MONTE DEI PASCHI DI SIENA
BANK SINCE 1472

Monte dei Paschi di Siena Group

Consolidated Half-Yearly Report as at 30 June 2021

Half-yearly Report
Monte dei Paschi di Siena Group
30 June 2021

Banca Monte dei Paschi di Siena S.p.a.
Share Capital: € 9,195,012,196.85 fully paid in
Registered with the Arezzo-Siena Company Register – registration no. and tax code 00884060526
MPS VAT Group - VAT number 01483500524
Member of the Italian Interbank Deposit Protection Fund. Registered with the Register of Banks under no. 5274
Monte dei Paschi di Siena Banking Group, registered with the Register of Banking Groups

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HALF-YEARLY REPORT ON OPERATIONS

Results in brief

We provide below the main economic and financial data of the Montepaschi Group as at 30 June 2021, compared with those for the same period of the previous year and at the end of 2020, respectively. In addition, the key economic and financial indicators[1] are provided, based on accounting data, corresponding to those used in internal performance management and management reporting systems, and consistent with the most commonly used metrics within the banking industry, thereby ensuring the comparability of reported figures.

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

INCOME STATEMENT AND BALANCE SHEET FIGURES			
MPS GROUP			
INCOME STATEMENT FIGURES (EUR mln)	30 06 2021	30 06 2020*	Chg.
Net interest income	585.2	646.9	-9.5%
Net fee and commission income	754.5	694.3	8.7%
Other income from banking business	236.7	138.9	70.4%
Other operating income and expenses	(12.5)	(27.5)	-54.5%
Total Revenues	1,563.9	1,452.5	7.7%
Operating expenses	(1,073.3)	(1,077.1)	-0.3%
Cost of customer credit	(165.5)	(519.3)	-68.1%
Other value adjustments	1.7	(5.5)	n.m.
Net operating income (loss)	326.8	(149.3)	n.m.
Non-operating items	(181.7)	(492.8)	-63.1%
Parent company's net profit (loss) for the period	202.1	(1,081.4)	n.m.
EARNINGS PER SHARE (EUR)	30 06 2021	30 06 2020*	Chg.
Basic earnings per share	0.208	(0.980)	n.m.
Diluted earnings per share	0.208	(0.980)	n.m.
BALANCE SHEET FIGURES AND INDICATORS (EUR mln)	30 06 2021	31 12 2020*	Chg.
Total assets	145,749.7	150,345.0	-3.1%
Loans to customers	81,355.8	82,632.3	-1.5%
Direct funding	94,036.5	103,719.3	-9.3%
Indirect funding	104,594.6	102,067.3	2.5%
of which: assets under management	64,125.4	60,400.3	6.2%
of which: assets under custody	40,469.1	41,667.0	-2.9%
Group net equity	6,065.3	5,771.6	5.1%
OPERATING STRUCTURE	30 06 2021	31 12 2020	Chg.
Total headcount - end of period	21,388	21,432	-44
Number of branches in Italy	1,418	1,418	n.m.

** Balance sheet figures as at 31 December 2020 and income statement figures as at 30 June 2020 have been restated, compared to those published at the respective reporting dates, following the retrospective application of the change in valuation criteria for investment properties (IAS 40). Furthermore, for the sake of greater comparability, impairment losses on functional properties (IAS 16) referring to the first half of 2020 were reclassified from item "Net value adjustments to property, plant and equipment and intangible assets" to item "Net gains (losses) on property, plant and equipment and intangible assets measured at fair value".*

[1] The indicators are calculated using the reclassified data shown in the sections Reclassified Income Statement and Reclassified Balance Sheet.

ALTERNATIVE PERFORMANCE MEASURES			
MPS GROUP			
PROFITABILITY RATIOS (%)	**30 06 2021**	**31 12 2020***	**Chg.**
Cost/Income ratio	68.6	74.9	-6.3
ROE (on average equity)	6.8	(24.0)	30.8
ROA	0.3	(1.1)	1.4
ROTE	7.0	(24.6)	31.6
CREDIT QUALITY RATIOS (%)	**30 06 2021**	**31 12 2020**	**Chg.**
Net non performing loans to customers / Loans to Customers (Net NPL ratio)	2.8	2.6	0.2
Gross NPL ratio	3.7	3.4	0.3
Rate of change of non-performing loans to customers	5.1	(64.8)	69.9
Bad loans to custormers/ Loans to Customers	0.7	0.7	n.m.
Loans to customers measured at amortised cost - Stage 2/Performing loans to customers measured at amortised cost	18.7	18.5	0.2
Coverage of non-performing loans to customers	46.9	46.2	0.7
Coverage of bad loans to customers	64.5	62.3	2.2
Cost of customers credit/Customers loans (Provisioning)	0.41	0.90	-0.49
Texas Ratio	53.6	53.9	-0.3

** Balance sheet figures as at 31 December 2020 and income statement figures as at 30 June 2020 have been restated, compared to those published at the respective reporting dates, following the retrospective application of the change in valuation criteria for investment properties (IAS 40). Furthermore, for the sake of greater comparability, impairment losses on functional properties (IAS 16) referring to the first half of 2020 were reclassified from item "Net value adjustments to property, plant and equipment and intangible assets" to item "Net gains (losses) on property, plant and equipment and intangible assets measured at fair value".*

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

Return On Equity (ROE): ratio of the annualised Profit (Loss) for the period to the average between the shareholders' equity of the Group (including Profit and Valuation Reserves) at the end of period and the shareholders' equity at the end of the previous year.

Return On Asset (ROA): ratio of the annualised Profit (Loss) for the period to the total assets at the end of the period.

Return On Tangible Equity (ROTE): ratio between the annualised Profit (Loss) for the period and the average between the tangible shareholders' equity[2] at the end of period and the shareholders' equity at the end of the previous year.

Gross NPL Ratio: gross impact of non-performing loans calculated based on the EBA guidelines[3] as the ratio between Gross non-performing loans to customers and banks, net of assets under disposal, and total Gross loans to customers and banks, net of assets under disposal.

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

Coverage of non-performing loans to customers and coverage of bad loans to customers: the coverage ratio on non-performing loans and bad loans to customers is calculated as the ratio between the relative loss provisions and the corresponding gross exposures

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

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

[3] EBA GL/2018/10.

REGULATORY MEASURES

MPS GROUP

CAPITAL RATIOS (%)	30 06 2021	31 12 2020	Chg.
Common Equity Tier 1 (CET1) ratio - phase in	12.1	12.1	n.m.
Common Equity Tier 1 (CET1) ratio - fully loaded	10.6	9.9	0.7
Total Capital ratio - phase in	15.5	15.8	-0.3
Total Capital ratio - fully loaded	14.0	13.5	0.5
FINANCIAL LEVERAGE INDEX (%)	**30 06 2021**	**31 12 2020**	**Chg.**
Leverage ratio - transitional definition	4.6	4.4	0.2
Leverage ratio - fully phased	4.0	3.6	0.4
LIQUIDITY RATIO (%)	**30 06 2021**	**31 12 2020**	**Chg.**
LCR	194.2	196.7	-2.5
NSFR	135.1	123.8	11.3
Encumbered asset ratio	40.1	39.8	0.3
Loan to deposit ratio	86.5	79.7	6.8
Unencumbered Counterbalancing capacity (bn of Eur)	31.1	33.1	-2.0

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

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

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

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

Liquidity Coverage Ratio (LCR): short-term liquidity indicator corresponding to the ratio between the amount of high-quality liquid assets and the total net cash outflows in the subsequent 30 calendar days.

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

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

Loan to deposit ratio: ratio between net loans to customers and direct funding (deposits from customers and debt securities issued).

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

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

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

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

Executive summary

The changes in the in key items of the Group's main aggregates recorded at 30 June 2021 are summarised below, noting that the results of the first half of 2020 were affected by the health emergency created by the spread of the COVID-19 virus which, as is well known, also concerned the entire first half of 2021.

- **Net Interest Income** amounted to EUR 585 mln, down 9.5% compared to the same period of 2020. The decline was driven (i) primarily by the lower contribution of the non-performing portfolio specifically due to the deconsolidation of the "Hydra M" portfolio in late 2020, as well as (ii) the higher cost of institutional funding linked to the issues carried out in the second half of 2020, (iii) the lower contribution of the BMPS securities portfolio, also following sales made in the course of 2020 which continued in 2021, (iv) the negative contribution of hedging derivatives and (v) the decline in returns due to interest rate trends and the shift of exposures, with a reduction in the demand and short-term components and growth in the medium/long-term component. On the other hand, Net Interest Income benefited from the lower cost of commercial funding and the positive effects linked to access to the TLTRO-III auctions for a total of EUR 128 mln, although partially offset by the cost of higher deposits at central banks of approximately EUR 52 mln.

- **Net fee and commission income**, totalling EUR 755 mln, posted an improvement of +8.7% compared to the same period of the previous year. The increase is due to higher income from asset management (+ 22.2%), both through higher commissions on product placement and to higher continuing commissions, which benefited from an increase in average assets under management and in average returns. On the other hand, commissions on credit decreased (-5.6%), also as a result of the aforementioned shift of loans to longer-term forms, and commissions from services (-1.8%), related to the lower revenue from the administration of current accounts.

- **Other income from banking business**, equal to EUR 237 mln, increased by EUR 98 mln compared to the corresponding period of the previous year, benefiting from higher profits from the sale of securities. The contribution generated by the partnership with AXA in the Bancassurance area was also up compared to the corresponding period of the previous year.

- **Other operating income and expense**, totalling EUR -12.5 mln, showed an improvement compared to the corresponding period of 2020 (equal to EUR -27.5 mln).

- As a result of the trend in these aggregates, **Total revenues** amounted to EUR 1,564 mln, up 7.7% compared to those earned in 1H20.

- **Operating expenses** totalled EUR 1,073 mln, up 0.3% compared to the same period in the previous year. The **Personnel expenses** aggregate, amounting to EUR 719 mln, increased by 1.5% compared to 1H20, despite the decline in headcount (linked - primarily - to the 560 terminations relating to the Solidarity Fund recorded between 1 November 2020 and 1 January 2021), in relation to contractual increases deriving from the renewal of the national collective labour agreement and the elimination of savings resulting from the failure to renew the trade union agreement. **Other Administrative Expenses**, equal to EUR 266 mln, are in line with the same period of the previous year, while **Net adjustments to property, plant and equipment and intangible asset,** equal to EUR 89 mln, are down compared to the corresponding period of the previous year (-14.8%) also due to the effects of the introduction of fair value valuations of properties.

- The **Cost of customer credit**, equal to EUR 166 mln, improved by EUR 354 mln compared to the first half of 2020, which included a roughly EUR 300 mln increase in adjustments deriving from the changed macroeconomic scenario triggered by the spread of the COVID-19 pandemic. Excluding this effect, the aggregate was down in any event compared to 1H20 primarily due to the elimination of adjustments on the positions in the "Hydra M" portfolio, deconsolidated at the end of December 2020. The **Provisioning** Rate is **41 bps** (90 bps as at 31 December 2020).[7]

- The **Net Operating Income** was EUR 327 mln, compared to a negative value of EUR 149 mln in the same period of the previous year.

- In addition to the changes in these economic aggregates, there were non-operating components amounting to EUR -182 mln (EUR-493 mln in the first half of 2020). Notably, **Net provisions for risks and charges**, negative and equal to EUR 42 mln (EUR -357 mln in 1H20), **Other gains (losses) on investments**, equal to EUR -0.2 mln (EUR 0.7 mln in 1H20), **Restructuring/One-off costs**, equal to EUR -4 mln (EUR -28 mln in 1H20), costs associated with **SRF (Single Resolution Fund), DGS (Deposit Guarantee Systems) and similar schemes**, equal to EUR -90 mln (up compared to the EUR -77 mln in 1H20), the **DTA fee** equal to

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

EUR -32 mln (EUR -35.5 mln at 30 June 2020), the **Net gains (losses) on property, plant and equipment and intangible assets measured at fair value** equal to EUR -28 mln (EUR 4 mln at 30 June 2020) and **Gains (losses) on disposal of investments**, equal to EUR 14 mln (EUR -0.7 mln in 1H20).

- As a result of these trends, together with the positive impact on **Taxes** of **EUR 58.7 mln** (EUR -437 mln as at 30 June 2020) and the net economic effects of the **PPA**, equal to EUR -1.8 mln (EUR -2,0 mln as at 30 June 2020), the Group posted a **Net Profit of EUR 202 mln**, compared to a loss of EUR -1,081 mln posted in the same period of 2020.

- **Total Funding** as at 30 June 2021 was equal to approx. **EUR 198.6 bn**, down in volume terms by EUR 7.2 bn compared to 31 December 2020, due to the decrease in Direct Funding (EUR -9.7 bn), only partially offset by the increase in Indirect Funding (EUR 2.5 bn). Direct Funding was down primarily due to the decline in repurchase transactions (EUR -5.6 bn). There was also a decrease in time deposits (EUR -1.4 bn), bond issues (EUR -1.5 bn) and Other forms of funding (EUR -1.3 bn). Current account increased slightly (EUR 0.2 bn). On the other hand, with respect to Indirect Funding, there was an increase of EUR 2.5 bn compared to 31 December 2020 due to the Assets under Management component (EUR 3.7 bn), which benefited from positive net flows and a positive market effect. There was instead a decrease in the Assets under Custody component (EUR -1.2 bn), due to changes related to a major customer.

  Total Funding was down also compared to 31 March 2021 (EUR -4.9 bn), mainly due to the decrease in Direct Funding (EUR -5.0 bn). More specifically, the decrease in Direct Funding is primarily due to a decline in repurchase transactions (EUR -2.6 bn), but Other forms of funding (EUR -1.2 bn), bond issues (EUR -1.2 bn) and time deposits (EUR -0.7 bn), were down as well. Current accounts were instead up (EUR 0.7 bn). Indirect Funding is stable compared to 31 March 2021 due to the effect of the growth of the Assets under Management component (EUR 2.0 bn), which benefited from positive net flows and a positive market effect, offset by the decrease in the Assets under Custody component (EUR -1.9 bn), which was impacted by the aforementioned changes involving a major customer.

- As at 30 June 2021, **Loans to Customers** were equal to EUR **81.4** bn, down by EUR 1.3 bn with respect to the end of December 2020, primarily due to the decrease in repurchase transactions (EUR -1.9 bn), the decrease in Other loans (EUR -1.0 bn) and current accounts (EUR -0.2 bn), partly offset by an increase in mortgage loans (EUR 1.8 bn), also influenced by the effect of disbursements and extension of the moratoria granted in the context of the government decrees issued following the COVID-19 emergency.

  The aggregate is also down compared to 31 March 2021 (EUR -0.9 bn), mainly due to the lower trading in repos (-0.8 bn) and the decrease in Other loans (EUR -0.3 bn) and current accounts (EUR -0.1 bn). There was instead an increase in mortgage loans (EUR 0.2 bn), which continue to be influenced by the aforementioned trends related to COVID-19.

- As at 30 June 2021, **Coverage of non-performing loans to customers** was 46.9%, up compared to 31 December 2020 (equal to 46.2%). Specifically, the coverage ratio went from 62.3% to 64.5% for bad loans, from 36.8% to 36.3% for Unlikely to pay loans and from 27.8% to 26.0% for Impaired past due loans.
  The non-performing loans to customers coverage ratio instead recorded a decline compared to 30 June 2020 of 49.5%, primarily as a result of the deconsolidation of the "Hydra M" portfolio at the end of December 2020.

With regard to capital ratios, as at 30 June 2021 the ***Common Equity Tier 1 Ratio*** was equal to **12.1%** (in line with value at the end of 2020) and the ***Total Capital Ratio*** to **15.5%** (against 15.8% recorded at the end of 2020).

Reference context

Thanks to the progress in vaccinations and the strong support of monetary and fiscal policies, the global recovery has been strengthened, although the cyclical disparity between the major economies has increased. US GDP has now returned to its pre-pandemic levels, while China consolidates its expansion and the Eurozone follows slightly behind. The expansive stage in the business cycle is accompanied by an increase in inflation, to a different extent in the different economies: this could slow down the recovery if decisive monetary policy interventions become necessary. Despite the net improvement in the situation, the variants of the virus, in particular the Delta (Indian) now prevalent, the limited availability of vaccines worldwide and the different speed of immunization campaigns shows that no economy can yet be considered safe from the risk of relapses. The uncertainty in regard to the effective control of the virus is also reflected in the performance of world trade, which has slowed down after the rebound in the third quarter of 2020.

In the United States, the recovery is strengthening, with GDP returning to the values at the end of 2019 (6.4% Q/Q annualised in the first quarter of the year); household consumption benefits from the transfers in the American Rescue Plan and investments, residential and otherwise, are growing. The labour market is improving, but strong imbalances between supply and demand remain (in May 2021, against 7 million unemployed, a higher number of open positions at US companies was recorded) which could generate wage increases; this could in turn contribute to maintaining high inflation, which in June increased to 5.4% yoy; this price growth, well above the Central Bank's target, is currently accepted by the Fed as it is considered temporary. The debate on the approval of the additional fiscal stimulus plans presented by Biden last May (American Jobs Plan and the American Family Plan) and their funding continues; at the moment, an agreement has been reached on public investment plans for approximately USD 1,200 bn.

In the Eurozone, the pace of economic activity is rather heterogeneous, due to the different restrictions adopted to deal with the spread of infections: in the first quarter of 2021, the Italian economy was the only one not to record a contraction compared to the previous quarter, while the Eurozone as a whole contracted by 0.3% and Germany, more exposed to the frictions of international markets and the difficulties of the automotive sector, saw a more pronounced decline. The marked improvement in the economic indicators and the confidence of businesses and households, observed in recent months, signals an acceleration in the Eurozone GDP growth from the second quarter of 2021. Inflationary pressures (1.9% yoy in June) are not such as to worry the ECB. On 31 May 2021, the EU Commission was formally authorized to take out loans on behalf of the EU up to EUR 750 bn to finance, first of all, the Recovery and Resilience Facility which, with an endowment of EUR 672.5 bn, represents the central component of the Next Generation EU fund. The Commission has then placed, in June, two tranches of securities for EUR 35 bn, receiving a very positive response from investors. Some National Recovery and Resilience Plans, including the one presented by Italy, have already received a positive opinion from the EU as a first step in the pre-funding process.

Among the emerging economies, the rapid exit from the pandemic crisis strengthens the global position of China, the growth of which remains robust, despite a slowdown in the second quarter (7.9% on a trend basis from +18.3% in the first quarter). The Chinese monetary authorities are taking some moderately restrictive interventions to avoid excessive overheating of the economy and prices and to ensure macroeconomic stability after the strong fiscal stimuli that have resulted in increasing debt in 2020. However, a new health emergency is affecting some countries (India, in particular) and having a negative effect on the recovery. Rising inflation represents a further constraint for emerging market growth: central banks in Brazil and Russia have already reacted to rising prices by increasing policy rates.

In Italy, despite the restrictive measures adopted in the winter and Q121 growth equal to +0.1% (percentage GDP change on previous quarter), the exceptional commitment of economic policies (Emergency Decrees and Budget Law) and, above all, the progress of the vaccination campaign, makes us believe that we are at the start of a strongly expansionary stage, provided there are no increases in the spread of new variants of the virus. Confidence levels of households and businesses are now at pre-crisis levels and, for some components, above them. Activity in the construction sector is increasing, driven by incentives, but also by household savings which, after increasing during the crisis, are now being poured into real estate; the sector is displaying a dynamism not observed in previous expansions. Household consumption has started to turn to services, also thanks to the start of the summer season. The recovery has been boosted by the National Recovery and Resilience Plan (*Piano Nazionale di Ripresa e Resilienza, PNRR*), which was sent to the EU Commission at the end of April 2021 and was given the formal green light by Ecofin on 13 July: Italy will be able to use all available NGEU funds, for a total of EUR 205 bn. In addition, the government has allocated about EUR 30 bn to a national fund that will complement the European one, bringing the total expenditure included within the PNRR programming to over EUR 230 bn. It is an ambitious plan that, as emergency policies come to an end, could prove to be delicate: the ban on redundancies has come to an end for the manufacturing sector, with some exceptions, at the end of June 2021 and is scheduled to end for the service sector at the end of October 2021.

In the first half of 2021, the good performance of equity indices continued, supported by the upward revision of the expected profits of the main companies, which have benefited from the improvement in the economic scenario; however, after the Federal Open Market Committee (FOMC) of the Federal Reserve, at its mid-June meeting, signalled that a rate hike could be put forward to 2023, markets reacted nervously. Since the beginning of the year, both the S&P 500 and the Euro Stoxx have risen by more than 14%; the FTSE Mib also gave a brilliant performance (about +13%); the performance of the Nikkei was positive (up by almost 5%). In China, instead, the Shenzhen Stock Exchange Index, after a very positive performance in the first months of the year, closed the six-month period basically unchanged.

The markets have already priced in the rebound in US inflation: after a marked rise in the first quarter, risk-free government yields show divergent trends in the second quarter. In its rise, the 10-year Treasury Bond therefore sees the component representing the inflation risk premium reappear while the real return component linked to improved growth prospects remains unchanged. As at 30 June 2021, the US ten-year yield reached 1.47%, down from 1.74% at the end of March, but in any case about 55 basis points higher than at the end of 2020; the Bund yield rose to -0.21% from -0.57% at 31 December 2020; the Italian ten-year yield increased to 0.82% from 0.54% at the end of the year. There was no particular pressure on the spread between ten-year BTPs and Bunds, which closed the period at 103 basis points from 110 at the end of 2020.

