with the relative resolution registered with the Florence Companies Register on 31/12/2019.

At present, share capital hence amounts to € 1,669,516,282.10, divided into 16,051 ordinary nominative shares without nominal value. All shares are currently held by Banca Monte dei Paschi di Siena SpA, which has therefore become the sole shareholder of the Bank.

1.3 Indication of the existence of any atypical and/or unusual transactions, including infra-group or related party transactions.

In order to render operating actions compliant with CONSOB and Bank of Italy rules on related parties, on 4 December 2018 the parent company issued the "*Group Directive on management of prescriptive formalities on the subject of related parties, associated companies and obligations of bank representatives*".

The Board of Statutory Auditors can attest that operations with related parties, of which the undersigned body has been carefully made aware, were carried out in compliance with and observance of the provisions issued by the regulatory authorities, CONSOB and, more generally, with the law and the cited Group Regulations.

Transactions occurred for the most part with the parent company BMPS and other Group companies and were all carried out under standard or market conditions.

The Board of Statutory Auditors has not identified any atypical or unusual transactions with related parties or third parties.

On the basis of the information obtained, also through participation at the Board of Directors meetings and Shareholders' Meetings, as well as based on the information produced and acquired from the representatives of company departments, the Board of Statutory Auditors is able to affirm that no transactions were carried out in contrast with the law, extraneous to the company's intended purpose or in contrast with the Articles of Association, Regulations or resolutions taken.

2. Monitoring of the principles of proper administration.

To the extent of its responsibilities, the Board of Statutory Auditors monitored the legitimacy of the decisions made by the Board of Directors and compliance with the principles of proper administration through direct observation and recommendations, the collection of information, meetings with the heads of the main company departments and meetings with the independent auditing firm.

During the year in question, no situations arose which would have required, pursuant to article 136 of the Consolidated Law on Banking (TUB), the granting of consent from the Board of Statutory Auditors.

During the year, the Company was subject to management and coordination by the parent company Banca Monte del Paschi di Siena SpA and, to that end, we established full compliance with article 2497*ter* of the Italian Civil Code.

3. Monitoring of the adequacy of the organisational structure and internal control system.

3.1 Organisational structure.

During the year in question, the Board of Statutory Auditors monitored the adequacy of operating processes and models with regards to the provisions contained in the Group directives and external regulations (in particular those issued by the supervisory authorities), as well as monitoring the adequacy of the organisational structure and management processes. This was done through direct observation and by gathering information from the heads of the control departments and the main company departments, both those internal to the Bank and those of the parent company.

3.2 Internal control system.

The Bank has its own Internal Audit Department which is responsible for control, with the objective of carrying out activities intended to identify anomalous trends and violations of internal and external procedural regulations, as well as assessing the effectiveness of the overall system of internal controls. It works in coordination with the same department within the parent company, but independently.

The other company control departments (Compliance and Risk Management), with the exception of Internal Audit, and AML and Combating the Financing of Terrorism, are externalised to the parent company.

The Board of Statutory Auditors holds that this system is adequate for the Company's management characteristics, meets the requirements of efficiency and efficacy in monitoring risks and complies with internal and external procedures and provisions, as authorised by the supervisory authorities.

The activities of the Internal Audit department were monitored through meetings with the relative manager and by examining the activity plan prepared each year, as well as the periodic reports which highlight the results of audits performed, the analysis process carried out and any issues identified, which determine the “grade” assigned.

The Board of Statutory Auditors was able to ascertain that the activities planned by the department for 2019 were almost entirely completed. The “*high significance*” gaps identified were resolved during the year. On the other hand, it was necessary to reschedule resolution of certain medium/low significance gaps.

Internal Audit, as can be seen in the 2019 Annual Report, gave the *Internal Control System* a “*rating 1*” (green) for 2019, as also occurred the previous year.

Finally, the Board of Statutory Auditors favourably acknowledged the Activity Plan prepared by the Internal Audit Office to be carried out during 2020.

At the same time and to that end, the Board of Statutory Auditors holds it necessary to highlight the expediency of strengthening the Department, both in terms of size and in terms of the training and specialisation of employees, in order to improve its functioning, also in consideration of the continual developments in regulations and associated tasks.