Central Banks maintain an accommodative stance in the first half of the year, even if the resistance against the upward trend in long-term rates begins to be the subject of debate, especially in the USA. At its last meeting in June, the Fed declared that it would keep short-term rates close to zero at least until the end of 2022, believing the factors that push inflation upwards to be temporary and noting that the sectors most affected by the pandemic are still far away from reaching the employment levels of the pre-crisis period. However, President Powell confirmed that within the FOMC there was a first discussion about tapering, that is, the gradual reduction of the amount purchased that currently is equal to USD 120 bn a month; some members of the Committee consider such purchases excessive, given the abundant liquidity in the US financial system, and believe that the conditions for this to be reduced could be reached sooner than expected. At its last meeting, the European Central Bank did not announce changes in interest rates or in its unconventional monetary policy instruments, although some board members are beginning to consider a reduction in the volume of securities purchased on the market. Despite economic growth forecasts being revised upward by the ECB, the European economy remains fragile and the shelving of expansionary measures does not appear to be justified. At the moment, the possibility of abandoning the Pandemic Emergency Purchase Program (PEPP) before the original end date of March 2022 is not being considered. The ECB also presented its revised monetary policy strategy, focused on the adoption of a symmetrical 2% inflation target: prolonged deviations from the target, both positive and negative, will be equally unwelcome by the monetary authorities, which will also intervene if inflation turns out to be too low, while inflation somewhat above 2% will be allowed for transitory periods. President Lagarde noted that the new strategic objective cannot be compared to the average inflation targeting adopted by the Fed last fall. The review of the strategy will include the formal inclusion of climate change in the monetary policy framework. The ECB has presented an action plan, committing, in line with the objective of price stability: i) to include considerations related to climate change with regard to disclosure, risk assessment, system of guarantees and purchases of corporate sector assets, and ii) to broaden its analytical capacity in terms of macroeconomic models, statistics and monetary policy with reference to climate change.

The inflation indicator monitored to achieve the ECB target continues to be the Harmonized Index of Consumer Prices (HICP), although the underlying basket of which this is composed will have to be revised to include a component linked to the cost of housing.

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

More than a year after the start of the COVID-19 health emergency, the first half of 2021 saw the launch of massive vaccination campaigns, through which it should be possible to ensure the containment of new pandemic waves and the resumption of all economic activities. Despite the optimism generated by the effectiveness of vaccines, the recovery path continues to be characterized by uncertainties, obstacles and potential hiccups, in particular constraints on the demand side (for example in terms of the public's willingness to be vaccinated), the emergence of new COVID-19 variants outside the Eurozone and the lingering doubts on the effectiveness of vaccines against these, which are bound to have repercussions on the attempt to restart the real economy.

Governments and central banks continue to provide support to the real economy and to markets and the regulators continue to focus on the need to contain financial shocks and their pro-cyclical effects, which might be expected when the support for the real economy such as moratoria and state guarantees comes to an end, forcing economic operators to face potential liquidity crises.

Communications from authorities and standard setters in the accounting field

In the context described, the monitoring and proactive management of credit risk continue to be the main focus issue for financial intermediaries, both as regards the classification of credit exposures and for their consequent assessment, in line with the guidelines and provisions of the international authorities, which have dealt with the subject several times in 2020, stressing the importance of the attention to managing credit risk that banks must pay in this delicate stage, to ensure that all possible exposure impairment indications are promptly identified.
Having said this, it should be noted that, in the first half of 2021, there were no further significant regulatory interventions by regulators and standard setters: the framework outlined by these in 2020 remains valid.

Regulatory interventions

There were no significant new elements in the first half of 2021 in regard to regulatory interventions; please refer to the information provided in the 2020 Financial Statements.

Monetary policy interventions

With reference to refinancing and liquidity support transactions, please note that, at its meetings held in January and March 2021, the Governing Council of the ECB confirmed the highly accommodating orientation of monetary policy. In more detail, as regards the **Asset Purchase Programme (APP)**, net monthly purchases of EUR 20 bn were confirmed, in addition to the intention of continuing to fully reinvest the capital repaid in maturing bonds for an extended period of time, for the entire period of time deemed necessary to maintain favourable liquidity conditions and a broad degree of monetary accommodation. As regards the public and private bond purchase programme in response to the pandemic emergency (**Pandemic Emergency Purchase Programme, or PEPP**), the Council confirmed the continuation of purchases, with the expectation that it will not be necessary to use the entire amount set aside of EUR 1,850 bn.

Government interventions

As regards the Italian government decrees and the European state aid rules, the following new elements, introduced in the first half of 2021, should be noted.

On 1 March 2021 and 22 March 2021, the Official Gazette No. 51 and No. 70 published respectively the Law converting decree-law Milleproroghe (Law No. 21/2021 converting decree-law 183/2020), in force from 2 March and the Sostegni Decree (decree-law No. 41/2021), in force from 23 March. For details on the main provisions of the measures, reference should be made to the Interim Report on Operations for the first quarter of 2021.

In regard to the second quarter of 2021, the following should be noted:

On 25 May 2021, the Official Gazette published the decree-law No. 73/2021, known as **Sostegni-bis Decree**, which allocates about EUR 40 bn to expand and enhance the tools to fight the spread of the COVID-19 virus.

Being of greatest interest to the banking sector, the measures to give companies access to credit and liquidity (Title 2 of the Decree, Art. 12 - 25) should be noted. The Decree envisages measures for EUR 8,500 mln, as follows: moratorium on principal loan repayments until 31 December 2021, remodulation and extension of the guarantees for SMEs and SACE, introduction of a public portfolio guarantee in support of loans to fund the research and investment projects of SMEs, new regulation of ACE (*Aiuto alla Crescita Economica*, Allowance for Corporate Equity) aimed at favouring capital increases, tax allowances, tax credits and refunds related to investment activity. Specifically, Article 16 provides for the option of further extending the deadline to suspend the payments on loans granted to SMEs, currently 30 June, to 31 December 2021. The measure therefore applies only to the moratoria already granted, pursuant to Article 56 of the Cura Italia Decree, 17 March 2020, and still in place at the time the Sostegni-bis Decree is published. It should also be noted, in Article 23, the abrogation of the previous reference to the year 2020 for the implementation of development and capital strengthening programs of companies subject to state control.

The Decree was converted into law by the Parliament on 23 July and the conversion law was published in the Official Gazette on 24 July.

On 22 June 2021, the European Commission gave a positive assessment of the Italian **Recovery and Resilience Plan (*Piano Nazionale per la Ripresa e la Resilienza, PNRR*)**, which provides for EUR 68.9 bn in **grants** and EUR 122.6 bn in loans as part of the recovery and resilience measures.

The approval of the PNRR was preceded by the decree-law no. 59, 6 May 2021, on "Urgent measures relating to the complementary Fund to the National Recovery and Resilience Plan and other urgent measures for investments". The Decree, converted into Law no. 1, 1 July 2021, published in the Official Gazette on 6 July 2021, provides for the approval of the National Investment Plan, aimed at integrating the PNRR measures with Italian resources equal to EUR 30,622.46 mln for the 2021-2026 period and ensures the distribution of the Italian resources of this Plan, identifying the programs and activities included, as well as establishing the allocation of resources among them, for each year. The Administration in charge is identified for each measure.

The regulatory framework that will allow the full implementation of the PNRR was then completed with the adoption of two additional government measures: decree-law no. 77/2021, on the governance of the PNRR and the simplification of administrative procedures, and decree-law no. 80/2021, which introduces urgent measures to strengthen the administrative capacity of the public administrations.

The first measure (decree-law no. 77) outlines the Governance structure in charge of the coordination, monitoring, reporting and control of the management activities of the Plan.

The decree-law on the administrative capacity of the public administrations (No. 80/2021) instead regulates special procedures aimed at speeding up the selection procedures that can be used for the recruitment of temporary staff and the hiring of independent contractors by the public administrations that own the projects included in the National Recovery and Resilience Plan.

Finally, with reference to the European state aid rules, it should be noted that the temporary framework, adopted by the Commission to allow Member States to make full use of the flexibility provided by state aid rules to support the economy in the context of the coronavirus crisis, has been extended until 31 December 2021. In this context, on 8 June, the European Commission approved an EUR 800 mln plan presented by the Italian government to support companies affected by the pandemic operating in Italy as part of "development contracts" for the implementation of priority projects.

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

Occupational safety

In the first half of 2021, the Group continued to work to guarantee the protection of occupational health and safety, the prevention of the risk of contagion and business continuity, always in compliance with the government provisions in force at the time.

The measures presented in the 2020 financial statements, which should be referred to for any matters not expressly addressed herein, remain valid.

The main updates regard:

- **the contagion prevention initiatives undertaken in relation to the network units:** from 13 May 2021 there are no longer red or enhanced orange areas, therefore no branch is in shifts. At **branches in the white and yellow areas, access to the cashier's desk does not require an appointment** and, even for **branch managers**, access is no longer limited to one customer for each employee, within the maximum capacity of the branch; the managers of all specialist centres may meet their customers at their respective operating branches, in all areas except the red and with some restrictions for the orange areas.
- **responses to employees*:*** **infocovid19@mps.it** is a team of 16 resources, which provides continuous support activities to handle requests for clarification and specific details from colleagues throughout the Montepaschi Group. Responses are provided through two channels: the e-mail address (infocovid19@mps.it) and a sharepoint dashboard; the teams respond continuously even after working hours, until 10:30 pm and on holidays. Since the start of the pandemic, around **66,717 requests** have been managed. To date, the daily average is about **39 emails**, including Saturdays and Sundays. Starting from the month of July, the service is guaranteed after working hours from 7:00 pm to 9:00 pm.
- **control of company provisions:** constant monitoring is enacted on respect for company provisions. Any reports of non-compliance with the provisions are investigated and analysed; if necessary, the **disciplinary measure** process is activated. There were 11 disciplinary measures adopted for violation of anti-COVID rules, one of which was brought to the Disciplinary Affairs Commission.
- **the process of managing "company outbreaks":** it is activated in the case of the presence of multiple positive cases within the same branch or the same office, in order to gather evidence concerning respect for the provisions of the Contagion Prevention Protocol (PPE, plexiglass, cleaning, etc.) and information on events and conduct with the support of the Health and Safety Supervisor (Branch Manager, Service Manager, etc.). After this investigation, mitigating actions, corrective actions and, if necessary, disciplinary measures may be taken. To date, about 33 company outbreaks are being investigated, of which 10 are more significant for the number of positive cases compared to the local workforce. Since the beginning of the pandemic, 16 complaints were filed with INAIL for workplace accidents due to COVID-19 infection, of which 12 concern employees who have already returned to work.

Commercial activities

In 2021 there was a gradual improvement in the situation related to the effects of the pandemic, with an almost complete return to normality. Therefore, no further one-off measures were necessary to support commercial activities; however, the process to encourage the use of "remote" products and services continued, making the most of the push towards remote working resulting from the pandemic.
For the rest of the commercial activities carried out by the Group during the first half of the year, reference should be made to the information in the section "2021-2025 Group Strategic Plan".

Credit

In the first half of 2021, the Group continued its activity to **support families and businesses**, already started in 2020.

On 1 March 2021, the Board of Directors of the Parent Company approved the **credit strategies for 2021**: the framework was developed with a view to supporting customers and in substantial continuity with the strategies in place in the second half of 2020, also considering the continuation of the pandemic crisis and the Italian government's decision to extend the economic support measures for the entire first half of 2021.

For **Business** counterparties, strategies were developed based on the impacts generated by the economic situation, not only in the economic sector to which the company belongs, but also on the company's quality in terms of resilience to the crisis. The scenarios considered are based on an estimated reduction in GDP of roughly 9.6%, in line with those defined in the RAS. The methodology calls for the breakdown of companies into 4 clusters: each was associated with a predominant strategy which goes from ordinary growth, intended for customers not in difficulty, to selective management for customers with a high level of risk, moving through all of those intermediate situations where the intervention of the Parent Company is weighted on the basis of the cluster to which the customer belongs. Individual counterparties have the same strategic policy at Group level. In order to promptly take into account any signs of a further deterioration (or recovery), the strategies have been rendered dynamic: for transfers to High-Risk , rating changes and/or changes in the impact of the Cerved credit score, the strategy is indeed reverified and brought into line with the company's new credit status.

Given the impact of the crisis on natural persons as well, who benefited from moratoria and other support measures, the 2021 strategies were also defined for **Consumer** customers. The goal is to support the manager in identifying the best facility mix to be used for counterparty financing, in addition to the tools already available such as credit standards and acceptance algorithms. The methodology calls for a risk-based counterparty analysis (low risk/high risk and internal bank rating) combined with an analysis of external credit bureau information (Delphi score), with the resulting breakdown into 3 clusters associated with a specific strategic policy: Ordinary Growth, Moderate Growth and Maintenance. The model is aimed at promptly capturing changes in the risk profile of the counterparty even if critical issues have not yet been identified in the relationship with the bank, preventing the "cliff effect", that is, preventing indication of deterioration from occurring only at the time the suspension measures come to an end.

Also in compliance with regulatory provisions (Guidelines on Loan Origination and Monitoring issued by the EBA in 2020), starting from 2021 **ESG metrics** strategies have been introduced into the policies, with a view to start also factoring within the Group's decision-making framework elements not directly linked to the company's creditworthiness but instead relating to the company's capacity to adapt to new environmental, social and ethically sustainable governance standards. The counterparties assigned a green rating calculated on the basis of a specific questionnaire (ESG diagnostics) will be subject to dedicated strategic policies defined on the basis of the level of the ESG score and the relative cluster. In particular, on counterparties with a negative ESG score and a growth strategy, it will be recommended that new loans be focused on investments in the transition.

The monitoring of **credit strategies** has shown trends that are generally consistent with the indications provided: credit production is in line with the budget for the period and almost entirely concentrated on loans backed by guarantees and on customers subject to a greater COVID impact, which were supported by making use of the measures provided for by the Liquidity Decree.

In order to strengthen risk oversight and in line with the requests made by the ECB, a "**crash program**" has been activated in order to proactively manage customers that could find themselves in difficulty even after the government measures activated in response to the pandemic; the objective is to promptly provide additional support to deserving businesses, deemed capable of overcoming the crisis, and classify as in default the counterparties that present high risk of deterioration in creditworthiness at the time of analysis.

Within a wider portfolio of customers benefiting of COVID-related support equal to approximately EUR 27.6 bn, the Group has identified roughly 25.7 thousand customers to be prioritised, with an exposure of EUR 12.8 bn: the most risky and most significant counterparties are managed directly by the Chief Lending Officer Department; the less significant risky counterparties continue to be managed by the network with the support of the High-Risk credit unit for the activation of specific strategies/credit actions.

This crash program was developed through a process which has sequentially provided for the implementation of the following activities: 1) analysis of the counterpart and diagnosis of critical issues; 2) contact with the customer, after liaising with the manager of the relationship limited to the positions directly managed by the credit functions 3) strategy definition after answering a counterpart evaluation questionnaire; 4) specification of the strategy defined; 5) implementation of the measure and monitoring of execution.

The conclusion of the crash program showed a 2% rate of classification as non-performing in exposure terms, almost 3% in customer terms; moreover, 16% of all the exposures analysed (15% in customer terms) were identified as in need of additional support by granting a payment holiday or providing new liquidity, in some cases accompanied by the consolidation of previous exposures; on the remaining portion of the crash perimeter, in-depth analysis has highlighted the conditions for the continuation of the relationship without further initiatives with respect to the set of measures applied from the outbreak of the pandemic and up to the date of assessment of the position.

In line with what was reported to the Supervisory Authority in the communication relating to the crash program, in May the **COVID score was updated** on approximately 114 thousand customers (for an exposure of almost EUR 11 bn) which, although beneficiaries of COVID-related support measures, were not included in the aforementioned crash program being less significant counterparties in terms of risk (monitored customers). The update showed a perimeter of approximately EUR 1 bn with approximately 4.4 thousand customers affected by a worsening of the risk indicator: within this, assessment priority was given to 273 customers for EUR 83 mln. with a higher COVID score than average; there was a shift to non-performing for about EUR 3 mln exposure, while EUR 6.8 mln will be object of support measures. Lastly, for the remainder of the cluster identified, the final assessment was that the existing credit facilities are substantially adequate.

Starting from April 2021, **the ordinary process for the assignment of loans to the forborne category was reactivated** following the end of the EBA exemption which made it possible to avoid assessing the financial difficulties of the borrower - for forbearance detection purposes - for the moratoria granted from September 2020 to March 2021 with a duration not exceeding nine months.

"Top-down" initiatives were also launched for the assignment of the forborne classification, which resulted in this attribute being activated on approximately EUR 400 mln exposures**.**

Finally, in the context of the monitoring and mitigation of the risk deriving from the "new definition of default", a **new process was launched for the early management of the overdrafts** of retail customers: this is divided into five processing stages. The first stage, "*Credit Care*", consists in a telephone call to remind the customer of the existence of an overdraft or an "early" overdue (between the 5th and the 19th day). The next two stages, both pre-default, consist of contacts aimed at obtaining settlement before the 90th late day with a view to containing the cost of credit. The last two management stages, both post-default, aim at containing slippage to the unlikely to pay category.

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

As regards moratoria, the Group has in parallel managed both new suspension requests, evaluating case by case the counterparty's financial difficulties, and extensions in the terms of the moratoria granted pursuant to the "Cura Italia" decree, for all counterparties that took advantage of the benefits of the extension provided pursuant to the law. The development of new disbursements was also channelled within the legislative path outlined by the Liquidity Decree, particularly with regard to the consolidation measures associated with new borrowings with the simultaneous acquisition of the Central Fund guarantee.

As at 30 June 2021, performing exposures affected by **active moratorium measures** were equal to approx. EUR 6.2 bn (approx. EUR 11 bn as at 31 December 2020) - of which around EUR 2.8 bn subject to further moratorium on the repayment of principal pursuant to the "Sostegni Bis" Decree) - equal to approximately 9% of the Group's performing loan portfolio - and are attributable for EUR 5.2 bn (EUR 0.3 bn as at 31 December) to moratoria that do not fall within the definition of EBA Compliant General Payment Moratoria. Compared to the latter aggregate, the increase is due for approx. EUR 4.9 bn to the exceeding of the 9-month threshold on the total duration of the suspension, upon which the EBA Guidelines require the financial difficulties of the counterparty beneficiary of the suspension to be assessed; among the moratoria that do not fall within the definition of EBA Compliant General Payment Moratoria following the assessment of the financial difficulties, the Group has classified as forborne about EUR 0.4 bn.

Of the active moratoria, around 43% are classified among stage 2 exposures, as they fall within the High-Risk management scope (particularly due to the application of forbearance detection rules) and/or based on the analysis of the significant increase in credit risk.

It should also be noted, as of 30 June 2021, there are EUR 7.1 bn of performing moratoria with a grace period that has ended ("expired"), of which around EUR 4.6 bn concerned by the resumption of payment plans. The above figure of the moratoria expired as at 1 July 2021 increased by a further EUR 2.2 bn.

In the first half of 2021, the default rate on the total performing portfolio concerned by suspension measures, both active and expired, was equal to around 1.6% on a six-monthly basis; for the expired moratoria with resumed payments, this rate was equal to approx. 1.2%.

Exposures on non-performing active moratoria were equal to approximately EUR 228 mln at 30 June 2021, for an overall exposure at customer level of approximately EUR 370 mln.

In terms of the actions taken in application of the "Liquidity Decree", in line with its credit policy guidelines, the Group has continued to accelerate the deployment of **guaranteed support measures**. In the first half of 2021, additional loans of roughly EUR 3 bn were disbursed, for a total amount of loans guaranteed by the Central Guarantee Fund, Ismea or Sace equal to around EUR 9.3 bn. For the same period, further loans are being disbursed for approximately EUR 1 bn.

Of the amounts disbursed under guarantee, about 27% represents exposures classified as stage 2, mostly representing disbursements made pursuant to letter E of the Liquidity Decree, for a total of EUR 3 bn as at 30 June 2021. Lastly, it should be noted that the guarantee coverage ratio of the total disbursed is roughly 88%, basically unchanged compared to the end of 2020.

Business Continuity Management

There are no significant updates with respect to the information already provided in the 2020 Financial Statements.

Logical Security and Physical Security Management

Also in the management of logical and physical security, there are no significant updates with respect to the initiatives already undertaken and described in the 2020 Financial Statements.

Shareholders

As at 30 June 2021, the Parent Company Banca Monte dei Paschi di Siena's share capital amounted to EUR 9,195,012,196.85, broken down into 1,002,405,887 ordinary shares, of which 1.513% are treasury shares.

According to the communications received pursuant to the applicable legislation and based on other information available, as well as based on information on CONSOB's website, the entities that, as at 30 June 2021, directly and/or indirectly hold ordinary shares representing a shareholding exceeding 3% of the share capital of the Issuer and which do not fall under the cases of exemption set forth in art. 119-bis of the Issuers' Regulations are as follows:

BMPS main shareholders as at 30 June 2021

Shareholder	% of outstanding ordinary shares
Ministry of Economy and Finance	64.230%
Assicurazioni Generali S.p.A.*	4.319%

* Share held trough subsidiary companies, based on the comunication received pursuant to applicable legislation on 28 November 2017.

Information on the BMPS share

Share price and trends

International equity markets confirmed, also in the second quarter of 2021, the growth trend observed after strong losses were recorded at the beginning of 2020. The factors that contributed to the increase in equity prices include the decline in the spread of COVID-19, due to the gradual implementation of vaccination plans, and the confidence that the economic recovery will also help the future easing of support measures taken by the Central Banks. In the US, the S&P 500 index settled above pre-pandemic levels, with an 8.2% increase over the quarter. As for the Asian markets, in China the Shanghai index (SHCOMP) returned a positive performance, with a 4.3% increase, while in Japan there was a stabilization of the Nikkei index (-0.6%).

In Europe, the second quarter of 2021 saw the approval of national projects related to the Next Generation EU plan, which has contributed to increase confidence followed by equity price increases. The French equity index CAC40 recorded the best performance since the beginning of the year, with 7.3% growth in the second quarter, followed by the DAX index in Frankfurt (3.5%) and IBEX index in Madrid (2.8%). Positive values were also recorded in Great Britain, with the London UKX index up +4.8%.

In Italy, the strong growth at the beginning of the year was consolidated in the second quarter, with the FTSE MIB index in Milan closing with a +1.8% increase, also benefiting from the general increase in the growth forecasts for the Italian economy for the next few years. A similar trend was observed also for the index of Italian banking stocks (IT8300 "All Italian Banks") which increased by +5.4% over the quarter, also due to the positive response to the quarterly earnings figures published in May, with investors that continue to focus on the potential for consolidation of the sector.

The BMPS share closed on 30 June 2021 at EUR 1.15, up + 0.9%, with an average daily volume traded of approximately 4.9 million.

SHARE PRICE SUMMARY STATISTICS (from 31/03/21 to 30/06/21)	
Average	1.19
Minimum	1.13
Maximum	1.27

Rating

The ratings assigned by the rating agencies are provided below:

Rating Agencies	Short-term debt	Outlook	Long-term debt	Outlook	Latest rating action (at 30/06/21)
Fitch	B	-	B	Rating Watch Negative	07/06/21
DBRS	R-4	Stable	B (High)	Stable	16/06/21
Moody's	(P)NP	-	Caa1	Rating Under Review	16/12/20

The second quarter of 2021 was characterized by the Fitch and DBRS rating actions, finalized in the context of the regular annual review.

- On 16 June 2021, *DBRS Morningstar* confirmed all BMPS ratings, including the Long-Term Issuer Rating at “B (high)”, the Long-Term Senior Debt at “B (high)” and the Long-Term Deposits at “BB (low)”. The outlook for all ratings remains stable.
- On 7 June 2021, the rating agency *Fitch Ratings* confirmed the “negative rating watch” on the standalone rating (“Viability Rating” – “VR”) and on the long-term ratings of the Bank.
- On 16 December 2020, *Moody's Investors Service* announced that it had extended the Bank’s rating review period. It should be noted that on 21 July 2020 the agency had placed the Baseline Credit Assessment standalone rating (“b3”) and the long-term ratings of BMPS, including the Long-Term Bank Deposits rating (“B1”) and the Long-Term Senior Unsecured rating (“Caa1”), under review for a possible upgrade, amending the long-term outlook from “Developing” to “Rating under Review”.

Significant events in the first half of the year

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

On **28 January 2021**, the Parent Company approved the Capital Plan as required in the final decision of the ECB of 28 December 2020 regarding the SREP capital requirements. On 29 January 2021, the Parent Company sent the Capital Plan to the ECB.

On **15 June 2021**, the MPS Board of Directors gave a mandate to the management of the Parent Company to review and potentially negotiate the strengthening of the existing partnership with Anima Holding S.p.A. in the asset management sector.

Significant events after the end of the first half of the year

On **21 July 2021**, the Fondazione Monte dei Paschi di Siena and the Parent Company announced that a preliminary agreement had been reached between the Parent Company and the Fondazione regarding the out-of-court claims, mostly referring to the acquisition of Banca Antonveneta, the 2011 capital increase and the 2014-2015 capital increases. The preliminary agreement, approved by the Board of Directors of the Parent Company on 5 August 2021, provides for a settlement that would definitively settle all pending disputes. As a result of the preliminary agreement, the Fondazione will obtain, among other things, the payment of EUR 150 mln and a commitment to enhance the Parent Company's artistic heritage. Under the preliminary agreement, claims for compensation for an amount of EUR 3.8 bn would be reduced, which would significantly help with the main cause of uncertainty affecting the Parent Company's financial statements.

On **23 July 2021** the Montepaschi Group completed two synthetic securitisation transactions concerning, respectively, a portfolio of loans granted by the Parent Company to Italian corporate clients/SMEs, mainly classified in stage 2, and a portfolio of specialized loans granted by MPS Capital Services Banca per le Imprese S.p.A., for a total amount equal to approximately EUR 1.4 bn. With these securitisations, the Junior risk (for the securitisation on specialized loans) and the Mezzanine risk (for both transactions) of the two portfolios will be transferred to a third party (Christofferson Robb & Company Fund, CRC), through a guarantee contract. The transactions, notification of which was sent to the supervisory authority for evaluation, will help implementing the plan to boost the Group's capital strength indicators in 2021 and will free up resources to then provide new credit to the economic and productive sector.

On **30 July 2021**, the results of the 2021 stress test were published. These are consistent with the Capital Plan sent to the ECB on 29 January 2021. The Capital Plan envisages a capital strengthening for EUR 2.5 bn and - as indicated in the Press Release issued on 30 June 2021 - the Bank sent the ECB - at the request of this - a draft plan under which the new shares would be issued no later than March/April 2022, specifying that, at present, any share capital increase - currently only hypothetical and in any case subject to approval by DG Comp and the European Central Bank for the relevant aspects - represents a fallback option with respect to the pursuit of the "structural solution".

In the baseline scenario, the CET1/T1 *ratio* would go from 9.9% to 9.3% at the end of the three-year horizon, on a fully loaded basis.

The ability to generate capital in the baseline scenario is hampered by the impact of the operational risk calculated as part of the exercise. The Bank aims at reducing this risk with a limited impact on its capital position, as evidenced by the Preliminary Agreement with the Fondazione Monte dei Paschi di Siena announced on 21 July 2021, which reduces the relief sought, currently equal to EUR 3.8 bn.

At the same time, the generation of capital in the baseline scenario does not include the effect of the reduction in the costs of the Bank that could be expected in the context of a Structural Solution, or of the reduction of the significant operating expenses and the cost of funding envisaged in the 2021-2025 Strategic Plan submitted to the DG Competition for approval.

It should be noted that the capital impact of credit risk is significantly lower than the sample of Italian banks, reflecting the significant derisking of the Bank, with an NPE ratio down from 34.5% in 2016 to 4.3% at the end of 2020.

Obviously, the baseline scenario does not include the effect of the capital management measures already announced to the market, nor of the commercial performance indicated in the presentation of the first-quarter results.

The adverse stress test scenario was developed by the ECB/ESRB and covers a time horizon of three years (2021-2023). The stress test was carried out assuming financial statements static at December 2020, and therefore does not take into account future company strategies and management actions.

Including the impact of the sale of treasury shares, the change in the valuation criteria of the real estate portfolio, the synthetic securitisation announced on 23 July, and the 1Q21 profit, the Bank's Fully Loaded CET1 - after the hypothetical EUR 2.5 bn share capital increase and in the adverse scenario - would be equal to 6.6%.

Based on the results of the year and under the control of the supervisory authority, the Bank will continue to implement the management actions of the 2021-2025 Strategic Plan, which should have further positive impacts on both capital and profitability.

As for the baseline scenario, the Bank notes that the capital impact deriving from credit risk is lower than the sample of Italian banks. In addition, the 2021-2023 cumulative cost of risk in the adverse scenario was equal to EUR 2.1 bn, substantially in line with the EUR 1.9 bn provisions for credit losses indicated in the 2021-2025 Strategic Plan.

The CET1 in the adverse scenario is impacted for 2.3 pp by operational risk, significantly higher than the EBA sample: this does not allow for the effects of the preliminary agreements announced with the Fondazione Monte dei Paschi di Siena.

2017-2021 Restructuring Plan

The 2017-2021 Restructuring Plan is subject to formal monitoring by the European Commission, through a Monitoring Trustee[8]. This monitoring assumes formal relevance in verifying compliance with the commitments only at specific deadlines agreed with the European Commission. With reference to some of the main commitments of the Restructuring Plan, pursuant to art. 114, paragraph 5 of Italian Legislative Decree 58/1998, the relative implementation status as at 30 June 2021 is described below:

- Exposure to sovereign debt:
  - financial assets measured at fair value through other comprehensive income (FVTOCI) are down by around EUR 0.4 bn compared to the end of 2020, mainly in reference to Italian government debt securities.
- Transfer of foreign banks:
  - in line with the objectives of commitment no. 14, the entire interest in Banca Monte dei Paschi Belgio SA (BMPB) was sold on 14 June 2019. On 23 March 2020, the procedure for calculating the price adjustment was completed with the support of an independent expert;
  - the Parent Company, as envisaged in Commitment no. 14 of the Restructuring Plan, approved the orderly winding-down procedure of the subsidiary Monte Paschi Banque S.A. (MPB), which consists of limiting the subsidiary's activities strictly to those targeted at the deleveraging of loans, excluding the development of new business. This procedure became necessary after attempts at disposal were unsuccessful with the timing set forth in the commitment. In this context, MPB has focused its efforts on existing customers and activities: the performance for the first half of 2021 is in line with the objectives of orderly winding down plan of the subsidiary.
- Closure of foreign branches:
  - in 2020, activities were completed for the closure of the Hong Kong branch (the London and New York branches were closed in 2019);
  - an important further step was made towards the streamlining of the Representative Offices Abroad, with the closure of the Guangzhou (China) Office in the first quarter of 2021 and the return of the Banking Activity Licence to the local authority which formally confirmed receipt, and the definitive transfer of the Office's functions to the Tunis, Algiers and Casablanca representative offices. Commercial developments of Italian customers in the Canton zone were guaranteed by the Shanghai Branch and by the Beijing Representative Office, used to support Italian customers for bureaucratic issues taking place in the capital.
- Cost reduction measures:
  - termination, through the activation of the Solidarity Fund, of 3,110 resources between 2017 and 2020;
  - from 2017 to 2020, 614 branches were closed, achieving the overall target set for the period. Of these, 4 branches were closed in 2020. Other 50 branches have been scheduled to close in the fourth quarter of 2021.
- Sale of property assets:
  - the commitment calls not only for the closure of the Perimetro Consortium (concluded in 2019) but also for the disposal over the course of the Plan of owned properties for an equivalent value of EUR 500 mln; from the approval of the Plan (4 July 2017) to 30 June 2021, the Group sold real estate assets worth approximately EUR 319.3 mln, including a significant portion of properties included in the portfolio to be sold to Ardian (including the prestigious offices in via S. Margherita in Milan and via del Corso 232 in Rome). In addition, preliminary sale contracts were signed for real estate properties corresponding to EUR 70.3 mln in book value as at 30 June 2021; also in this case, there are some properties relating to the sale with Ardian (including the one in Rome, via del Corso 518/520).
- Strengthening of the capital position:
  - In January 2020, a subordinated Tier 2 bond was issued for EUR 400 mln, thereby completing the plan for the issue of this type of instrument laid out in the Restructuring Plan and subject of a specific commitment with DG Comp;
  - in 2020, an additional Tier 2 issue was carried out for the amount of EUR 300 mln. The issue is functional to the AMCO partial demerger and meets, in particular, one of the conditions set forth by the ECB in the transaction authorisation, as set forth in the Final Decision of 2 September 2020.

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

- Disposal of the equity investment by the Ministry of Economy and Finance (MEF):
  - the commitments required by DG Comp envisage, among other things, that the MEF divest its shareholding in the Parent Company by the end of the Restructuring Plan. Thus, the MEF should have submitted to the European Commission by the end of 2019 a plan to sell its stake in the Parent Company's capital. On 30 December 2019, the MEF communicated that, in agreement with the services of the European Commission, the presentation of the plan to sell the equity investment in MPS was postponed, pending the completion of the Parent Company's derisking transaction (the "Hydra" transaction). This transaction was designed and then planned also with the goal of creating the conditions for the sale of the equity investment. To that end, the Parent Company engaged Mediobanca and Credit Suisse as financial advisors in order to evaluate the alternative strategies available. On 16 October 2020, by Prime Ministerial Decree, the MEF was authorised to proceed with extraordinary transactions functional to the disposal of the equity investment. In particular, the disposal of the equity investment held by the MEF in Banca MPS was authorised, which may be carried out in one or more phases through individual or joint recourse to: a public sale offer to investors in Italy and/or Italian and international institutional investors, direct negotiations to be carried out through transparent and non-discriminatory competitive procedures and one or more extraordinary transactions including a merger transaction. The Parent Company has set up the virtual data room for the due diligence activities of potential investors and partners. In this regard, it should be noted that the Apollo fund, which had sent the Parent Company a non-binding expression of interest, has had access to the virtual data room since March. Moreover, on 29 July, UniCredit announced that it had agreed with the MEF the conditions for a potential transaction involving the transfer of a selected scope of MPS activities to UniCredit. To this end, UniCredit and MEF will initiate exclusive discussions to verify the feasibility of the transaction.

2021-2025 Group Strategic Plan

On 17 December 2020, the Board of Directors preliminarily approved the Group's 2021-2025 Strategic Plan. On the basis of the initial discussions with DG Comp following the submittal of the Group's new 2021-2025 Strategic Plan, the Bank was asked to propose additional compensatory measures for non-compliance with some commitments set in the 2017-2021 Restructuring Plan which were approved by the Board of Directors on 5 February 2021 and transmitted to DG Comp.

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

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

- for the business model, opportunities were identified in repositioning the bank's offer on customer segments, products and territories in which the Group can compete more effectively so as to recover the market share lost in recent years and for which greater market growth is expected;
- for the cost base, the resources that can be freed up with the current operating model and technological infrastructure were measured for each central and network function as a result of significant organisational simplifications, rationalisation of the footprint, streamlining of processes and adoption of agile working methods;
- for financial resources, the plan envisages maintaining capital and liquidity indicators well above the supervisor's indications in each year.

In terms of income, the Plan envisages a net result in 2021 impacted by restructuring charges and impairment losses on loans linked to the pandemic emergency, but with commercial activity in line with what was observed in the second half of 2020. The Plan envisages a positive net result starting from 2022.

At the end of January 2021, the Board of Directors approved the Capital Plan and submitted it to the European Central Bank (ECB) as requested in the final decision of this dated 28 December 2020 regarding the SREP capital requirements. The Capital Plan was prepared with the objective of finding a potential structural solution for the Bank, including an M&A transaction. In the event that the implementation of a structural solution does not take place in the short/medium term, the Capital Plan envisages a capital strengthening of EUR 2.5 bn, subject to shareholder approval. The ECB took note of the Parent Company's communication in the context of the presentation of the results for the first quarter of the year and, in particular that the capital shortfall with respect to the Overall Capital Requirement (OCR) could be, at 31 March 2022, less than EUR 1 bn, and requested a detailed schedule for a potential EUR 2.5 bn capital increase, which would allow the calculation of the shares in the capital before the shortfall occurs. The Parent Company sent to the ECB a preliminary schedule, which provides for the issue of the new shares by March/April 2022, noting that any capital increase, only theoretical, and, in any case, before being implemented, subject to approval by DG Comp and the ECB for the relevant aspects, represents a subordinate option with respect to the pursuit of the structural solution. Compared to estimates obtained in previous months, which showed a shortfall already in the first quarter of 2021, increasing to EUR 1.5 bn as at 1 January 2022, it should be noted that, as at 31 March and 30 June 2021, no capital shortfall had been observed and that 12 months after the reference date, i.e. as at 30 June 2022, the shortfall is forecast to be less than EUR 500 mln, including the effect of the update of the EBA Guidelines on the internal models.

With reference to the EBA 2021 Stress test, the results communicated to the market on 30 July 2021 are consistent with the aforementioned Capital Plan, which includes a capital strengthening of EUR 2.5 bn.

In regard to the main economic and financial targets of the Plan for the current year, net income for the year is forecast to exceed expectations, especially in the light of trends in the cost of credit and some revenue components. The percentage of target achievement as at 30 June 2021 is as follows:

2021-2025 STRATEGIC PLAN TARGET			
MPS GROUP			
INCOME STATEMENT FIGURES (EUR mln)	**30 06 2021**	**FY 2021 Plan**	**% Achievement of annual target**
Total Revenues	1,564	2,895	54%
Operating expenses	(1,073)	(2,156)	50%
Cost of customer credit	(166)	(750)	22%
Net profit (loss)	202	(562)	n.m.
CAPITAL RATIOS (%)	**30 06 2021**	**FY 2021* Plan**	**Chg**
Common Equity Tier 1 (CET1) ratio - phase in	12.1	12.1	n.m.
Common Equity Tier 1 (CET1) ratio - fully loaded	10.6	10.9	-0.3

** The FY2021 Plan indicators are calculated assuming capital strengthening measures for EUR 2.0 bn.*

* * *

During the first half of the year, the Group continued along its strategic path also to adequately deal with the risks deriving from the COVID-19 economic emergency. As regards the credit strategy, in the first half of 2021, the Parent Company revised the strategic policies concerning its credit offer, focusing its mission of increasing performing loans on measures to provide financial support to existing customers. In this sense, the Group updated its clustering of the loan portfolio on the basis of the risk arising in the economic sectors and the relative resilience and recovery capacity over time based on the impact estimates developed starting from the main macroeconomic indicators (change in GDP, turnover, etc.). This made it possible to identify portions of the portfolio on which to best focus financial support, relying first and foremost on the extension for 2021 of the measures laid out by the Legislature in the various decrees issued throughout 2020 in the form of the restructuring of outstanding loans and granting additional liquidity backed by the State. The Parent Company refocused, in keeping with such policies, interactions with its customers, specifying the set of documents and instruments useful for adequate credit assessments from a forward-looking perspective (ad hoc questionnaires, statement for verifying financial requirements, etc.).

Despite the initial forecasts of negative impacts triggered by the COVID-19 emergency on the cure rate and transfers from NPE status, monitoring showed that the trend of these aggregates has remained broadly consistent with the new targets set within the RAS. Thanks to the new customer clustering/guidelines based on the new strategies, it was possible to contain the default flow, making it possible to maintain the risk objectives on the various portfolio segments. With a view to stemming the flow of defaults, the Parent Company also took action, from the first quarter of 2021, to dialogue with customers that had benefited from the aforementioned measures, activating a proactive management (known as "crash program") which will make it possible to maintain effective oversight of the cliff effect that might be observed when payments resume.

The 2021 strategies for renewing the commercial approach, continuing the path that started in 2020, seek to refocus the business in the **core areas** and relaunch the Group's **economic performance** with projects aimed at:

- ***raising the service level offered through the Group's Advisory services,*** to guarantee unique advisory content, increasing interaction with the Network and consolidation of the relationship of trust between customers and relationship managers;
- ***proposing investment solutions created and managed*** within the Group aimed at satisfying the needs both of the most sophisticated customers and of customers in the private segment with the launch of five new ETF lines;
- ***improving the customer experience and continuing the digital transformation***, through: i) the management of monthly contact initiatives finalised at implementing a targeted commercial proposal on possible requirements of each customer according to predictive behavioural models (next best product), as well as the optimisation of the exchange with the customer and at the same time promoting knowledge of products/services offered; ii) the launch of customer journeys designed for improving commercial proposition activities through the establishment of logical omnichannel contact paths, particularly with reference to new customers or those with the risk of abandonment; iii) the search for a superior digital experience for retail customers, with a focus on remote sales, thanks to SPID (Public Digital Identity System) identification and mobile payments, such as Google Pay and Apple Pay; iv) upgrading of the branch technology platform and the optimisation of media centre activities and remote customer service. The activities for the digitalisation of the processes relating to the range of investment services and products (GPs and Policies) and the creation of the Out-of-Office Offerings digital pathway also continued;
- ***moving towards a new Wealth Management Platform:*** the new "MPS Athena" Wealth Management Platform was activated in 2020 and the process of migration from "MPS Advice" continues in 2021, with additional releases of Basic Advisory functions and the launch of Advanced Advisory functions, which will gradually expand the use of the Platform to the entire Network, while guaranteeing an "advanced", functional and modern advisory approach, based on innovative technology and digital processes able of guaranteeing a high-level Advisory Customer Journey;
- ***strengthening the advisory offering*** in a particularly complex market context characterised by an excess of unremunerated liquidity and negative or extremely low returns on traditional bonds, with the aim of guiding customers towards flexible and dynamic forms of asset management, which allow them to seize opportunities for returns, while respecting their risk profile and in line with their needs and requirements,
- ***reviewing commercial processes from a customer centricity perspective***, by optimising them with the use of renewed instruments to guide planning through the use of "air & ground" campaigns and the resulting commercial proposition activity, the specialisation of employees in the various areas of customer needs (with particular reference to the Value segment) and a well-developed caring programme and targeted actions for potential customers, particularly with reference to former customers;
- ***optimising the allocation of commercial resources,*** by updating the service models for the commercial management of customers, differentiated by type and economic return in a manner consistent with the available staff;
- ***defining a new value proposition in the agrifood sector***, by establishing the first 12 Specialised Centres, meant to provide an innovative offer of products by leveraging the opportunities of the government decrees to relaunch the economy, particularly as concerns the "farm to fork" and "green deal" programmes;
- ***accelerating growth in the Bancassurance*** area, by changing the layout of branches and updating the operating and sales model, which has involved 308 branches in 2020 (in addition to the 86 branches involved in the 2019 pilot stage), also providing dedicated training. With regard to branding, 69 branches were completed in 2020 (only externally) after the 52 completed in 2019 (external and internal changes). The new "scope 2021" of the plan focuses on work on external fittings and Self Areas (as interior work is currently suspended due to COVID), with inspections resumed in May. The 2021 target is to externally

"brand" 109 branches distributed throughout the Italian territory (of which 39 by the end of July). In February 2021, the new "MPS DIGITAL AUTO" motor TPL policy was launched, structured through the partnership with Quixa, an Axa Group company. The product is proposed in fully digital mode and MPS is the first bank in Italy to enter the aggregator channel with its own Montepaschi brand. The new offer will allow the Parent Company to increase the penetration of motor policies, meeting the needs of customers more geared towards online purchases and also acquiring new customers. The new policy has already met with significant interest, including on the part of "non-customers", confirming the distinctiveness of the Bank's brand.