As already noted, the Anti-Money Laundering and Combating the Financing of Terrorism (ALM-CFT) department is also located within the Bank.

During the year, after hearing the opinion of the Board of Statutory Auditors, the Board of Directors followed up on an occurrence within the department with the appointment of a new manager.

The various assessments made by the new manager, as well as the evidence identified by Internal Audit following an extraordinary request made by the 231/2001 Oversight Committee, led to strengthening of safeguards, the introduction of new types of control, as well as the improvement of certain areas and updates to reporting.

The Board of Statutory Auditors continuously monitored this process and the AML-CFT periodically reported on the remedial actions carried out to the Board of Directors, providing information on the subject.

In compliance with the provisions of the IV AML Directive, the Department, in coordination with the parent company, carried out a specific Risk Self Assessment. Risk, on the basis of the regulatory provisions issued by the regulatory authority in relation to the two business lines "*Lending and Financial*" was identified using 24 indicators. The result of this activity identified inherent risk as "medium-low".

The Board of Statutory Auditors received the 2019 Report on Activities and the 2020 Plan from the AML-CFT Department according to schedule. The latter was prepared taking into account the results of the self-assessment exercise and the considerations made on the state of AML safeguards. This body will be responsible for monitoring precise execution of the same.

The other company control departments (Compliance and Risk Management) are externalised to the parent company.

During the year, the Compliance Department was restructured following the "New Group Compliance Risk Governance Organisational Model".

The Board of Directors and the Board of Statutory Auditors received specific justifications for and an illustration of the restructuring.

In consideration of this, it was necessary, with the assent of the Board of Statutory Auditors, to revise the relative service contract, in particular to update the catalogue of services.

The Annual Compliance Report was presented to the Board of Directors on 24 February 2020. This reports on compliance checks carried out in the various regulatory areas, any problems identified and corrective actions implemented, all of these are also shared during the course of the year. The compliance level determined at 31/12/2019 for the areas monitored (14 areas, with 103 controls) was for the most part "Compliant" with "moderate risk".

Together with the 2019 annual report, the Compliance department presented the activity plan for the year 2020, which was examined and assessed positively by this Board of Statutory Auditors.

The Risk Management department is managed by the parent company's Chief Risk Officer Department, the head of which is also the head of the department within the bank.

During the year, the department continuously carried out its tasks on the basis of the 2019 Risk Plan, prepared at the beginning of the year. One significant activity, which will be completed in 2020, was the evolution/updating of models.

The department sent information on a periodic basis, each time identifying any findings. As of 2019 the reporting structure has been updated to make it possible to also monitor risks and operating limits within the individual activities carried out.

At 31 December 2019, Regulatory Pillar 1 RWA fell within the RAS target set for 2019. Risk weighted assets (RWA) totalled € 9,026 million at the end of the year. In relation to the bank's business type, these were almost entirely represented by credit risk (62.08%) and counterparty risk (28.80%).

The 2020 Risk Plan, in addition to continuing activities not completed during 2019, includes ordinary activities, such as adjustment of models in relation to changes in domestic and international regulations, as well as the constant monitoring of risks following the approval of the 2020 Risk Appetite Statement for MPSCS.

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From the activities it performed, which did not give rise to the identification of significant events worthy of note in this report, the Board of Statutory Auditors was able to assess the adequacy of the activities and organisation of the various departments with respect to the tasks assigned to them. Consequently, the Board of Statutory Auditors has no significant flaws to report within the Bank's internal control system.

The Board of Statutory Auditors also discussed with the Oversight Committee the board's Report, which did not identify any particular findings and confirms the Bank's compliance with the Organisation, Management and Control Model pursuant to Legislative Decree 231/2001.

4. Monitoring of the adequacy of the administrative/accounting system and independent auditing of the accounts.

4.1. Administrative/accounting system.

The Board of Statutory Auditors monitored compliance with legal and professional norms relative to the maintaining of accounts and preparation of financial statements, mainly through information obtained through the Administration and Financial Statements Manager.