- ***helping Italian companies to achieve a rapid recovery***, while overcoming the difficulties linked to the pandemic period, intensifying relationships with Sace/Simest/CDP to offer exporters a "system package" meant to boost competitiveness in the international market. Furthermore, the Advisory service was increased for companies that have commercial dealings abroad, intended to support the use of products and services to neutralise the typical risks of foreign markets (political, commercial, exchange rate, etc.). Lastly, the streamlining of the foreign network, along with other efficiency raising activities, allowed for a significant downturn in the global costs of the Foreign network;

- ***supporting companies, households and local authorities in the relaunch and modernization process*** and seizing the opportunities provided by the Next Generation EU (NGEU) transition plan, with particular reference to the package of reforms and investments of the National Recovery and Resilience Plan (PNRR), by launching the first 10 new specialist poles, "MPS AgevolaPiù", each in charge of a specific regional area. The initiative is aimed at meeting the needs of medium, small and very small companies, as well as families and local authorities in a context of transformation such as the current one, accelerated by the Covid-19 pandemic. The core of the project consists of specialized training and territorial enhancement through an intensification of the partnership with regional financial companies, trade associations and loan guarantee consortia (Confidi). After the first ten centres, others will gradually be opened to cover all regions. Additional openings are planned with the ultimate goal of supporting all areas with large urban and industrial settlements. The centres represent a real driving force for the development of the regional economies, working closely with customers by offering specialized skills and constant strategic support.

Restyling of a further 80 branches has been scheduled for 2021, in synergy with other projects, after 55 large/high-visibility branches were created in 2020, in order to improve commercial proactivity, with a focus on the Value line. These interventions act on the following performance drivers: increasing the privacy of workstations, improving the usability of spaces, appearance and brand identity.

With regard to funding, the first half of 2021 ended with a very strong position in liquidity terms, with LCR/NSFR indicators that are significantly above the regulatory and operational limits. The maturities in the 2021-2023 three-year period are represented primarily by the TLTRO-III auctions, to which the Parent Company had access until 31 December 2020, for a total of EUR 24 bn: EUR 4 bn maturing in 2022; EUR 20 bn maturing in 2023.

In this regard, within the Group's Liquidity and Funding Strategy, it is considered likely that over a medium/long-term horizon the Central Bank will continue to support the exit of the European economies from the significant crisis phase triggered by the COVID-19 epidemic, and that these transactions will be initially "replaced", all or in part, by new auctions of the same type. If this does not take place, and the TLTRO-IIIs are not renewed (all or in part) or replaced by analogous instruments, the maturing auctions may in any event be repaid: i) for the share collateralised by government bonds, through financing in the market of the freed up securities and ii) for the share guaranteed by less liquid collateral (ABACO/CB&ABS retained), through initial refinancing with MRO auctions, to be replaced partially, and gradually, with subsequent issues of covered bonds in the market, public securitisations and/or bilateral funding transactions.

With reference to the TLTRO-IIIs, in light of the monetary policy decisions taken by the ECB in December 2020, which called for a further increase in the maximum amount available to banks and even more favourable access conditions, the Group participated in the March 2021 TLTRO-III for EUR 2.5 bn and in the June 2021 one for EUR 3 bn, bringing its total exposure to the ECB to EUR 29.5 bn, and fully using the overall maximum.

The amount of the institutional bonds maturing in the 2021-2023 three-year period is equal to a total of EUR 2.3 bn, of which EUR 1 bn in covered bonds of the CB1 programme already matured in April 2021 and the remaining EUR 1.25 bn maturing in 2022 (of which EUR 0.75 bn of covered bonds of the CB1 programme and EUR 0.5 bn of senior bonds).

The new issues set forth in the same period of time will be intended primarily to meet the MREL targets. In detail, funding strategies call for unsecured public bond issues for the following amounts: EUR 2 bn in 2021, EUR 1 bn in 2022 and EUR 1.8 bn in 2023. These amounts may in any event be periodically revised in light of RWA trends, based on which the MREL targets to be achieved are determined. In particular, as the trend in RWAs and capital ratios is better than what was initially envisaged in the Plan, the amount issued in 2021 may be lower than the Plan estimates.

The issue plan also considers the issue of covered bank bonds (not included in the calculation for MREL purposes) in the course of 2022 for EUR 500 mln in order to maintain access, albeit for a limited amount, to this market segment as well.

The health crisis generated by the Covid-19 pandemic, despite fears of a potential impact on the banks' sources of liquidity, has not, so far, affected the expected development of the Group's regulatory liquidity indicators (LCR – Liquidity Coverage Ratio and NSFR – Net Stable Funding Ratio). In this regard, the Central Bank has communicated the possibility for banks to temporarily operate below the minimum threshold of 100%, with particular reference to the LCR. Considering the solid liquidity position established in previous years and the satisfactory levels of its indicators (at 30 June 2021, LCR equal to 194.2% and NSFR equal to 135.1%), the Group expects to be able to keep its targets above their regulatory minimum thresholds, maintaining an adequate buffer.

CONDENSED CONSOLIDATED HALF-YEARLY FINANCIAL STATEMENTS

Consolidated balance sheet

	Assets	30 06 2021	31 12 2020*
10.	Cash and cash equivalents	587.1	763.8
20.	Financial assets measured at fair value through profit or loss	10,582.1	8,675.9
	a) financial assets held for trading	10,102.9	8,214.9
	c) other financial assets mandatorily measured at fair value	479.2	461.0
30.	Financial assets measured at fair value through other comprehensive income	5,313.0	5,777.9
40.	Financial assets measured at amortised cost	121,102.9	126,739.7
	a) Loans to banks	30,589.7	34,737.9
	b) Loans to customers	90,513.2	92,001.8
50.	Hedging derivatives	28.8	50.8
60.	Change in value of macro-hedged financial assets (+/-)	709.2	1,032.5
70.	Equity investments	1,027.7	1,107.5
90.	Property, plant and equipment	2,506.6	2,335.8
100.	Intangible assets	182.2	183.9
	- of wich goodwill	*7.9*	*7.9*
110.	Tax assets	*1,800.4*	*1,991.6*
	a) current	751.0	807.9
	b) deferred	1,049.4	1,183.7
120.	Non-current assets held for sale and disposal groups	74.3	89.4
130	Other assets	1,835.4	1,596.2
	Total Assets	**145,749.7**	**150,345.0**

** Balance sheet figures as at 31 December 2020 have been restated compared to those published in the 2020 Financial Statements following the retrospective application of the change in valuation criteria for investment properties (IAS 40).*

continues: Consolidated balance sheet

	Total Liabilities and Shareholders' Equity	30 06 2021	31 12 2020*
10.	Financial liabilities measured at amortised cost	127,080.3	131,944.1
	a) due to banks	33,159.9	28,418.1
	b) due to customers	82,972.5	90,683.7
	c) debts securities issued	10,947.9	12,842.3
20.	Financial liabilities held for trading	5,106.8	6,002.0
30.	Financial liabilities designated at fair value	116.1	193.3
40.	Hedging derivatives	1,442.6	1,797.0
50.	Change in value of macro-hedged financial liabilities (+/-)	30.7	45.4
60.	Tax liabilities	8.0	4.1
	a) current	0.2	-
	b) deferred	7.8	4.1
80.	Other liabilities	3,881.6	2,527.0
90.	Provision for employees severance pay	163.3	166.6
100.	Provision for risks and charges:	1,853.6	1,892.6
	a) financial guarantees and other commitments	144.6	154.1
	b) post-employment benefits	31.4	33.0
	c) other provisions	1,677.6	1,705.5
120.	Valuation reserves	324.7	260.9
150.	Reserves	(3,521.0)	(1,684.0)
170.	Share capital	9,195.0	9,195.0
180.	Treasury shares (-)	(135.5)	(313.7)
190.	Non-controlling interests (+/-)	1.4	1.3
200.	Net Profit (loss) for the period (+/-)	202.1	(1,686.5)
	Total Liabilities and Shareholders' Equity	**145,749.7**	**150,345.0**

** Balance sheet figures as at 31 December 2020 have been restated compared to those published in the 2020 Financial Statements following the retrospective application of the change in valuation criteria for investment properties (IAS 40).*

Consolidated income statement

Items		30 06 2021	30 06 2020
10.	Interest income and similar revenues	941.0	964.8
	of which interest income calculated applying the effective interest rate method	*790.6*	*908.9*
20.	Interest expense and similar charges	(358.1)	(320.5)
30.	**Net interest income**	**582.9**	**644.3**
40.	Fee and commission income	851.7	790.1
50.	Fee and commission expense	(97.2)	(120.3)
60.	**Net fee and commission income**	**754.5**	**669.8**
70.	Dividends and similar income	12.0	9.7
80.	Net profit (loss) from trading	29.3	21.1
90.	Net profit (loss) from hedging	1.9	0.5
100.	Gains/(losses) on disposal/repurchase of:	130.6	76.7
	a) financial assets measured at amortised cost	121.5	70.5
	b) Financial assets measured at fair value through other comprehensive income	4.0	1.3
	c) financial liabilities	5.1	4.9
110.	Net profit (loss) from financial assets and liabilities measured at fair value through profit or loss	11.3	(0.4)
	a) financial assets and liabilities designated at fair value	3.1	(0.7)
	b) other financial assets mandatorily measured at fair value	8.2	0.3
120.	**Net interest and other banking income**	**1,522.5**	**1,421.7**
130.	Net impairment (losses)/reversals on	(161.1)	(534.6)
	a) financial assets measured at amortised cost	(162.0)	(532.0)
	b) financial assets measured at fair value through other comprehensive income	0.9	(2.6)
140.	Modification gains/(losses)	(5.3)	(2.8)
150.	**Net income from banking activities**	**1,356.1**	**884.3**
190.	Administrative expenses:	(1,231.4)	(1,219.2)
	a) personnel expenses	(722.0)	(707.5)
	b) other administrative expenses	(509.4)	(511.7)
200.	Net provision for risks and charges:	(34.6)	(350.9)
	a) commitments and guarantees issued	7.7	6.2
	b) other net provisions	(42.3)	(357.1)
210.	Net adjustments to/recoveries on property, plant and equipment	(66.0)	(79.2)
220.	Net adjustments to/recoveries on intangible assets	(33.8)	(37.7)
230.	Other operating expenses/income	119.6	111.1
240.	**Operating expenses**	**(1,246.2)**	**(1,575.9)**
250.	Gains (losses) on investments	46.3	38.4
260.	Net gains (losses) on property, plant and equipment and intangible assets measured at fair value	(28.2)	6.8
270.	Goodwill impairment	-	-
280.	Gains (losses) on disposal of investments	14.4	1.3
290.	**Profit (loss) before tax from continuing operations**	**142.4**	**(645.1)**
300.	Tax (expense)/recovery on income from continuing operations	59.6	(436.4)
310.	**Profit (loss) after tax from continuing operations**	**202.0**	**(1,081.5)**
320.	Profit (loss) after tax from discontinued operations	-	-
330.	**Profit (loss) for the period**	**202.0**	**(1,081.5)**
340.	Net Profit (loss) attributable to non-controlling interests	(0.1)	(0.1)
350.	**Parent company's net profit (loss) for the period**	**202.1**	**(1,081.4)**

		30 06 2021	30 06 2020
	Basic Earnings per Share (Basic EPS)	**0.208**	**(0.980)**
	of continuing operations	0.208	(0.980)
	Diluted Earnings per Share (Diluted EPS)	**0.208**	**(0.980)**
	of continuing operations	0.208	(0.980)

** The figures as at 30 June 2020 have been restated compared to those published in the Half-yearly Report as at 30 June 2020, following the retrospective application of the change in valuation criteria for investment properties (IAS 40).*

Consolidated statement of comprehensive income

	Items	30 06 2021	30 06 2020*
10.	**Profit (loss) for the period**	**202.0**	**(1,081.5)**
	Other comprehensive income after tax not recycled to profit or loss	**167.8**	**(10.4)**
20.	Equity instruments designated at fair value through other comprehensive income	4.2	(3.8)
30.	Financial liabilities designated at fair value through profit or loss (change in the entity's own credit risk)	(5.8)	(0.3)
50.	Property, plant and equipment	164.9	-
70.	Defined benefit plans	0.8	(0.5)
90.	Share of valuation reserves of equity-accounted investments	3.7	(5.8)
	Other comprehensive income after tax recycled to profit or loss	**(103.5)**	**(21.1)**
110.	Exchange differences	0.9	-
120.	Cash flow hedges	-	0.1
140.	Financial assets (other than equity securities) measured at fair value through other comprehensive income	(12.5)	(15.4)
160.	Share of valuation reserves of equity-accounted investments	(91.9)	(5.8)
170.	**Total other comprehensive income after tax**	**64.3**	**(31.5)**
180.	**Total comprehensive income (Item 10+130)**	**266.3**	**(1,113.1)**
190.	Consolidated comprehensive income attributable to non-controlling interests	0.2	(0.1)
200.	**Consolidated comprehensive income attributable to Parent Company**	**266.1**	**(1,113.0)**

** The figures as at 30 June 2020 have been restated compared to those published in the Half-yearly Report as at 30 June 2020, following the retrospective application of the change in valuation criteria for investment properties (IAS 40).*

Consolidated Statement of changes in equity – 30 June 2021

				Allocation of profit from prior year		Change during the period											
							Shareolder's equity transactions										
	Balance as at 31 12 2020*	Changes in opening balances	Balance as at 01 01 2021	Reserves	Dividends and other payout	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Treasury shares derivatives	Stock options	Change in equity investments	Total Comprehensive income as at 30 06 2021	Total Equity as at 30 06 2021	Group equity as at 30 06 2021	Non-controlling interest as at 30 06 2021
Share capital	9,195.7	-	9,195.7	-	-	-	-	-	-	-	-	-	-	-	9,195.7	9,195.0	0.7
a) ordinary shares	9,195.7	-	9,195.7	-	-	-	-	-	-	-	-	-	-	-	9,195.7	9,195.0	0.7
Reserves:	(1,684.4)	-	(1,684.4)	(1,686.7)	-	2.6	(153.1)	-	-	-	-	-	-	-	(3,521.5)	(3,521.1)	(0.5)
a) from profits	(1,836.4)	-	(1,836.4)	(1,686.7)	-	2.6	-	-	-	-	-	-	-	-	(3,520.4)	(3,520.0)	(0.5)
b) other	152.0	-	152.0	-	-	-	(153.1)	-	-	-	-	-	-	-	(1.1)	(1.1)	-
Valuation reserves	261.9	-	261.9	-	-	(0.1)	-	-	-	-	-	-	-	64.3	326.0	324.7	1.3
Treasury shares	(313.7)	-	(313.7)	-	-	-	178.2	-	-	-	-	-	-	-	(135.5)	(135.5)	-
Net profit (loss)	(1,686.6)	-	(1,686.6)	1,686.7	(0.1)	-	-	-	-	-	-	-	-	202.0	202.0	202.1	(0.1)
Total equity	5,772.9	-	5,772.9	-	(0.1)	2.5	25.1	-	-	-	-	-	-	266.3	6,066.7	6,065.3	1.4
Group equity	5,771.6	-	5,771.6	-	-	2.5	25.1	-	-	-	-	-	-	266.1	6,065.3	-	-
Non-controlling interests	1.3	-	1.3	-	(0.1)	-	-	-	-	-	-	-	-	0.2	1.4	-	1.4

** Balance sheet figures as at 31 December 2020 have been restated compared to those published in the 2020 Financial Statements following the retrospective application of the change in valuation criteria for investment properties (IAS 40).*

As at 30 June 2021, shareholders' equity, including non-controlling interests and net income for the period, was equal to EUR 6,066.7 mln, against EUR 5,772.9 mln as at 31 December 2020, with a total net increase of EUR 293.8 mln. This increase was mainly due to (i) profit for the period equal to EUR 202.0 mln; (ii) net positive change in valuation reserves equal to EUR 64.3 mln, due to the combined effect of the revaluation of operating properties carried out since 31 March 2021 and the write-down of debt securities related to associated companies valued with the equity method, and finally iii) a decrease in treasury shares for EUR 178.2 mln following sales by the Parent Company which led to a trading loss of EUR 153.1 mln recognized under "Reserves-other".

Consolidated Statement of changes in equity – 30 June 2020

	Balance as at 31 12 2019	Changes in opening balances	Balance as at 01 01 2020*	Allocation of profit from prior year: Reserves	Allocation of profit from prior year: Dividends and other payout	Change during the period: Changes in reserves	Shareolder's equity transactions: Issue of new shares	Shareolder's equity transactions: Purchase of treasury shares	Shareolder's equity transactions: Extraordinary distribution of dividends	Shareolder's equity transactions: Change in equity instruments	Shareolder's equity transactions: Treasury shares derivatives	Shareolder's equity transactions: Stock options	Shareolder's equity transactions: Change in equity investments	Total Comprehensive income as at 30 06 2021	Total Equity as at 30 06 2020*	Group equity as at 30 06 2020*	Non-controlling interest as at 30 06 2020
Share capital	10,329.3	-	10,329.3	-	-	-	-	-	-	-	-	-	-	-	10,329.3	10,328.6	0.7
a) ordinary shares	10,329.3	-	10,329.3	-	-	-	-	-	-	-	-	-	-	-	10,329.3	10,328.6	0.7
Reserves:	(769.2)	(13.5)	(782.7)	(1,033.2)	-	(0.9)	-	-	-	-	-	-	-	-	(1,816.8)	(1,816.5)	(0.3)
a) from profits	(734.2)	(13.5)	(747.7)	(1,033.2)	-	(0.9)	-	-	-	-	-	-	-	-	(1,781.8)	(1,781.5)	(0.3)
b) other	(35.0)	-	(35.0)	-	-	-	-	-	-	-	-	-	-	-	(35.0)	(35.0)	-
Valuation reserves	67.6	-	67.6	-	-	0.1	-	-	-	-	-	-	-	(31.5)	36.2	35.2	1.0
Treasury shares	(313.7)	-	(313.7)	-	-	-	-	-	-	-	-	-	-	-	(313.7)	(313.7)	-
Net profit (loss)	(1,033.1)	-	(1,033.1)	1,033.2	(0.1)	-	-	-	-	-	-	-	-	(1,081.5)	(1,081.5)	(1,081.4)	(0.1)
Total equity	8,280.9	(13.5)	8,267.4	-	(0.1)	(0.8)	-	-	-	-	-	-	-	(1,113.1)	7,153.5	7,152.1	1.4
Group equity	8,279.1	(13.5)	8,265.6	-	-	(0.6)	-	-	-	-	-	-	-	(1,113.0)	7,152.1	-	X
Non-controlling interests	1.8	-	1.8	-	(0.1)	(0.2)	-	-	-	-	-	-	-	(0.1)	1.4	X	1.4

** The " Change opening balances" column includes the impacts as of 1 January 2020 related to the retrospective application of the change in the valuation criteria for real estate investments (pursuant to IAS 40).*

As at 30 June 2020, shareholders' equity, including non-controlling interests and result for the period, was equal to EUR 7,153.5 mln, against EUR 8,267.4 mln as at 1 January 2020, with a total net decrease of EUR 1,113.9.0 mln. This decrease is mainly due to the loss for the period equal to EUR 1,081.5 mln and the negative change in the valuation reserves equal to EUR 31.4 mln, the latter largely attributable to debt securities measured at fair value through other comprehensive income, including those relating to associated companies measured with the equity method, which were impacted by the trends in the spread on Italian government securities.

Consolidated cash flow statement - indirect method

A. OPERATING ACTIVITIES	30 06 2021	31 12 2020*
1. Cash flow from operations	**513.5**	**520.1**
Profit (loss) (+/-)	202.0	(1,686.6)
Capital gains/losses on financial assets held for trading and on assets/liabilities measured at fair value (+/-)	(1.6)	(157.3)
Net gains (losses) on hedging activities	(1.9)	(2.6)
Net impairment losses/reversals	200.9	963.5
Net adjustments/ recoveries on property, plant and equipment and intangible assets (+/-)	128.0	243.1
Net provisions for risks and charges and other costs/revenues (+/-)	38.5	977.0
Unpaid charges, taxes and tax credits	(59.6)	339.4
Other adjustments	7.2	(156.4)
2. Cash flow from (used in) financial assets	**4,450.2**	**(20,024.8)**
Financial assets held for trading	(1,917.6)	1,909.4
Other financial assets mandatorily measured at fair value	(11.9)	181.7
Financial assets measured at fair value through other comprehensive income	311.0	1,260.1
Financial assets measured at amortised cost	5,496.9	(23,516.3)
Other assets	571.8	140.3
3. Cash flow from (used in) financial liabilities	**(5,313.4)**	**19,440.2**
Financial liabilities measured at amortised cost	(4,834.7)	17,754.6
Financial liabilities held for trading	(874.4)	2,080.5
Financial liabilities designated at fair value	(81.4)	(63.8)
Other liabilities	477.1	(331.1)
Net cash flow from (used in) operating activities	**(349.7)**	**(64.5)**

** Balance sheet figures as at 31 December 2020 have been restated compared to those published in the 2020 Financial Statements following the retrospective application of the change in valuation criteria for investment properties (IAS 40).*

B. INVESTMENT ACTIVITIES	30 06 2021	31 12 2020*
1. Cash flow from	**37.2**	**138.9**
Sales of equity investments	1.0	-
Dividends collected on equity investments	30.3	0.6
Sales of property, plant and equipment	3.3	138.2
Sales of intangible assets	2.6	0.1
2. Cash flow used in	**(42.3)**	**(145.4)**
Purchase of property, plant and equipment	(7.5)	(62.1)
Purchase of intangible assets	(34.8)	(83.4)
Net cash flow from (used in) investment activities	**(5.1)**	**(6.5)**

C. FUNDING ACTIVITIES		
Issue/purchase of treasury shares	178.2	-
Dividend distribution and other	(0.1)	(0.3)
Net cash flow from (used in) funding activities	**178.1**	**(0.3)**

NET CASH FLOW FROM (USED IN) OPERATING, INVESTMENT AND FUNDING ACTIVITIES DURING THE PERIOD	**(176.7)**	**(71.3)**

Reconciliation

Accounts	30 06 2021	31 12 2020*
Cash and cash equivalents at beginning of the period	763.8	835.1
Net increase (decrease) in cash and cash equivalents	(176.7)	(71.3)
Cash and cash equivalents at end of the period	587.1	763.8

** Balance sheet figures as at 31 December 2020 have been restated compared to those published in the 2020 Financial Statements following the retrospective application of the change in valuation criteria for investment properties (IAS 40).*

EXPLANATORY NOTES

Accounting Policies

General accounting standards

The Half-yearly Report as at 30 June 2021 of the Monte dei Paschi di Siena Group, approved by the Board of Directors on 5 August 2021, includes the Half-yearly Report on Operations and the Half-yearly Condensed Consolidated Financial Statements and has been prepared in accordance with financial disclosure requirements set forth in art. 154-ter of Italian Legislative Decree no. 58 of 24 February 1998 (Consolidated Law on Finance), and in accordance with the IAS/IFRS international accounting standards issued by the International Accounting Standards Board (IASB) including interpretations by the IFRS Interpretations Committee (IFRIC), as endorsed by the European Commission and effective as at 30 June 2021, pursuant to EC Regulation no. 1606 of 19 July 2002.

The Condensed Consolidated Half-yearly Financial Statements, prepared using the Euro as the reporting currency, drawn up succinctly and in compliance with the IAS 34 standard "Interim financial reporting" comprises the Consolidated Balance Sheet, the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement and the Explanatory Notes; the tables of the Condensed Consolidated Half-yearly Financial Statements and the Explanatory Notes, unless otherwise noted, are prepared in millions of Euro.
In preparing the Condensed Consolidated Half-yearly Financial Statements, the provisions of Bank of Italy Circular no. 262 of 22 December 2005 "Banks' financial statements: layouts and preparation", and subsequent updates (most recently, the 6th update, published on 30 November 2018) were applied. The Condensed Consolidated Half-yearly Financial Statements show, in addition to the amounts pertaining to the relevant period, also the corresponding comparison data as at 31 December 2020 for the Consolidated Balance Sheet and for the first half of 2020 for:

- the Consolidated Income Statement;
- the Consolidated statement of comprehensive income;
- the Consolidated Statement of Changes in Equity; and
- the Consolidated Cash Flow Statement.

The Condensed Consolidated Half-yearly Financial Statements as at 30 June 2021 are prepared with transparency and provide a true and fair view of financial position and results of operation for the period, the changes in shareholders' equity and the cash flows generated.

With reference to the classification, recognition, valuation and derecognition of the various asset and liability entries, as well as the methods for recognising revenue and costs, the accounting principles used for the preparation of these Condensed Consolidated Half-yearly Financial Statements have been updated with respect to those adopted for the Consolidated Financial Statements as at 31 December 2020, to which reference should be made for more details, due to the voluntary change in the method for valuing property assets owned by the Group. The balance sheet and income statement figures as at 30 June 2021 can be compared with those referred to the comparison periods with the exception of the items which include the balance sheet and income statement effects deriving from the valuation of the operating properties at their "revalued value". For further details on the change in the valuation criterion adopted for real estate, reference should be made to the section "Modification of the property valuation approach: property for business use (IAS 16) and property held for investment purposes (IAS 40)" of these Explanatory Notes.

In preparing these Condensed Consolidated Half-yearly Financial Statements, the documents providing interpretation and support to the implementation of the accounting standards in relation to the impacts of COVID-19, issued by the European regulatory and supervisory bodies and standard setters in 2020 and described more extensively in the 2020 Consolidated Financial Statements, to which reference is made, were also considered.

The Condensed Consolidated Half-yearly Financial Statements as at 30 June 2021 are accompanied by the certification of the Financial Reporting Officer, pursuant to art. 154-bis of the Consolidated Law on Finance, and are subject to a limited review by the Independent Auditors PricewaterhouseCoopers S.p.A.

An illustration of the new accounting standards, or the changes to existing standards approved by the IASB is provided below, as well as the new interpretations or changes to existing interpretations published by IFRIC, with separate reporting on those applicable in 2021 from those applicable in subsequent years.

IAS/IFRS accounting standards and SIC/IFRIC interpretations endorsed and subject to mandatory application for the purpose of preparing the 2021 Financial Statements

On 13 January 2021, Regulation (EU) no. 2021/25 was published, which endorses the "**Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9 "Financial instruments", IAS 39 "Financial instruments: recognition and measurement", IFRS 7 "Financial instruments: disclosures" and IFRS 16 "Leases")**" issued by the IASB on 27 August 2020, with respect to topics relating to phase two of the interest rate revision project. The main amendments established regard:

- *Modification/Derecognition*

This topic regards the accounting representation of amendments to existing agreements to reflect the new interest rates and whether they need to be recognised - pursuant to IFRS 9 - as a modification or derecognition. In particular, the regulatory intervention aims to safeguard the modifications relating to the IBOR Reform:

- it is clarified that amendments relating to the replacement of the existing IBOR rate with the new Risk-Free Rate, even in the absence of the modification of contractual terms, do not need to constitute a derecognition event, but are to be considered for accounting purposes as a "modification"; and
- a practical expedient is proposed which makes it possible to represent these amendments, carried out on equivalent economic bases, with a prospective adjustment of the effective interest rate, with impacts on the interest margin of future periods (and not with the application of "modification accounting" pursuant to IFRS 9).

Also for the standards IFRS 16 "Leases" and IFRS 4 "Insurance contracts", in line with what is established for financial instruments and set forth above, analogous interventions have been introduced on contractual modifications.

- *Hedge accounting*

In the second phase of the project, the IASB analysed the impact on hedging relationships deriving from the modifications caused by the IBOR reform on financial instruments that are part of the hedging relationship and which may constitute potential new triggers for the discontinuation of hedging, establishing several exceptions to IAS 39 (and IFRS 9 for those who have also adopted it for hedging) which make it possible to not to discontinue following the updating of the documentation on the hedging relationship (due to the modification of the hedged risk, the hedged underlying asset or the hedging derivative or the method for checking the effectiveness of the hedge). Any effect of ineffectiveness must in any event be recognised in the income statement. Modifications have also been introduced on the designation of separately identifiable risk components. When a hedging relationship is modified as a result of the reform or new hedging relationships are designated, an alternative interest rate designated as a non-contractually specified risk component may not meet the "separately identifiable requirement", due to the fact that the alternative interest rate market may not be sufficiently developed at the designation date. In this regard, it was established that an alternative interest rate meets this requirement if the entity reasonably expects it to become separately identifiable within 24 months of designation.

The modifications introduced by the IASB therefore aim not to discontinue hedging relationships in place as a result of the reform; therefore, no impacts are expected for the Group.

- *Disclosure*

An additional enhancement of disclosure is planned, beyond the additions to IFRS 7 already implemented as part of the phase 1 modifications, with the integration of qualitative and quantitative disclosures to be provided in the financial statements on the nature and risks linked to the IBOR Reform, the management of such risks and progress in the process of transitioning to the new rates.
The amendments became effective on 1 January 2021, without prejudice to the early application option, which the Group did not make use of.

On 16 December 2020, Regulation (EU) 2020/2097 - "Extension of the Temporary Exemption from Applying IFRS 9" - Amendments to **IFRS 4** "**Insurance contracts**" was published, which endorses Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4 - Insurance Contracts), issued by IASB on 25 June 2020. In view of the IASB's decision to postpone the date of first application of IFRS 17 to 1 January 2023 (decision also taken on 25 June 2020), the option of postponing the application of the IFRS 9 (known as "Deferral Approach") to redress the temporary accounting consequences of the mismatch between the date of entry into force of IFRS 9 "Financial instruments" and the date of entry into force of the future IFRS 17 "Insurance contracts" has also been extended. The aforementioned amendments apply as of 1 January 2021. For the Group, no direct impacts are expected as it does not perform insurance activities.

IAS/IFRS accounting standards and SIC/IFRIC interpretations endorsed and subject to mandatory application after the drafting of the 2021 financial statements

On 2 July 2021, Regulation (EU) 2021/1080, which endorses the following documents published by IASB on 14 May 2020, was published:

- "***Reference to the Conceptual Framework (Amendments to IFRS 3)***" which updates the reference present in IFRS 3 to the Conceptual Framework in the revised version, without this entailing amendments to the provisions of the standard;
- ***"Property, Plant and Equipment - Proceeds before Intended Use (Amendment to IAS 16)" which prohibits deducting from the cost of property, plant and equipment the amount received from the sale of items produced in the asset testing phase.*** These sales revenues and the relative costs will be recognised in the income statement;
- ***"Onerous Contracts — Cost of Fulfilling a Contract (Amendment to IAS 37)"*** which clarifies which costs must be considered in the assessment of the onerousness of the contract. More specifically, the cost to fulfil a contract includes the costs that refer directly to the contract. They may be incremental costs (for example, costs for the direct material used in processing), but also the costs that the company cannot avoid as it has entered into the contract (e.g., the share of the personnel costs and the depreciation of the machinery used to fulfil the contract);
- "***Annual Improvements to IFRS Standards* 2018–2020**", carrying proposed amendments for four standards: IFRS 1 – "Subsidiary as a first-time adopter"; IFRS 9 – "Fees in the '10 per cent' test for derecognition of financial liabilities": the amendment clarifies which fees should be considered in performing the test in application of par. B3.3.6 of IFRS 9, to evaluate the derecognition of a financial liability; IFRS 16 – "Lease incentives": the amendment regards an illustrative example and lastly IFRS 41 – "Taxation in fair value measurements".

The proposed amendments are effective as of 1 January 2022. Early adoption is permitted.

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

On 23 January 2020, IASB also published the document amending IAS 1 "Presentation of Financial Statements: Classification of Liabilities as Current or Non-current" with a view to clarifying how to classify payables and other liabilities as either current or non-current. The amendment specifies that the classification is made on the basis of the rights existing at the reporting date, without considering the expectation of exercising payment deferment. The amendments will become effective on 1 January 2022, but early adoption is permitted.

On 12 February 2021, the IASB published the amendment to IAS 1 "***Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)"*** and the amendment to IAS 8 ***"Definition of Accounting Estimates (Amendments to IAS 8)"***. The amendments aim at:

- improving the disclosure of accounting policies to provide more useful information to investors and other primary users of financial statements, by replacing the concept of significance with that of materiality and including a guide on the application of this concept to the disclosure of accounting policies;
- distinguishing changes in accounting estimates from changes in accounting policies.

The amendments to IAS 1 and IAS 8 will be effective for financial years starting on or after 1 January 2023, with early application permitted.

On 31 March 2021, IASB published the document ***"Covid-19-Related Rent Concessions beyond 30 June 2021 – Amendments to IFRS 16"*** to extend by one year the period of application of the original amendment to IFRS 16 "Covid-19-Related Rent Concessions", issued and approved in 2020, which introduced an exemption for the lessee from having to assess whether the benefits obtained as a result of the economic crisis due to COVID-19 met the definition of a lease modification.

As a result of the extension, the exemption may be applied to rent concessions that present the following characteristics:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2022;
- there is no substantive change to other terms and conditions of the lease.

The application of the expedient is optional, extends to all lease contracts with similar characteristics and is retroactive, by recognizing the cumulative effect of the first application of this modification as an adjustment to the opening balance of the profits carried forward at the beginning of the period in which the lessee first applies the modification. The amendments apply as of 1 April 2021.

On 6 May 2021, IASB published the amendment to IAS 12 ***"Deferred Tax related to Assets and Liabilities arising from a Single Transaction" (Amendments to IAS 12)*** to specify how deferred taxes on certain transactions that can generate assets and liabilities of the same amount, such as leases and those deriving from decommissioning obligations, must be recognised. The amendments apply as of 1 January 2023, but early adoption is permitted.

Lastly, due to its significance for the classification of non-performing exposures, it should be noted that, as of 1 January 2021, the Group has adopted the new definition of default, deriving from the implementation of the "RTS on the materiality threshold for credit obligations past due under Article 178 of the CRR (EU Delegated Regulation 2018/171)" and the related "EBA Guidelines on the application of the definition of default under Article 178 of the CRR". The new regulations, while confirming the bases of default in the concepts of late payments and probable default of the debtor, introduces some significant changes mainly in relation to materiality thresholds, compensation rules and return to performing criteria.

Estimates and assumptions when preparing the Condensed Consolidated Half-yearly Financial Statements

As it is impossible to precisely measure certain elements of the financial statements, the application of the accounting standards thus entails the use by the management of estimates and assumptions that could also have a significant impact on the values of revenues, costs, assets and liabilities recognised in the financial statements and the disclosure relating to contingent assets and liabilities. An estimate may be adjusted following changes in the circumstances on which it was based or after new information or new experience is obtained. If, in the future, those estimates and assumptions, which are based on the best valuations by the management at the date of these Condensed Consolidated Half-yearly Financial Statements should differ from the actual situation, they shall be modified appropriately in the period in which the situation changes. For a more detailed description of the most significant measurement processes for the Group, refer in general to Part A.2, paragraph "Use of estimates and assumptions when preparing financial statements" of the Notes to the Consolidated Financial Statements as at 31 December 2020. In addition to what is specified above, it is necessary to include - since 31 March 2021, based on what was anticipated with respect to the change in the Group's property asset valuation approach - the calculation of the fair value of property assets as well.

With specific regard to the calculation of the expected loss on loans, securities, guarantees issued and commitments, referring also to Part E "Information on risks and hedging policies" of the Notes to the Consolidated Financial Statements as at 31 December 2020, it should be noted that this, pursuant to the provisions of IFRS 9, also depends on forward-looking information such as, specifically, the evolution of the macroeconomic scenarios used in calculating impairment. The evolution and the weighting of those scenarios are periodically assessed, on quarterly basis, making any resulting updates.

In this regard, please note that in the period subject to disclosure there were no changes compared to the estimation criteria applied to draft the Financial Statements as at 31 December 2020, which are referred to in their entirety for all of the relative details. For the sake of complete disclosure, please take note of the following.

Quantification of impairment losses on loans and IFRS 9 staging

The supervisory authorities (ESMA, EBA and ECB) and the standard setters (IASB) have provided instructions in 2020 on the application of IFRS 9 and, in particular, on the use of forward-looking information in the context of the pandemic. Specifically, with regard to this aspect, there is a general call for caution in using economic scenarios and in the methods of converting prospective information into the identification of staging and expected lifetime loss. For a detailed examination of the content of the provisions issued by the various regulators, please refer to the 2020 Consolidated Financial Statements. In the first half of 2021, there were no regulatory developments, with the exception of the update of economic scenarios for the Eurozone and Italy, published respectively by the ECB and the Bank of Italy on 10 and 11 June.

The baseline scenario of the June 2021 forecasts is based on the assumption of a rapid relaxation of the restrictions and a resolution of the health crisis by early 2022. It is assumed the vaccination campaigns will proceed in line with the EU strategy for vaccine delivery. However, some restrictions would be necessary until early 2022 for several reasons: constraints on the demand side (for example in terms of the public's willingness to be vaccinated), the emergence of new COVID-19 variants outside the Eurozone and the lingering doubts on the effectiveness of vaccines against these. The restrictions in the first half of 2021 were significantly stricter than indicated in the ECB's forecasts last March, but would approach the lower levels forecast by the latter by the end of the year. This implies a faster easing of restrictions in the second half of 2021. More specifically, the forecasts indicate a 6.8% decline in GDP in real terms in 2020 (-6.9% in March) followed by annual growth of 4.6% in 2021 (4.0% in March), 4.7% in 2022 (4.0% in March), and 2.1% in 2023 (unchanged compared to March).

Under these assumptions, the experts of the Bank of Italy, in the context of the coordinated Eurosystem forecasting exercise, have forecast a more decisive expansion of the Italian economy in the second half of the current year, well above 4% for 2021 as a whole, which would continue at a fast pace over the next two years. The economy would return to pre-pandemic activity levels by next year. This growth pattern is highly dependent on the effectiveness of the support and relaunch measures funded in the national budget and with European funds, including those provided for in the National Recovery and Resilience Plan (PNRR). The combination of these measures raises the level of GDP by about 4 percentage points over the three-year forecast period (due to higher estimated growth in both 2021 and 2022) compared to the previous projections published by the Bank of Italy in the January 2021 Economic Bulletin. More specifically, as regards Italian GDP growth, the forecast is of an 8.9% contraction in 2020 followed by a 4.4% rebound in 2021 (3.5% expected in January), of 4.5% in 2022 (3.8% in January) and 2.3% in 2023 (unchanged compared to January). The projections for the Italian economy have been updated by the experts of the Bank of Italy on 16 July 2021 with the publication of the Economic Bulletin: GDP growth is forecast to be equal to 5.1% in 2021 and to remain high in the following two years (with a point estimate of 4.4% in 2022 and 2.3% in 2023) and the economy to return to pre-pandemic levels in the second half of 2022.

The Group's accounting policies require macroeconomic scenarios to be updated at least once a year to calculate the expected credit loss, when the financial statements are prepared, as well as every time the latest available baseline scenario shows a net cumulated change in GDP, over a 3-year period, compared with the scenario currently in use, greater than or equal to 0.5%, in absolute value.

In May 2021, the Parent Company approved an update of the baseline scenario, last developed in December 2020: in the updated scenario, developed in March 2021 by a primary external supplier, Italian GDP would grow faster than expected in 2020 and more slowly in 2021, reaching pre-pandemic levels by the end of 2022. More specifically, the most recent baseline scenario shows a less severe contraction in 2020 (-8.9% compared to the -10.0% of the previous baseline scenario), followed by a recovery in subsequent years equal to +4.7% in 2021 (5.3% in December), +4.2% in 2022 (2.7% in December) and +2.4% in 2023 (1.8% in December).

The updated forecasts result in the surpassing of the aforementioned threshold. However, given the persistence of uncertainty about the evolution of the pandemic and the extent of the repercussions for the economic system, the Group has deemed it appropriate, also from a conservative and prudential perspective, to confirm the scenarios used for the 2020 Consolidated Financial Statements and also for the purposes of 2021 half-yearly financial report, in keeping with the choice made in the first quarter of 2021.

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In terms of staging and credit assessments, in line with the indications of regulators and the best practices observed on the market, the specific management overlay measures aimed at including special corrective measures, not captured by the modelling in use, continue to be applied to better reflect the special character of the COVID-19 impact in the evaluation of loans. Therefore, in view of the persistence of the underlying rationales, the choices already spelled out in the 2020 Consolidated Financial Statements have been substantially confirmed and reference should be made to this for more details. In summary:

- one-off treatments to include with greater granularity through the use of special staging triggers the impact of the current scenario on counterparties, also in light of a specific analysis of counterparties, the presence of moratorium measures and - for corporate customers - inclusion in the micro-sectors most penalized by the crisis;
- use of the 2020-2022 three-year period for the application of the forward-looking information on probabilities of default, given the delay (estimated at 12 months) in the observation of insolvency rates and, in general, of the deterioration of creditworthiness in the current context of systemic support to customers, in difficulty due to the pandemic.

The following changes occurred in the first half of 2021 should also be noted:

- application of a prudential floor to the point in time (PIT) rating of retail counterparties requesting a moratorium, using the end-2020 rating as a threshold, to avoid recording an improvement in the creditworthiness of these counterparties as a result of the absence of information on any outstanding amount during the moratorium;
- update of the estimate of multi-period PD curves based on the new definition of default and the quantitative thresholds used for staging allocation;
- in regard to qualitative staging criteria, elimination of the criterion consisting of the inclusion in the "Selective Management" cluster of post-COVID-19 lending strategies. It should be noted that customers included in this cluster were included in the High-Risk chain, already identified as stage 2;
- methodological refinement of the calculation of the ECL for the exposures covered by government guarantee which takes into account, instead of the fully secured LGD previously used, the risk of default of the government, the corresponding recovery rate and the average collection time.

As a whole, these refinements had an impact of approximately EUR 90 mln on the income statement for the first half of 2021.

Impairment test of equity investments and goodwill

In compliance with IAS 36, at each reporting or interim reporting date, the MPS Group verifies for its equity investments and for the goodwill recognised in the balance sheet assets that there is no objective evidence that could lead it to believe that the book value of such assets is not entirely recoverable.