Also on the basis of information acquired from the Independent Auditing Firm, the Board of Statutory Auditors, to the extent of its responsibilities, monitored the observance of the provisions of the law and the regulations relative to the preparation and structure of the financial statement schedules and the content of the report on operations.

Based on the results of that ascertained, the Board of Statutory Auditors holds that the administrative/accounting system is appropriate to correctly represent operating events.

4.2 Adequacy of the information provided, in the Directors' Report on Operations, relative to atypical and/or unusual transactions, including infra-group and related party transactions.

Infra-group and related party transactions are adequately described in the Report on Operations and in the Notes to the Financial Statements, in compliance with that prescribed under the law.

During the year, no atypical and/or unusual transactions were carried out.

4.3 Observations and proposals on findings and requests for information contained in the Independent Auditing Firm's Report.

During the year, the Board of Statutory Auditors met with the independent auditing firm EY, with which there was a reciprocal exchange of information on the aspects falling under their respective responsibilities. No facts worthy of being mentioned here resulted from these exchanges.

The Board of Statutory Auditors then examined the contents of the Auditing Report relative to the Annual Financial Statements at 31 December 2019, issued on 11 March 2020 which, after referencing the key aspects of the independent audit, expressed a judgement without any findings.

Additionally, the Board of Statutory Auditors examined the additional Report for the Internal Control and Audit Committee, pursuant to article 11 of Regulation (EU) 537/14, prepared on 11 March 2020, and regarding verification of any significant flaws identified in the internal control system relative to the financial reporting process, with no consequent findings.

In the context of this report, the independent auditing firm confirmed its independence pursuant to article 6, paragraph 2, letter a) of the cited Regulation. The Board of Statutory Auditors was hence able to independently verify the meeting of this requirement.

4.4 Indication of any additional tasks assigned to the Independent Auditing Firm and the relative costs.

On the basis of the information received by the Board of Statutory Auditors, the tasks assigned to the Independent Auditing Firm are the ones reported in the Notes to the Financial Statements in the amounts indicated therein, referring to the independent auditing of the accounts carried out pursuant to article 14 of Italian Legislative Decree 39 of 2010 and article 165 of Italian Legislative Decree 58 of 1998 (Consolidated Law on Finance - TUF) and certification services for tax declarations.

4.5 Indication of any additional tasks assigned to the entities connected to the Independent Auditing Firm through continuous relations and the relative costs.

During the year no tasks were assigned to companies in the network of the Independent Auditing Firm.

5 Monitoring and adequacy of regulatory capital

The Chief Risk Officer Department, as the company risk control function has the task, among other things, of verifying capital adequacy within the Internal Capital Adequacy Assessment Process (ICAAP).

Capital adequacy is subject to quarterly reporting, sent to the supervisory authorities.

The document containing the official figures for the quarter is supplemented through a monthly report which the Board of Statutory Auditors carefully monitors, making it possible to continuously monitor maintenance of regulatory capital and the equity ratios required by the supervisory authorities.

The schedule provided below shows regulatory capital and the relative equity ratios at 31/12/2019.

EQUITY POSITION (amounts in millions of euro)	31/11/2019
Total Common Equity Tier 1 (CET1)	1,237.3
Total Tier 1 Equity	1,237.3
Total Tier 2 Equity	395.7
Regulatory capital	1,633.0
Total credit and counterparty risk assets	5,602.9
Total market risk assets	2,599.4
Total operating and other risk assets	823.4
Total RWA	9,025.6
Total requirements for credit and counterparty risk	448.2
Total requirements for market and concentration risk	207.9
Total requirements for operating and other risks	65.9
Total capital requirements (8% base)	722.1
CORE Tier 1 ratio	*13.71%*
Limits CORE Tier 1 ratio (*)	*12.87% / 10.00%*
Total capital ratio	*18.09%*
Limits Total Capital ratio (*)	*16.98% / 13.50%*

***For each ratio, the appetite and regulatory capacity limits are shown, respectively.**

Own funds amount to € 1,633 million. Equity ratios, as can be easily seen, exceed the prescribed regulatory minimums.