Specifically with regard to equity investments, the methodology adopted by the MPS Group involves using specific triggers, or key operational indicators which are compared with specific benchmarks (for more details on the indicators used by the Group, please refer to part A of the Notes to the 2020 Consolidated Financial Statements, section "Use of estimates and assumptions - Methods for calculating impairment on equity investments"); if this comparison provides an indication of trends not aligned with expectations, the value of the asset to which they refer may have suffered from impairment and, therefore, in that case the recoverable amount is estimated. Specifically, this value is determined pursuant to IAS 36 as the higher value of its fair value, net of costs to sell, and the value in use, equal to the present value of future cash flows that the company expects from the continuous use of the asset and its disposal at the end of its useful life. If the recoverable amount of an asset is lower than its book value, the asset in question is written down.

The review of the main impairment indicators carried out by the Group at 30 June 2021 did not reveal elements indicative of a potential reduction in the value of subsidiaries and associates and it was therefore not necessary to estimate their recoverable value or to recognise value adjustments.

In regard to goodwill, fully allocated to the Widiba CGU, it should be noted that, as at 30 June 2021, the verification of the existence of impairment triggers, based on a comparison of indicators obtained from the June 2021 budget targets of the subsidiary with the actual values at the same date, did not show any evidence of impairment loss, thus confirming the book value.

Estimation and assumptions on recoverability of deferred tax assets

In compliance with the provisions of IAS 12 and the communication of ESMA of 15 July 2019, the initial recognition of the DTAs and their subsequent inclusion in the financial statements require a judgement on the likelihood of recovering the amounts recognised. This assessment was carried out using the same methodological approach used for the Consolidated Financial Statements 2020, to which reference is made for a detailed review.

Notably, in regard to the taxable income for future years, it should be noted that the estimate was based on the same income projections used for the 2020 consolidated financial statements, with the exception of 2021: for this year, the net income forecast was updated as a result of the trend in the first six months, and, instead of the loss forecast, a profit is likely to be reported at the end of the year.

Lastly, it should be noted that the new 2021-2025 Strategic Plan, approved by the Board of Directors on 17 December 2020, was not used, as it has not yet been approved by the relevant authorities. For more information, please refer to par. 11.8 "Other information" in the Notes to the consolidated financial statements - Part B of the MPS Group's 2020 Consolidated Financial Statements.

Rights of use in lease agreements

The standard IFRS 16 indicates that assets for rights of use acquired through lease agreements must be checked for indicators of impairment, similar to what takes place for owned assets. If they are identified, a comparison is made between the book value of the asset and the asset's recoverable amount, i.e. the higher of the fair value and the value in use, which is the present value of the future cash flows generated by the asset. Any adjustments are posted to the income statement.

In order to identify events or situations that could lead to impairment, IAS 36 specifies that reference should be made to indicators obtained from:
- internal sources, such as signs of obsolescence and/or physical deterioration of the asset, restructuring plans or branch closures;
- external sources, such as the increase in interest rates or other rates of return on the market for investments that may cause a significant decrease in the recoverable amount of the asset.

As at 30 June 2021, the Group had performed the following verifications:
- trend in interest rates used for discounting the payments;
- presence of unused leased properties.

It should be noted that the latter verification was carried out taking also into account the temporary branch closures resulting from the COVID-19 pandemic.

At the reference date of these Condensed Consolidated Half-yearly Financial Statements, given the temporary nature of the closure resulting from the pandemic and the absence of further indicators of impairment, no critical factors emerged as concerns the recoverable amount of right of use assets.

Contractual changes and forbearance

As at 30 June 2021, the outstanding moratoria granted as a result of the COVID-19 pandemic were equal to EUR 6.2 bn, representing approximately 9% of the total exposure in loans to customers. At the same date, income statement item 140 "Modification gains/(losses)" includes a loss related to the COVID-19 payment suspensions granted equal to approximately EUR 3.6 mln.

It should be noted that the accounting classification criteria for loans subject to moratorium are unchanged with respect to the consolidated financial statements as at 31 December 2020, to which reference is made for more details. In particular, the instructions of the Supervisory Authority pursuant to the EBA guidelines of April 2020, as amended over time, are confirmed. Therefore, the counterparties benefiting from moratoria granted and/or extended by 31 March 2021 are included in the scope of the "general payment moratorium" if they comply with the 9-month cap set by the EBA; on the other hand all cases in which such requirement is not met are subject to the assessment of financial difficulties.

Rent concessions

As of 30 June 2021, the Group had not granted new suspensions or partial or total reductions in lease payments to support tenants affected by lockdown or subject to significant restrictions.

As of the same date, the Parent Company applies the exemption provided for by the IASB document "Covid-19-Related Rent Concessions" to the assessment of a concession obtained in 2020 as a tenant on a lease, which was extended to the first half of 2021 without other substantial changes to additional terms or conditions being introduced. The expedient, applied from the 2020 financial year, is not a significant case for the Group.

Application of Group accounting policies to finalised transactions or events occurred in the financial year

TLTRO III – Targeted Longer Term Refinancing Operations

As at 30 June 2021, the funding from ECB, consisting entirely of TLTRO-III loans, was equal to EUR 29.5 bn, fully subscribed by the Parent Company, referring to five drawdowns made respectively in December 2019 (EUR 4.0 bn), June and September 2020 (EUR 17 and EUR 3 bn), March and June 2021 (EUR 2.5 and EUR 3 bn). Reference should be made to the 2020 Consolidated Financial Statements for a review of the remuneration mechanisms for the transactions in question and the accounting treatment adopted by the Group to recognise the related charges.

The final figures for "net lending" of the MPS Group up to 31 March 2021 (special reference period) were positive and therefore above the minimum target level, which was negative for the MPS Group. Consequently, the Group recognized the charges up to 23 June 2021 (the end date of the special interest rate period) at a rate of -1%, i.e. equal to the deposit facility rate, negative and equal to -0.5%, increased by further reduction of -0.5%.

With reference to the additional special reference period, it should be noted that, based on the monitoring of data as at 30 June 2021, the trend remains positive, therefore if the subsequent evolution of the eligible loan aggregate from 30 June 2021 to 31 December 2021 does not show a reduction in net lending higher than the target level, the Group could benefit from the more favourable rate, negative and equal to -1%, also for the 24 June 2021-23 June 2022 period (additional special interest rate period).

In regard to the positive trend of "net lending" observed from 1 October 2020 to 30 June 2021, which we believe will be confirmed for 31 December 2021, that is, at the benchmark recording date, the charges of these Condensed Consolidated Half-yearly Financial Statements have taken into account the more favourable conditions in force, and therefore were calculated based on a 1% negative interest rate also for the last seven days of June 2021. The total interest income recognized was equal to EUR 128 mln, of which EUR 64.0 mln due to the further 50-point reduction for the special interest rate period (EUR 58.3 mln) and for the additional special interest rate period (EUR 5.7 mln).

Tax credits linked to the "Rilancio" (Relaunch) Decree-Law acquired following assignment by the direct beneficiaries or previous purchasers

As part of the urgent measures on health, support for work and the economy, as well as social policies linked to the COVID-19 epidemiological emergency, Decree-Law no. 34/2020 ("Rilancio" - Relaunch) introduced tax incentive measures for specific energy and anti-seismic efficiency interventions, the installation of photovoltaic systems and infrastructure for recharging electric vehicles in buildings ("Superbonus").

These tax incentives, applicable to both households and businesses, are commensurate with a percentage of expenses incurred, and are disbursed in the form of a tax credit or tax deduction. The main characteristics of these tax credits are:

- they may be used for offsetting;
- they may be assigned to third-party purchasers;
- they are not refundable by the Tax Authority.

Due to the specific features of these tax credits, it is not possible to immediately identify a specific accounting standard applicable to them. IAS 8 establishes that, when there is a situation not explicitly addressed in an IAS/IFRS, the company management will need to define a suitable accounting policy to provide a relevant and reliable disclosure.

The Group, taking into account what has been specified by the Authorities[9], defined its accounting policy which refers to the accounting rules laid out in IFRS 9, applying provisions compatible with the characteristics of the transaction and considering that, substantially, these credits are equivalent to financial assets.

The Group purchases the credits based on its Tax Capacity with a view to holding them and using them for future offsetting; therefore, these credits are linked to a Held to Collect Business Model and recognised at amortised cost, with remuneration represented in net interest income throughout the recovery time period.

[9] On 5 January 2021, the Bank of Italy, Consob and IVASS published the document "Accounting treatment of tax credits linked to the Cura Italia and Rilancio (Relaunch) Decree-Laws acquired following assignment by the direct beneficiaries or previous purchasers".

The accounting framework established by IFRS 9 for the calculation of expected losses is not applicable to this specific case, i.e. the expected credit loss (ECL) is not calculated as there is no counterparty credit risk, taking into account that tax credits are realised through offsetting and not collection.

Lastly, as specified in the joint Authority document, taking into account that for the purposes of the international accounting standards these tax credits do not represent tax assets, public contributions, intangible assets or financial assets, the most appropriate classification for representation in the financial statements is the residual category "Other Assets" in the Balance Sheet.

As at 30 June 2021, the Group had finalised approximately 1,800 purchase transactions, of which roughly 84% with private parties and condominiums, for a nominal value of EUR 30.4 mln, of which EUR 19.5 mln can be used starting from the current year and EUR 10.9 mln from 2022. The carrying amount of these receivables recognised under "Other Assets" was equal to EUR 25.7 mln as at 30 June 2021.

It should also be noted that, as at 30 July 2021, the Group received requests for the sale of these receivables for a total amount of approximately EUR 856 mln, which are currently being assessed/processed.

Modification of the property valuation approach: property for business use (IAS 16) and property held for investment purposes (IAS 40)

Reasons underlying the change in the property valuation approach

The Group holds property assets including land and buildings, the carrying amount of which, as at 31 December 2020, was equal to EUR 1,792 mln, of which EUR 1,542 mln held for business use (IAS 16) and EUR 250 mln held for investment purposes (IAS 40).

In recent years, the Group began a series of initiatives to enhance the value of these assets through targeted actions intended to allow for the continuous enhancement of the properties through "active management" of the properties in the portfolio and the disposal of assets not deemed strategic. In this regard, please note that the disposal of properties for EUR 500 mln is planned in the 2017-2021 Restructuring Plan and indicated under commitments of a formal nature assumed by the Parent Company with the European Commission.

Such initiatives are moreover also influenced by the following decisions included in the 2021-2025 Group Strategic Plan:

- increased recourse to smart working with respect to its previous occasional use;
- digitalisation and progressive focus on remote marketing channels;
- further transformation of the "physical" branches, consolidating them in their nature as centres oriented towards customer advisory activities;
- streamlining of labour costs, also linked to business process automation.

The actions referred to above will allow for a progressive reduction of occupied surface areas, through space management activities and the subsequent disposal of freed up spaces.

In the light of the above, starting from 31 March 2021, for land and buildings only, the Group has adopted a different valuation approach after the initial recognition. Specifically, on 22 April 2021, the Banca MPS Board of Directors decided to:

- transition from the cost model to the revaluation model for properties for business use, based on the rules of IAS 16 "Property, plant and equipment";
- transition from the cost model to the fair value model for investment properties, based on the rules of IAS 40 "property held for investment purposes".

It should be noted that for rights of use on properties for business use, recognised under property, plant and equipment on the basis of IFRS 16, the Group opted out of the revaluation model, permitted if the lessor applies this approach to owned properties.

In this context, the Group has decided that the aforementioned decision, consistent with the provisions of IAS 8 on changes in accounting standards, makes it possible to provide reliable and more material information on the effects of company management and, ultimately, on the overall financial position and profit and loss of the Group. The expression in current values of property assets, with respect to cost, will indeed allow for:

- the greater alignment of financial reporting with future Group property asset management strategies;
- a more immediate understanding of the economic and financial impacts of the actions laid out in the Group Plan;
- constant alignment of the carrying amounts of property assets with values identifiable in the market;

- greater uniformity of comparison, of both the financial position and profit and loss between subsequent years, as recognition in current values improves the relevance and quality of information, especially due to its periodic re-estimation.

This choice is also in line with that the approach adopted by the main Italian competitors which, over the last few years, have adopted the fair value/fair value revaluation approach for the valuation of real estate, therefore the adoption of the new valuation approach will allow a better comparison with the financial statements of these competitors.

Change in real estate valuation approach

The general rules of IAS 8 establish that voluntary changes in accounting policies must be represented retrospectively, starting from the furthest date on which this is feasible. This means that when the change takes place, the opening balances of the furthest comparative year and the data for the comparative years also need to be restated. However, this general rule does allow for exceptions. Specifically, in paragraph 17, IAS 8 sets forth that for the valuation of property, plant and equipment, governed by IAS 16, the transition from the cost approach to the revaluation model must be represented as if it were a normal application in continuity of the revaluation model, that is, the initial application of the revaluation model must take place prospectively and not retrospectively as set forth in the general principle established in IAS 8. The change in accounting policy within the context of IAS 16 therefore does not entail any adjustment in the opening balances or the comparative data, or in the financial statements for the interim periods preceding the date of the change.

Change in real estate valuation approach: property for business use (IAS 16)

In light of the foregoing, for properties for business use the Group's transition from cost to the revaluation model was applied prospectively as of 31 March 2021. For the aforementioned assets, as a result of the prospective application of the new valuation approach, the difference between the restated value and the net carrying amount was recognised as of the same date with an offsetting entry:

- income statement item "260. Net gains (losses) on property, plant and equipment and intangible assets measured at fair value", in the case of a negative difference;
- shareholders' equity item "120. Valuation reserves", in the case of a positive difference;
- income statement item "260. Net gains (losses) on property, plant and equipment and intangible assets measured at fair value", in the case of a positive difference for those properties that were subject to impairment in previous years, up to the limit of the amount of the impairment recognised, while the amount of the revaluation exceeding the amount written down in item "120. Valuation reserves".

In this regard, it should be noted that the unit of measurement used to calculate these effects is represented by the individual property, considering the land and the building component jointly as they cannot be sold individually. The breakdown of the property value into the two components - land and building - is instead relevant for disclosure purposes and for the calculation of depreciation, due to the different useful life of the two components. Starting from 31 March 2021, the restated value of the assets in question represents the new depreciable amount, to be divided on a straight-line basis over the expected useful life; for the first quarter of 2021, therefore, it was not necessary to restate depreciation previously calculated under the cost approach.

Change in real estate valuation approach: property held for investment purposes (IAS 40)

For investment properties, in compliance with the provisions of IAS 8, the Group restated the comparative data beginning from the opening balances as at 1 January 2020. In particular:

- the positive or negative differences determined at individual property level between the fair value as at 1 January 2020 and the carrying amount at that date were recognised in shareholders' equity in the item "150. Reserves";
- the income statement effects recorded against the valuation at cost of property assets in 2020 (share of depreciation as well as impairment) were cancelled out against item "150. Reserves – Retained earnings", which also includes the change in the fair value of properties for the year.

Starting from 1 January 2021, investment properties are measured at fair value through profit or loss and are no longer subject to depreciation and/or impairment.

Methodology to estimate the fair value of real estate at the FTA date

With regard to the calculation of the fair value of real estate, it should be noted that the Group has chosen to make use of special appraisals provided by a leading external valuation company with an international and professionally qualified structure. To prepare the property appraisals, the lease payments, sale prices, discounting rates and capitalisation rates were estimated. In more detail, these appraisals, on the basis of the relevance of the individual property unit, were conducted in two different alternative manners:

- "full" appraisals: based on a physical inspection of the property assets by the appraiser; or
- "desktop" appraisals, based on an assessment performed with no physical inspection of the property asset and, therefore, based on reference market values.

The valuation methodologies applied by the appraiser in the appraisal are aligned with international IVS (International Valuation Standards) practices and with what is set forth in the Red Book of the Royal Institute of Chartered Surveyors (RICS) and comply with the provisions of IFRS 13. Notably, RICS standards ensure that:

- the fair value is determined consistently with the indications of the international accounting standards or that this value reflects *"the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller between parties who do not have a special relationship both interested in trading in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion"*;
- the professional, ethical and independence requirements of the experts, in line with the provisions of international and European standards, are complied with.

IFRS 13 provides for non-financial assets that the use by their owner meet the requirement of highest and best use, unless the market participants expect different intended use for the property, which would therefore optimize its value.

The valuation approach was therefore specified by the expert appraiser based on the current intended use of the properties, assuming this represents the highest and best use, and considering, in a few cases, alternative uses of the properties where this corresponds to market expectations. To find the value of each property, the appraiser identified the most suitable methodology according to the characteristics of the asset and the conditions of the reference market.

The methodologies used on first application can be traced back to three approaches:

- discounted cash flow (DCF) approach;
- market comparison approach (MCA);
- transformation method with DCF analysis.

The discounted cash flow method is based on the net cash flows that can be generated within a period of time and is the best estimation approach to adequately represent the market value of assets likely to be acquired both for direct use (instrumental use), and for investment purposes, as a source of ongoing income from rents. The assumption underlying the cash flow approach is that a rational buyer is not willing to pay to buy the asset a price higher than the current value of the economic benefits that the asset will provide in the future. The value of the asset, therefore, is a function of the economic benefits that will be generated by it. The Market Value is calculated as the sum of the discounted net revenues and the discounted net sales value at the valuation date. The net revenues are calculated based on the gross revenues less the operating costs related to the property. The gross revenues are calculated by indexing the rents received for the leased portions, or the market rents for the vacant portions, considering for the calculation of the DCF a time period between 10 and 20 years according to the intended use of the property and the residual duration of outstanding lease contracts. The net sales value is obtained by capitalising in perpetuity the operating income for the last period of the DCF using a capitalization rate (Cap Rate) in line with average market yields, from which the sales commission is then deducted. After finding the annual net revenues and the net sales value, the discounted values at the beginning of the first period are calculated by using an appropriate discount rate, suitable for each individual property. The main input data are: (i) revenues (contractual rents, market rents); ii) vacancy and take up period, contractual stepup etc.; iii) costs (administration, property tax, insurance premium, tenant improvements, lease and sales commission, etc. and iv) interest rates (WACC, exit cap rate).

The market comparison approach provides an estimate of the value of the asset through the comparison with properties recently sold or currently on sale on the market that are comparable in terms of type, construction and location. The value of the property is therefore found by taking into account the sale prices or rents obtained from an in-depth market survey, and then making specific adjustments as deemed appropriate given the intrinsic and extrinsic characteristics of the property in question, as well as any other factor deemed relevant. The market comparison approach is usually recommended for residential properties for which it is easy to find transactions on comparable assets.

The transformation method with DCF analysis is used in the case of assets that can be transformed or are already being transformed. The value is given by the difference between the most likely market value of the transformed asset and the sum of all the most likely costs of the factors involved in the transformation of the asset itself. The transformation method is often used to express an opinion on the economic benefit of initiatives to renovate existing assets, but it can also be used for an appraisal aimed at providing an estimate value valid for the majority of market operators. This estimation method is based on the discounting, at the valuation date, of the cash flows generated by the real estate transaction over a time period corresponding to its duration, converting the cash flows allocated at the time of their generation into the Net Present Value (NPV) of the real estate transaction through a financial discounting procedure. The model simulates the assumptions of a typical investor, which aims at receiving a satisfactory economic return on the investment. In particular, the model is articulated in a cash flow scheme with income (revenues) and expenses (costs) relating to the real estate transformation project. Expenses include costs for construction, demolition, urbanisation, design, site management and other costs; the income includes sales made for each sector of intended use (residential, industrial, workshops, sales, tertiary and services). The financial model does not consider VAT and other taxes. The main input data are i) the revenues generated from the sale of buildings built or renovated; ii) the costs (construction costs, urbanisation costs, planning and site management costs, sales commissions, etc., and iii) interest rates (WACC).

Effects of change in real estate valuation approach

With regard to properties for business use (IAS 16), the impact of the restatement of property values as at 31 March 2021 was positive on the whole for the Group and equal to EUR 214.2 mln, gross of taxes. This impact was recognised:

- in item “120. Valuation reserves” for EUR 244.6 mln, including deferred taxes (EUR 165.0 mln net of deferred taxes);
- as an offsetting entry to income statement item “260. Net gains (losses) on property, plant and equipment and intangible assets measured at fair value” for a negative amount equal to EUR 30.4 mln.

With regard to investment properties, the impact of the fair value measurement was on the whole negative and equal to EUR 16.5 mln, inclusive of tax effects (EUR 11.1 mln net of taxes). This impact was recognised through a modification of the initial opening shareholders' equity balances as at 1 January 2021, specifically in item “150. Reserves”.

Aside from the aforementioned impacts, the application of the fair value approach means that depreciation is no longer recognised for property held for investment purposes which, for the first half of 2021, would have been equal to EUR 3.1 mln.

The new approach has resulted in a positive change of the CET 1 ratio at the date of first application equal to approximately 44 bps on a transitional basis and 45 bps on a fully loaded basis.

The tables below provide a reconciliation of the balance sheet balances as at 1 January 2020 and 31 December 2020, following the effects of the retroactive application of the change in the valuation approach applied to properties held for investment purposes. The changes shown in the first table represent the impact on the opening balances of the earliest year for which, in regard to investment property as per IAS 40, the comparative data is re-stated pursuant to IAS 8. We also provide the changes in the income statements for the periods ended at 31 December 2020 and 30 June 2020.

(in thousands of EUR)

	Assets	01 01 2020	Change	01 01 2020 Restated
10.	Cash and cash equivalents	835,104	-	835,104
20.	Financial assets measured at fair value through profit or loss	10,666,399	-	10,666,399
	a) financial assets held for trading	9,902,460	-	9,902,460
	c) other financial assets mandatorily measured at fair value	763,939	-	763,939
30.	Financial assets measured at fair value through other comprehensive income	6,726,821	-	6,726,821
40.	Financial assets measured at amortised cost	104,707,537	-	104,707,537
	a) Loans to banks	15,722,404	-	15,722,404
	b) Loans to customers	88,985,132	-	88,985,132
50.	Hedging derivatives	73,003	-	73,003
60.	Change in value of macro-hedged financial assets (+/-)	635,979	-	635,979
70.	Equity investments	930,976	-	930,976
90.	Property, plant and equipment	2,709,106	(23,611)	2,685,495
100.	Intangible assets	176,097	-	176,097
	- of which goodwill	*7,900*	-	*7,900*
110.	Tax assets	2,762,954	6,621	2,769,575
	a) current	953,534	-	953,534
	b) deferred	1,809,419	6,621	1,816,040
120.	Non-current assets held for sale and disposal groups	159,820	3,447	163,267
130.	Other assets	1,812,211	-	1,812,211
	Total Assets	**132,196,007**	**(13,544)**	**132,182,463**

(in thousands of EUR)

	Total Liabilities and Shareholders' Equity	01 01 2020	Change	01 01 2020 Restated
10.	Financial liabilities measured at amortised cost	114,148,310	-	114,148,310
	a) due to banks	20,178,137	-	20,178,137
	b) due to customers	76,526,919	-	76,526,919
	c) debts securities issued	17,443,253	-	17,443,253
20.	Financial liabilities held for trading	3,882,623	-	3,882,623
30.	Financial liabilities designated at fair value	247,116	-	247,116
40.	Hedging derivatives	1,315,905	-	1,315,905
50.	Change in value of macro-hedged financial liabilities (+/-)	31,390	-	31,390
60.	Tax liabilities	3,361	-	3,361
	a) current	422	-	422
	b) deferred	2,939	-	2,939
80.	Other liabilities	2,897,887	-	2,897,887
90.	Provision for employees severance pay	178,653	-	178,653
100.	Provision for risks and charges:	1,209,874	-	1,209,874
	a) financial guarantees and other commitments	158,793	-	158,793
	b) post-employment benefits	36,133	-	36,133
	c) other provisions	1,014,948	-	1,014,948
120.	Valuation reserves	66,394	-	66,394
150.	Reserves	(769,173)	(13,544)	(782,717)
170.	Share capital	10,328,618	-	10,328,618
180.	Treasury shares (-)	(313,710)	-	(313,710)
190.	Non-controlling interests (+/-)	1,770	-	1,770
200.	Net Profit (loss) for the period (+/-)	(1,033,011)	-	(1,033,011)
	Total Liabilities and Shareholders' Equity	**132,196,007**	**(13,544)**	**132,182,463**

(in thousands of EUR)

	Assets	31 12 2020	Change	31 12 2020 Restated
10.	Cash and cash equivalents	763,777	-	763,777
20.	Financial assets measured at fair value through profit or loss	8,675,949	-	8,675,949
	a) financial assets held for trading	8,214,902	-	8,214,902
	c) other financial assets mandatorily measured at fair value	461,047	-	461,047
30.	Financial assets measured at fair value through other comprehensive income	5,777,926	-	5,777,926
40.	Financial assets measured at amortised cost	126,739,732	-	126,739,732
	a) Loans to banks	34,737,909	-	34,737,909
	b) Loans to customers	92,001,823	-	92,001,823
50.	Hedging derivatives	50,818	-	50,818
60.	Change in value of macro-hedged financial assets (+/-)	1,032,483	-	1,032,483
70.	Equity investments	1,107,463	-	1,107,463
90.	Property, plant and equipment	2,338,834	(3,023)	2,335,811
100.	Intangible assets	183,945	-	183,945
	- of which goodwill	*7,900*	-	*7,900*
110.	Tax assets	1,986,164	5,409	1,991,573
	a) current	807,870	-	807,870
	b) deferred	1,178,294	5,409	1,183,703
120.	Non-current assets held for sale and disposal groups	102,893	(13,454)	89,439
130.	Other assets	1,596,119	-	1,596,119
	Total Assets	**150,356,103**	**(11,067)**	**150,345,036**

(in thousands of EUR)

	Total Liabilities and Shareholders' Equity	31 12 2020	Change	31 12 2020 Restated
10.	Financial liabilities measured at amortised cost	131,943,995	-	131,943,995
	a) due to banks	28,418,072	-	28,418,072
	b) due to customers	90,683,669	-	90,683,669
	c) debts securities issued	12,842,254	-	12,842,254
20.	Financial liabilities held for trading	6,002,020	-	6,002,020
30.	Financial liabilities designated at fair value	193,332	-	193,332
40.	Hedging derivatives	1,797,049	-	1,797,049
50.	Change in value of macro-hedged financial liabilities (+/-)	45,428	-	45,428
60.	Tax liabilities	4,091	-	4,091
	a) current	13	-	13
	b) deferred	4,078	-	4,078
80.	Other liabilities	2,527,046	-	2,527,046
90.	Provision for employees severance pay	166,553	-	166,553
100.	Provision for risks and charges:	1,892,608	-	1,892,608
	a) financial guarantees and other commitments	154,081	-	154,081
	b) post-employment benefits	32,979	-	32,979
	c) other provisions	1,705,548	-	1,705,548
120.	Valuation reserves	260,853	-	260,853
150.	Reserves	(1,670,500)	(13,544)	(1,684,044)
170.	Share capital	9,195,012	-	9,195,012
180.	Treasury shares (-)	(313,710)	-	(313,710)
190.	Non-controlling interests (+/-)	1,310	-	1,310
200.	Net Profit (loss) for the period (+/-)	(1,688,984)	2,477	(1,686,507)
	Total Liabilities and Shareholders' Equity	**150,356,103**	**(11,067)**	**150,345,036**

(in thousands of EUR)

	Items	30 06 2020	Change	30 06 2020 Restated
10.	Interest income and similar revenues	964,835	-	964,835
	of which interest income calculated applying the effective interest rate method	*908,903*	-	*908,903*
20.	Interest expense and similar charges	(320,456)	-	(320,456)
30.	**Net interest income**	**644,379**	**-**	**644,379**
40.	Fee and commission income	790,110	-	790,110
50.	Fee and commission expense	(120,323)	-	(120,323)
60.	**Net fee and commission income**	**669,787**	**-**	**669,787**
70.	Dividends and similar income	9,689	-	9,689
80.	Net profit (loss) from trading	21,061	-	21,061
90.	Net profit (loss) from hedging	532	-	532
100.	Gains/(losses) on disposal/repurchase of:	76,731	-	76,731
	a) financial assets measured at amortised cost	70,612	-	70,612
	b) Financial assets measured at fair value through other comprehensive income	1,255	-	1,255
	c) financial liabilities	4,864	-	4,864
110.	Net profit (loss) from financial assets and liabilities measured at fair value through profit or loss	(449)	-	(449)
	a) financial assets and liabilities designated at fair value	(718)	-	(718)
	b) other financial assets mandatorily measured at fair value	270	-	270
120.	**Net interest and other banking income**	**1,421,730**	**-**	**1,421,730**
130.	Net impairment (losses)/reversals on	(534,534)	-	(534,534)
	a) financial assets measured at amortised cost	(531,982)	-	(531,982)
	b) financial assets measured at fair value through other comprehensive income	(2,551)	-	(2,551)
140.	Modification gains/(losses)	(2,843)	-	(2,843)
150.	**Net income from banking activities**	**884,354**	**-**	**884,354**
190.	Administrative expenses:	(1,219,268)	-	(1,219,268)
	a) personnel expenses	(707,539)	-	(707,539)
	b) other administrative expenses	(511,729)	-	(511,729)
200.	Net provision for risks and charges:	(350,923)	-	(350,923)
	a) commitments and guarantees issued	6,175	-	6,175
	b) other net provisions	(357,098)	-	(357,098)
210.	Net adjustments to/recoveries on property, plant and equipment	(85,134)	5,918	(79,217)
220.	Net adjustments to/recoveries on intangible assets	(37,710)	-	(37,710)
230.	Other operating expenses/income	111,173	-	111,173
240.	**Operating expenses**	**(1,581,861)**	**5,918**	**(1,575,943)**
250.	Gains (losses) on investments	38,393	-	38,393
260.	Net gains (losses) on property, plant and equipment and intangible assets measured at fair value	-	6,787	6,787
280.	Gains (losses) on disposal of investments	3,109	(1,833)	1,276
290.	**Profit (loss) before tax from continuing operations**	**(656,006)**	**10,872**	**(645,134)**
300.	Tax (expense)/recovery on income from continuing operations	(432,773)	(3,575)	(436,349)
310.	**Profit (loss) after tax from continuing operations**	**(1,088,779)**	**7,296**	**(1,081,483)**
320.	Profit (loss) after tax from discontinued operations	-	-	-
330.	**Profit (loss) for the period**	**(1,088,779)**	**7,296**	**(1,081,483)**
340.	Net Profit (loss) attributable to non-controlling interests	(68)	-	(68)
350.	**Parent company's net profit (loss) for the period**	**(1,088,711)**	**7,296**	**(1,081,415)**

(in thousands of EUR)

	Items	31 12 2020	Change	31 12 2020 Restated
10.	Interest income and similar revenues	1,975,109	-	1,975,109
	of which interest income calculated applying the effective interest rate method	*1,763,447*	-	*1,763,447*
20.	Interest expense and similar charges	(703,663)	-	(703,663)
30.	**Net interest income**	**1,271,446**	**-**	**1,271,446**
40.	Fee and commission income	1,595,743	-	1,595,743
50.	Fee and commission expense	(202,741)	-	(202,741)
60.	**Net fee and commission income**	**1,393,002**	**-**	**1,393,002**
70.	Dividends and similar income	10,264	-	10,264
80.	Net profit (loss) from trading	33,969	-	33,969
90.	Net profit (loss) from hedging	2,620	-	2,620
100.	Gains/(losses) on disposal/repurchase of:	118,503	-	118,503
	a) financial assets measured at amortised cost	113,465	-	113,465
	b) Financial assets measured at fair value through other comprehensive income	174	-	174
	c) financial liabilities	4,864	-	4,864
110.	Net profit (loss) from financial assets and liabilities measured at fair value through profit or loss	(14,620)	-	(14,620)
	a) financial assets and liabilities designated at fair value	195	-	195
	b) other financial assets mandatorily measured at fair value	(14,815)	-	(14,815)
120.	**Net interest and other banking income**	**2,815,184**	**-**	**2,815,184**
130.	Net impairment (losses)/reversals on	(749,178)	-	(749,178)
	a) financial assets measured at amortised cost	(749,336)	-	(749,336)
	b) financial assets measured at fair value through other comprehensive income	158	-	158
140.	Modification gains/(losses)	(18,763)	-	(18,763)
150.	**Net income from banking activities**	**2,047,243**	**-**	**2,047,243**
190.	Administrative expenses:	(2,550,872)	-	(2,550,872)
	a) personnel expenses	(1,508,735)	-	(1,508,735)
	b) other administrative expenses	(1,042,137)	-	(1,042,137)
200.	Net provision for risks and charges:	(968,564)	-	(968,564)
	a) commitments and guarantees issued	4,717	-	4,717
	b) other net provisions	(973,281)	-	(973,281)
210.	Net adjustments to/recoveries on property, plant and equipment	(171,399)	10,696	(160,703)
220.	Net adjustments to/recoveries on intangible assets	(75,429)	-	(75,429)
230.	Other operating expenses/income	229,675	-	229,675
240.	**Operating expenses**	**(3,536,589)**	**10,696**	**(3,525,893)**
250.	Gains (losses) on investments	95,023	-	95,023
260.	Net gains (losses) on property, plant and equipment and intangible assets measured at fair value	-	(19,113)	(19,113)
280.	Gains (losses) on disposal of investments	43,406	12,105	55,511
290.	**Profit (loss) before tax from continuing operations**	**(1,350,917)**	**3,688**	**(1,347,229)**
300.	Tax (expense)/recovery on income from continuing operations	(338,196)	(1,211)	(339,407)
310.	**Profit (loss) after tax from continuing operations**	**(1,689,113)**	**2,477**	**(1,686,636)**
320.	Profit (loss) after tax from discontinued operations	-	-	-
330.	**Profit (loss) for the period**	**(1,689,113)**	**2,477**	**(1,686,636)**
340.	Net Profit (loss) attributable to non-controlling interests	(129)	-	(129)
350.	**Parent company's net profit (loss) for the period**	**(1,688,984)**	**2,477**	**(1,686,507)**

The main items of the accounts

We describe below the accounting policies, as integrated since 31 March 2021, in reference to the sole balance sheet item "Property, plant and equipment", revised with respect to the version published in the Consolidated Financial Statements as at 31 December 2020, Notes to the financial statements - Part A Accounting policies, as a result of the change in the property valuation method adopted by the Group.

6 Property, plant and equipment

a) classification criteria

Fixed assets include land, operating properties, investment properties, systems, furnishings and fixtures, equipment of any type and artworks.

Operating properties are properties owned by the Group and used in the production or supply of services or for administrative purposes (classified as "Property, plant and equipment used in the business" and recognised in accordance with IAS 16), whereas investment properties are those owned by the Group for the purpose of collecting rents and/or held for appreciation of capital invested (classified as "Property, plant and equipment held for investment" and follow the rules set forth in IAS 40).

The item also includes property, plant and equipment classified according to IAS 2 "Inventories", mainly relating to assets acquired for the purposes of enhancing the value of the investment, including through restructuring or redevelopment works, with the explicit intention of selling them in the immediate future, as part of the normal course of business, including assets deriving from the enforcement of guarantees received or from auction purchases.

Property, plant and equipment includes those assets associated with finance lease contracts that were returned to the company, as lessor, following contract termination and the simultaneous closure of the original credit position.

This category also includes i) property, plant and equipment obtained through the enforcement of guarantees received and rights of use acquired through leases, both financial and operational, relating to property, plant and equipment that the Group uses as a lessee for business purposes or for investment purposes, ii) assets transferred with operating leases (for lessors) as well as iii) improvements and value adding expenses incurred on own and third-party property and assets, the latter if identifiable and separate (e.g. ATM).

b) recognition criteria

Property, plant and equipment, for business use or otherwise, are originally recognised at cost, which includes the purchase price and any additional charges directly attributable to the purchase and installation of the assets.

Expenditures which involve an increase in future economic rewards are booked as an increase in the value of the assets, while expenses for ordinary maintenance are booked to the income statement.

For properties recognised following the closure of the original credit position ("*datio in solutum*"), initial recognition is at fair value, inferred from a dedicated appraisal. The difference between the initial recognition value of the property and the carrying amount of the previous credit exposure, which has been derecognised, is recognised in income statement item "130 - Net impairment (losses)/reversals for credit risk". If when the transaction is finalised the members of the corporate bodies have decided to sell the property within a brief period of time, the property's carrying amount will be equal to the "rapid realisation value", also inferred from a specific appraisal, unless negotiations are under way which allow for the presumption of a higher recoverable amount. In any event, at the date on which the property is recognised, if there are concrete sales negotiations under way, demonstrated by commitments made by the parties concerned and approved by the competent corporate bodies, the initial carrying amount will need to take into account the approved exit price, net of any costs to sell, if this is lower than the "market value" inferred from the appraisal.

Right of use (RoU) assets acquired through leasing are recognised in financial statements on the contract's start date, that is, on the date on which the asset is made available to the lessee and is initially valued at cost. This cost includes:

- the initial measurement of the lease liability, net of VAT;
- any lease payments made by the start date, net of any lease incentives;
- any initial direct costs incurred, understood as incremental costs incurred to obtain the lease that would not have otherwise been incurred (e.g., brokerage commissions and success fees);
- estimated costs of refurbishment and dismantling, in cases where the contract provides for them.

In connection with the right of use asset, the lessee recognises a liability for the lease under item "10 - Financial liabilities measured at amortised cost" corresponding to the present value of payments due for the lease. The discount rate used is the implicit interest rate, if it can be determined; otherwise, the lessee's marginal borrowing rate is used.

When there is no implicit interest rate in the contract, MPS Group uses, as the discount rate, the maturity curve aligned to the individual lease agreements, consisting of the 6M Euribor base rate and the blended funding spread, the latter equal to the weighted average of the funding curves for unsecured senior bonds and for protected and privileged deposits. The adoption of this curve is in line with the characteristics of leasing contracts, which typically provide for fixed fees throughout the duration of the contract, and of the underlying assets.

The discounting rate so defined takes into account of the creditworthiness of the lessee, the duration of the lease, the asset underlying the right of use and the economic environment, identified in the Italian market, where the transaction takes place and therefore it is in line with the requirements of the standard.

If a lease contract contains "non-leasing components" (e.g., services rendered, such as ordinary maintenance, to be recognised according to the provisions of IFRS 15), the lessee must account separately for "leasing components" and "non-leasing components" and divide the contract's payments between the various components based on their relative stand-alone prices.

The lessee may opt to recognise the payments due for the lease directly as a charge in the income statement, on a straight-line basis over the life of the lease contract or according to another systematic method that represents the manner in which the economic benefits are used in the case of:

- short-term leases (equal to or less than 12 months) that do not include a purchase option of the asset leased by the lessee;
- leases in which the underlying asset is of modest value.

The MPS Group has chosen to recognise the cost in the income statement on a straight-line basis over the life of the lease contract.

c) measurement criteria and revenue recognition criteria

Subsequent to initial recognition, property, plant and equipment for business use are valued at cost, as defined above, net of cumulative depreciation and any cumulative impairment, with the exception of properties for business use, which are valued according to the revaluation method. The "revalued amount" is equal to the fair value at the valuation date net of cumulative depreciation and impairment.

According to the revaluation method:
- if the carrying amount has increased following a recalculation of the value, the increase is recognised with an offsetting entry in liability item "120 - Valuation reserves", with the exception of reversals of previous impairment recognised in the income statement, which are recognised in the income statement in item "260 - Net gains (losses) on property, plant and equipment and intangible assets measured at fair value" within the limits of the aforementioned impairment;
- if the carrying amount of an asset has decreased following a recalculation of the value, the decrease is recognised in the income statement in item "260 - Net gains (losses) on property, plant and equipment and intangible assets measured at fair value" unless the asset has been subject to a previous revaluation, in which case the impairment is recognised as a reduction of the liability item "120 - Valuation reserves", for up to its total amount.

The Group revalues the properties held for business use every two years, using appraisals prepared by independent experts.

The appraisals can be carried out in two different modes:

- "full", which require an inspection of the property, as well as a detailed analysis of the available documentation;
- "desktop", which are carried out without onsite inspection, only by reviewing the documentation.

After the first valuation, full appraisals are carried out on all significant properties (meaning properties with a book value of more than EUR 8 mln) and by turns on all other properties, as an alternative to desktop appraisals, ensuring certain coverage percentages for each of the different clusters identified, also taking into account their location, intended use, etc.

In non-revaluation years, a scenario analysis is performed for all properties to ensure that the carrying amount provides a good approximation of the property's fair value and does not materially differ from what it would have been if the new appraisal had been performed annually.

Property, plant and equipment held for business use, both owned and acquired through rights of use, including properties for business use measured at their "revalued amount", are subject to straight-line depreciation for the duration of their useful life. The depreciable amount, equal to cost (or the redetermined net value, if the revaluation method is adopted for valuation purposes) less the residual value (or the amount normally expected to be obtained from disposal, after deducting expected costs to sell, if the asset is already in the conditions, including in relation to age, expected at the end of its useful life), is broken down on a straight-line basis throughout the useful life of the asset, adopting the straight-line approach as the depreciation method. The useful life, subject to periodic review to identify any estimates significantly different from the previous ones, is defined as:

- the period of time in which it is expected that an asset will be usable by the company or,
- the quantity of products or similar units that the company expects to obtain from the use of the asset.

Depreciation begins when the asset is available for use and ends at the most recent date between that on which the asset is classified as held for sale and that of derecognition. For property, plant and equipment valued at cost, depreciation does not end when the asset becomes unused or is withdrawn from active use, unless the asset has already been fully depreciated. If a property for business use becomes unusable or is withdrawn from active use, it is necessary to promptly evaluate the change in the intended use and the resulting reclassification to property held for investment purposes or assets held for sale. In these cases, depreciation is discontinued.

Land, either on its own or included in the property value, is not subject to depreciation as it has an indefinite useful life. For properties for business use, measured according to the "revaluation method", the value of land is separated from the total property value, on the basis of the indications set forth in the appraisal.

Works of art are not subject to depreciation as their value is generally destined to increase over time.

For the assets underlying the lease, the useful life must be determined taking into account the possible transfer of ownership of the asset to the lessee at the end of the lease. If it is considered likely that the lessee will exercise the option to purchase the asset, which is then reflected in the RoU value, the relevant useful life is that of the underlying asset at the contract's start date. Otherwise, the useful life is determined as the lower of the asset's useful life and the lease term.

Periodic depreciation is posted to the income statement under item "210 - Net value adjustments to (recoveries on) property, plant and equipment".

The presence of any signs of impairment, or indications that assets might have lost value, shall be tested at the end of each reporting period. Should there be indications of impairment of value, for properties that are owned, with the exception of property held for investment purposes, and those that are leased, a comparison is made between the book value of the asset and the asset's recoverable value, i.e. the higher of the fair value, less any costs to sell, and the corresponding value in use, which is the present value of the future cash flows generated by the asset.

Where the reasons for impairment cease to exist, a reversal is made, which shall not exceed the value that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

Furthermore, during the lease contract term, the book value of the right of use must be adjusted in cases where the lease liability is re-calculated, such as, for example, change in the lease term or the valuation of an option to purchase the underlying asset, in light of new circumstances.