6 Other opinions and additional information.

6.1. Other opinions

During the year, in addition to the opinions already referenced above, the Board of Statutory Auditors also expressed its opinion with regards to:

– Additional compensation for the independent auditing firm for activities carried out relative to first time application of accounting standard IFRS 16;
– 2019 Annual Report and 2020 Audit Plan;
– 2019 Internal Validation Department Plan;
– Appointment of the new AML and Risks Department Manager;
– Recognition of annual indemnities to the Audit and AML Manager;
– Externalisation of the Compliance Department to the parent company.

6.2 Additional information

During the year, no complaints were presented to the Board of Statutory Auditors pursuant to article 2408, Civil Code, nor were any claims or notifications received.

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The Board of Statutory Auditors therefore notes that its supervisory activities were carried out during the course of financial year 2019 in a normal manner and that it did not identify any significant events which require reporting in this Report.

7. Final assessments.

With regards to controls on the regular maintaining of the accounts and proper recognition of operating events, on the verification of the correspondence between the information in the financial statements and that found in the accounting records, and the compliance of the financial statements with the provisions of the law, recall that these tasks are assigned to the Independent Auditing Firm. For its part, the Board of Statutory Auditors monitored the general structure given to the financial statements.

In particular, the Board of Statutory Auditors:

– verified compliance with the provisions of the law with regards to the preparation and structure of the financial statements;

– verified that the Directors, in preparing the financial statements, did not derogate from the provisions of the law pursuant to article 2423, paragraph four, Civil Code;

– established the correspondence of the financial statements to the events and information it acquired through participation at the meetings of the company bodies, also with regards to the transactions of the greatest economic, financial and equity significance carried out by the Bank;

– verified that the Notes to the Financial Statements contain a declaration of compliance with the applicable international accounting standards and indicates the main measurement criteria adopted, as well as supporting information for the items in the balance sheet, income statement, statement of comprehensive income, statement of changes in shareholders' equity and the cash flow statement. In particular, full information was provided with regards to the impacts deriving from application of Standard IFRS 9;

– ascertained that the Report on Operations complies with the requirements of article 2428 of the Civil Code and current regulations and is consistent with the figures and results seen in the Financial Statements; it provides adequate information about operating trends and also contains the disclosure established by the Oversight Committee.

Following the supervisory activities carried out, the Board of Statutory Auditors has no observations to make and expresses its opinion in favour of the proposed resolutions presented by the Board of Directors, with reference to the approval of the Annual Financial Statements as at 31 December 2019 and with regards to the proposed destination of the profits for the year.

Florence, 12 March 2020

THE BOARD OF AUDITORS

Franco Ghiringhelli
[Illegible signature]

Loredana Anna Conidi
[Illegible signature]

Antonella Giachetti
[Illegible signature]

SHAREHOLDERS' MEETING RESOLUTIONS

Shareholders' Meeting Resolutions

The ordinary Shareholders' Meeting, called and held on first convocation on 03 April 2020, has passed the following resolutions:

POINT 1 OF THE AGENDA

Approval of the 2019 Financial Statements, comprising the balance sheet, the income statement, the statement of changes in shareholders' equity with the related movements in reserves, the statement of cash flows and the Notes, as well as the related attachments and Report on Operations, as a whole and in their individual items, as presented by the Board of Directors.

POINT 2 OF THE AGENDA

Allocation of the profit for the year as follows:

PROPOSED ALLOCATION OF PROFIT FOR 2019

- to reduce the retained loss of financial year 2017 resulting equal to euro 281,030,789.09	euro	36,562,187.47
PROFIT FOR 2019	euro	36,562,187.47

Paola Demartini, after discussion of points 1 and 2 on the Agenda, resigned as a member of the Banks' Board of Directors due to other professional commitments.

POINTS 3, 4, 5, 6, 7 AND 8 OF THE AGENDA

These points were postponed to a subsequent meeting to be called after the selection of the new Board of Directors for Banca Monte dei Paschi di Siena Spa, the appointment of which is planned for the next parent company Shareholders' Meeting, which will be held in May.
Consequently, the corporate bodies of MPSCS will continue to operate until they are replaced.

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GRUPPOMONTEPASCHI