Investment property is measured at fair value based on appraisals prepared by independent experts, with the same procedures used for properties used for business purposes; the positive or negative change in fair value is recognised in the income statement under "260 - Net gains (losses) on property, plant and equipment and intangible assets measured at fair value". For the measurement of the fair value of the property assets in question, the fair value is redetermined at least once per year. Investment property measured at fair value is not subject to depreciation.

Property, plant and equipment falling under IAS 2 are valued in the same way as inventories and, therefore, at the lower of the cost at initial recognition and the net realisable value, represented by the estimated sale price less the presumed costs for completion and the other costs necessary to make the sale. Any losses in value are posted to the income statement under item "210 - Net value adjustments to (recoveries on) property, plant and equipment". Periodic depreciation is not applied in this case.

d) derecognition criteria

Property, plant and equipment are derecognised from the balance sheet upon their disposal or when the assets are permanently withdrawn from use and no future economic rewards are expected as a result of their disposal.

Any gains and losses deriving from the disposal or sale of property, plant and equipment are calculated as the difference between the net sale price and the book value of the asset and are recognised in the income statement under item "280 - Gains (losses) on disposals of investments".

In the case of the sale of a property for business use, the relative valuation reserve accrued is transferred to other components of Shareholders' equity, specifically liability item "150 - Reserves", with no reversal to the income statement.

The right of use assets, accounted for according to IFRS 16, are derecognised at the end of the lease term.

Going concern

The Condensed Consolidated Half-yearly Financial Statements as at 30 June 2021 were prepared based on a going concern assumption.

The assessment of the Group's ability to continue as a going concern is based essentially on the prospective evolution of the capital and liquidity position over a time span of at least 12 months. As already noted in previous quarters, these analyses brought to light an expected capital shortfall with respect to overall capital requirements. On the other hand, the liquidity position remains solid due to the significant measures implemented by the ECB and to the flows of customer deposits.

To compensate for the expected shortfall, the 2021-2025 Strategic Plan and the Capital Plan, which were sent to DG Comp and the ECB for their assessments, were approved.

Compared to estimates obtained in previous months, which showed a shortfall already in the first quarter of 2021, increasing to EUR 1.5 bn as at 1 January 2022, it should be noted that, as at 31 March and 30 June 2021, no capital shortfall had been observed and that 12 months after the reference date, i.e. as at 30 June 2022, the shortfall is forecast to be less than EUR 500 mln, including the effect of updating the internal models of the EBA Guidelines. The decrease in the expected shortfall derives from the effects of the capital management actions already carried out and of the evolution of capital and risk-weighted assets. The capital shortfall, anyway, concerns the Tier 1 and Total Capital, and falls within the limits of the Capital Conservation Buffer. No shortfall is instead expected in Common Equity Tier 1. The shortfall is estimated taking into account the results of the first half of the year and the expected performance for 2021, assuming confirmation of the current business model and excluding the capital strengthening transaction, other extraordinary capital contributions and subordinated issues.

With reference to the EBA 2021 Stress test, the results communicated to the market on 30 July 2021 are consistent with the aforementioned Capital Plan, which includes a capital strengthening of EUR 2.5 bn.

The requirements to strengthen the capital position of the Parent Company are significant and therefore determine a potential uncertainty on the use of the going concern assumption. This uncertainty is mitigated by the possible scenario of the "structural solution" and by the full support of the controlling shareholder.

In regard to the "structural solution", it should be noted that the Decree of the Prime Minister issued on 16 October 2020 has authorised the disposal of the equity investment held by the MEF in the Parent Company, Banca MPS, this may be carried out in one or more stages, with sale procedures and techniques used in the markets, through individual or joint recourse to a public offer to investors in Italy, including personnel of the MPS Group, and/or Italian and international investors, through direct negotiations to be carried out with transparent and non-discriminatory competitive procedures and through one or more extraordinary transactions, including a merger.
In addition, Budget Law no. 178 of 30 December 2020, art. 1, paragraphs 233-243, as amended by Decree-Law 173, 25 May 2021, has provided for the conversion into tax credits of recognised and unrecognised DTAs deriving from tax losses and ACE surpluses in the event of business combinations (mergers, spin-offs or business transfers) approved by the Board of Directors in 2021. The net incentive for the potential buyer of MPS, assuming this is the party with higher assets, can be estimated at approx. EUR 2.3 bn: this would be added to the contribution of badwill, which may be fully included in the capital of the aggregating entity in the light of the "Guide on the supervisory approach to consolidation in the banking sector" published by the ECB in January 2021.

The business combination could be preceded by a capital strengthening action that is expected to be easily approved by DG Comp.

The Parent Company has set up the virtual data room for the due diligence activities of potential investors and partners. In this regard, it should be noted that the Apollo fund, which had sent the Parent Company a non-binding expression of interest, has had access to the virtual data room since March. Moreover, on 29 July, UniCredit issued a specific press release announcing that it had agreed with the MEF the conditions for a potential transaction involving the transfer of a selected scope of MPS activities to UniCredit. To this end, UniCredit and MEF will initiate exclusive discussions to verify the feasibility of the transaction. Banca Monte dei Paschi di Siena and UniCredit have signed a confidentiality agreement, necessary to initiate the exchange of information through a data room, to which UniCredit has had access since Tuesday 3 August 2021.

At present, the "structural solution" has not yet materialised, but it represents a potential scenario also in the light of the substantial incentives mentioned above, as well as of the agreement between UniCredit and MEF for a potential transaction.

With reference to the second mitigating factor, i.e. the role of the controlling shareholder, the MEF stated its intention to carry out the commitments undertaken by the Italian Republic towards the European Union and carry out a market transaction that identifies an anchor investor and/or a banking partner of adequate standing, in order to restore and ensure the competitiveness of the Parent Company, and has guaranteed the financial support to ensure compliance with the minimum capital requirements of the Parent Company.

Should the implementation of a "structural solution" not materialise in the short/medium term, the Capital Plan envisages a EUR 2.5 bn capital strengthening transaction. In this context, which constitutes a fall-back option to the pursuit of the "structural solution", DG Comp and ECB would be required to assess, to the extent of their respective competences, the State's intervention on the basis of the Parent Company's standalone viability. This assessment poses, in principle, significant uncertainties on the Parent Company's capital strengthening process and on a feasibility of a capital increase at market conditions. On the basis of the initial discussions with DG Comp following the submission of the 2021-2025 Strategic Plan, and in light of the breach of certain commitments defined in the 2017-2021 Restructuring Plan, the Parent Company was asked to propose additional compensatory measures, which were approved by the Board of Director on 5 February 2021 and submitted to DG Comp. Subsequently, discussions with the Authorities continued without any developments.

Should the "structural solution" not prove feasible in the short term, without prejudice to the development of discussions with DG Comp and ECB, it is believed that the capital strengthening transaction, initially envisaged for the third quarter of 2021, can be temporally placed in the first half of 2022.

In order to facilitate any solution, after the incisive interventions on credit risk carried out since 2018, which have reduced the incidence of non-performing exposures to the lowest levels among significant Italian banks, the Parent Company continues to work to reduce business risk, actively engaging in initiatives aimed at reducing legal risks. On 21 July, a preliminary agreement was in fact reached with Fondazione MPS, providing for the settlement of the EUR 3.8 bn claims for damages made by the Fondazione against a consideration equal to EUR 150 mln that the Bank undertakes to pay. The reduction by almost 40% of the amount claimed through legal proceedings will be a significantly positive element for any transaction aimed at overcoming the capital shortfall.

In light of these elements, also taking into account the agreement between UniCredit and MEF and the significant improvement made by the Bank in 2021 in terms of capital and the expected improvement in terms of risk reduction, we believe that the capital shortfall can be met through the "structural solution" or through a standalone capital strengthening transaction, subject to DG Comp approving the 2021 - 2025 business plan.

With regard to the indications contained in Document no. 2 of 6 February 2009 and Document no. 4 of 3 March 2010, issued jointly by the Bank of Italy, Consob and ISVAP, and subsequent amendments, the Directors, having considered the significant uncertainty with regard to the execution of the recapitalization of the Parent Company, which may give rise to significant doubts on the Group's ability to continue to operate as a going concern, believe that, taking into account the state of actions taken, these assessments as a whole support the reasonable expectation that the Bank will continue to operate as a going concern in the foreseeable future and therefore the use of the going concern assumption in preparing these condensed consolidated financial statements.

Scope and methods of consolidation

Investments in wholly-owned subsidiaries

	Name	Headquarters	Registered Office	Type of relationship (*)	Ownershp Relationship		Available votes % (**)
					Held by	Shareholding %	
A	**Companies**						
A.0	BANCA MONTE DEI PASCHI DI SIENA S.p.a.	Siena	Siena				
	Companies consolidated on a line-by-line basis						
A.1	MPS CAPITAL SERVICES BANCA PER LE IMPRESE S.p.a.	Florence	Florence	1	A.0	100.000	
A.2	MPS LEASING E FACTORING BANCA PER I SERVIZI FINANZIARI ALLE IMPRESE S.p.a.	Siena	Siena	1	A.0	100.000	
A.3	MONTE PASCHI FIDUCIARIA S.p.a.	Siena	Siena	1	A.0	100.000	
A.4	WISE DIALOG BANK S.p.a. - WIDIBA	Milan	Milan	1	A.0	100.000	
A.5	MPS TENIMENTI POGGIO BONELLI E CHIGI SARACINI SOCIETA' AGRICOLA S.p.a.	Castelnuovo Berardenga (SI)	Castelnuovo Berardenga (SI)	1	A.0	100.000	
A.6	G.IMM ASTOR S.r.l.	Lecce	Lecce	1	A.0	52.000	
A.7	AIACE REOCO S.r.l.	Siena	Siena	1	A.0	100.000	
A.8	ENEA REOCO S.r.l.	Siena	Siena	1	A.0	100.000	
A.9	CONSORZIO OPERATIVO GRUPPO MONTEPASCHI S.c.p.a.	Siena	Siena	1	A.0	99.760	
					A.1	0.060	
					A.2	0.030	
					A.3	0.030	
					A.4	0.030	
						99.910	
A.10	MAGAZZINI GENERALI FIDUCIARI DI MANTOVA S.p.a.	Mantua	Mantua	1	A.0	100.000	
A.11	MONTE PASCHI BANQUE S.A.	Paris	Paris	1	A.0	100.000	
11.1	MONTE PASCHI CONSEIL FRANCE SOCIETE PAR ACTIONS SEMPLIFIEE	Paris	Paris		A.11	100.000	
11.2	IMMOBILIERE VICTOR HUGO S.C.I.	Paris	Paris		A.11	100.000	
A.12	MPS COVERED BOND S.r.l.	Conegliano	Conegliano	1	A.0	90.000	
A.13	MPS COVERED BOND 2 S.r.l.	Conegliano	Conegliano	1	A.0	90.000	
A.14	CIRENE FINANCE S.r.l.	Conegliano	Conegliano	1	A.0	60.000	
A.15	SIENA MORTGAGES 07-5 S.p.a.	Conegliano	Conegliano	4	A.0	7.000	
A.16	SIENA MORTGAGES 09-6 S.r.l.	Conegliano	Conegliano	4	A.0	7.000	
A.17	SIENA MORTGAGES 10-7 S.r.l.	Conegliano	Conegliano	4	A.0	7.000	
A.18	SIENA LEASE 2016 2 S.r.l.	Conegliano	Conegliano	4	A.0	10.000	
A.19	SIENA PMI 2016 S.r.l.	Conegliano	Conegliano	4	A.0	10.000	

(*) Type of relationship:

1. = majority of voting rights at ordinary shareholders' meetings
4. = unified management under art. 39, paragraph 2 of "Leg. Decree 136/2015"

(**) Votes available in the ordinary shareholders' meeting, distinguishing between actual and potential

The Condensed Consolidated Half-yearly Financial Statements include the balance sheet and income statement data of the Parent Company and its direct and indirect subsidiaries. In particular, the scope of consolidation, as specifically set out in the IAS/IFRS, includes all subsidiaries, irrespective of their legal status, of business activity pursued in sectors other than the Parent Company's core business, of their being going concerns or wound-up companies, or of whether the equity investment consists of a merchant banking transaction. The scope of consolidation includes all types of entities, regardless of nature, for which the concept of control introduced by IFRS 10 applies. Structured entities are also consolidated when the requirement of actual control is satisfied, even if there is no stake in the entity.

For further information on the methods of consolidation, reference should be made to the Notes to the 2020 Consolidated Financial Statements, Part A "Accounting Policies".

There are no changes in the consolidation area compared to the situation as at 31 December 2020.

Other matters

Interest rate benchmark reform

EU Regulation 2016/1011, known as the Financial Benchmarks Regulation (BMR), has introduced, in January 2018, some obligations for the parties that, for various reasons, deal with financial indices (such as administrators, contributors of data or users of these indices), to strengthen the governance of the benchmarks and guarantee the integrity of the benchmarking process.

In view of the failure of some important financial indices to comply with the provisions of the Regulation, one of the main consequences of the reform process is the imminent disposal of some indices, with different effective dates; in particular, most of the IBOR rates and the EONIA rate will be discontinued on 31 December 2021, while the USD LIBOR rate will be published until 31 December 2022.

To contain the risks of discontinuity in the transition to the new alternative rates, various public consultations were carried out in 2020 aimed at setting discontinuation criteria and specifying rates alternative to those being discontinued (such as the European Working Group on Euro Risk-Free Rates of the ECB or the working groups and international institutions such as ISDA, ICE Benchmark Administration, LCH). The results of these consultations will be taken into account to define the recommendations and the market practices to be considered for the transition.

To carry out the necessary initiatives to manage the effects of this reform, the Monte dei Paschi Group has launched a project within which the actions, undertaken or to be undertaken, are as follows:

- assessment of the functions, systems and processes affected by the reform;
- identification of the rates to be used in alternative to discontinued indices;
- identification of gaps in the transition process;
- development of an action plan and definition of a governance able to manage the stages of the transition process;
- legal review of existing contracts and drafting of updated contracts with the new indices (fallback clause);
- assessment of the effects of the transition on the accounting, risk management and position keeping systems;
- development of the requirements for the application of the new rates.

With particular reference to OTC derivatives and in line with practices at most financial market operators, at the beginning of this year, the Parent Company and the subsidiary MPS Capital Services Banca per le Imprese S.p.A. subscribed the ISDA 2020 IBOR Fallback Protocol. This protocol was created to allow parties to make mass changes to the contractual terms of existing transactions, incorporating alternative rates (fallbacks).

In compliance with the provisions of paragraph 24J (b) of IFRS 7, introduced by Regulation no. 25 of 13 January 2021, the following table provides quantitative information on the financial instruments that still have to be shifted to an alternative benchmark rate at the end of the reference period, aggregated by benchmark interest rates subject to the reform.

(in mln of EUR)

Significant parameters subject to IBOR Reform	Book Value				Notional or nominal value	
	Non-derivative financial assets		Non-derivativa financial liabilities		Derivatives	
	Loans and advances	Debt securities	Loans	Debt securities	Hedging	Trading
referenced to EONIA (EUR)	**-**	**-**	**-**	**-**		**14,070.9**
referenced to LIBOR	**172.0**	**374.7**	**5.0**	**-**	**338.3**	**11,809.1**
of which: EUR	-		0.2			
of which: USD	128.6	374.7	4.8		338.3	11,809.1
of which: GBP	43.3	-	-	-	-	-
Total	**172.0**	**374.7**	**5.0**	**-**	**338.3**	**25,880.0**

Income statement and balance sheet reclassification principles

As of 31 March 2021, limited to the property assets, the Group opted to modify the valuation approach subsequent to initial recognition, establishing:

- transition from the cost model to the revaluation model for properties for business use, based on the rules of IAS 16 “Property, plant and equipment”;
- transition from the cost model to the fair value model for investment properties, based on the rules of IAS 40 “Investment property”.

The Income statement figures for 2020 have been restated compared to those published at the respective reporting dates, following the retrospective application of the change in the approach for the valuation of property held for investment purposes (pursuant to IAS 40). On the other hand, the change in the approach for the valuation of properties for business use, pursuant to IAS 16, was prospectively applied starting from 31 March 2021, in compliance with the provisions of IAS 8.

Following the change in the property asset valuation approach, starting from the disclosure as at 31 March 2021, it should be noted that:

- the balance sheet item “Property, plant and equipment” includes the valuation of properties for business use pursuant to IAS 16 and property held for investment purposes pursuant to IAS 40, respectively at the “revalued amount” and “fair value”;
- the income statement item “Net value adjustments to property, plant and equipment and intangible assets” includes, insofar as concerns property assets, only depreciation relating to properties for business use, as property held for investment purposes measured at fair value is not depreciated;
- the item “Net gains (losses) on property, plant and equipment and intangible assets measured at fair value” includes the result of the change in fair value of properties during the period, in compliance with the new valuation approach adopted.

It should also be noted that, to ensure better comparability, impairments of property for business use (pursuant to IAS 16) referring to the first half of 2020 were reclassified from “Net value adjustments to property, plant and equipment and intangible assets” to “Net gains (losses) on property, plant and equipment and intangible assets measured at fair value”.

For more details on the change in the property valuation approach, please refer to the specific section of the Notes.

Income statement data

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

- Item “**Net interest income”** was cleared of the negative contribution (equal to EUR -2.3 mln) of the Purchase Price Allocation (PPA), referring to past business combinations, which was recognised in a specific item.
- Item “**Net fees and commissions**” includes the balance of financial statement items 40 “Fee and commission income” and 50 “Fee and commission expense”.
- Item “**Dividends, similar income and gains (losses) on investments**” incorporates item 70 “Dividends and similar income” and the relevant portion of profits from investments in the associate AXA, consolidated using the equity method, equivalent to EUR 46.5 mln, included in item 250 “Gains (losses) on investments”. The aggregate was also cleared of dividends earned on equity securities other than equity investments (EUR 3.1 mln), reclassified to item “Net profit (loss) from trading, the fair value measurement of assets/liabilities and gains from disposals/repurchases”.
- Item “**Net profit (loss) from trading, the fair value measurement of assets/liabilities and Net gains (losses) on disposals/repurchases**” includes item 80 “Net profit (loss) from trading”, item 100 “Gains (losses) on disposal/repurchase”, cleared of the contribution from loans to customers (EUR -0.2 mln) reclassified in the item “Cost of customer credit”, and item 110 “Net profit (loss) from other financial assets and liabilities measured at fair value through profit or loss”, cleared of the contribution from loans to customers (EUR -4.9 mln) reclassified in the item “Cost of customer credit”. In addition, the aggregate incorporates dividends earned on equity securities other than equity investments (EUR 3.1 mln).
- Item “**Net profit (loss) from hedging**” includes financial statement item 90 “Net profit (loss) from hedging”.
- Item “**Other operating income (expense)**” includes the balance of item 230 “Other operating expenses/income” net of stamp duties and other expenses recovered from customers, which are included in

the reclassified item "Other administrative expenses" (EUR 121.2 mln) and net of other expenses recovered, which are posted to "Net value adjustments to property, plant and equipment" (EUR 10.9 mln).

- Item "**Personnel expenses**" includes the balance of item 190a "Personnel expenses" from which EUR 3.2 mln has been separated, relating to the transactions carried out in 2021 to conclude the consensual resolutions defined individually with the employees of the Group, reclassified under "Restructuring costs/One-off charges".
- Item "**Other administrative expenses**" includes the balance of financial statement item 190b "Other administrative expenses", reduced by the following cost items:
  - expenses, amounting to EUR 89.6 mln, resulting from the EU Deposit Guarantee Schemes Directive (hereinafter "DGSD") and Bank Recovery Resolution Directive (hereinafter "BRRD") for the resolution of bank crises, posted under the reclassified item "Risks and charges associated with SRF, DGS and similar schemes";
  - DTA fee, convertible into tax credit, for an amount of EUR 31.6 mln (posted to the reclassified item "DTA fee");
  - charges of EUR 1.0 mln, relating to initiatives also aimed at complying with the commitments undertaken with DG Comp, stated under reclassified item "Restructuring costs/One-off charges".

  This item also includes the portion of stamp duty and other expenses recovered from customers (EUR 121.2 mln) posted under item 230 "Other operating expenses/income".
- Item "**Net value adjustments to property, plant and equipment and intangible assets**" includes the values of items 210 "Net value adjustments to (recoveries on) property, plant and equipment" and 220 "Net value adjustments to (recoveries on) intangible assets" and was cleared of the negative contribution (EUR -0.4 mln) referring to the Purchase Price Allocation (PPA), which was recognised in a specific item, while it incorporates the amount of the expense recovery (EUR 10.9 mln) that was recorded under item 230 "Other operating expenses/income".
- Item "**Cost of customer credit**" includes the income statement components relating to loans to customers of item 100a "Gains (losses) on disposal/repurchase of financial assets measured at amortised cost" (EUR -0.2 mln), item 110b "Net profit (loss) from other financial assets measured at fair value as per mandatory requirements" (EUR -4.9 mln), item 130a "Net impairment (losses)/reversals on financial assets measured at amortised cost" (EUR -162.8 mln), item 140 "Modification gains/(losses)" (EUR -5.3 mln) and item 200a "Net provisions for risks and charges - commitments and guarantees given" (EUR +7.7 mln).
- Item "**Net impairment losses on securities and loans to banks**" includes the portion related to securities (EUR -0.2 mln) and loans to banks (EUR1.0 mln) in item 130a "Financial assets measured at amortised cost" and item 130b "Net impairment (losses)/reversals on financial assets measured at fair value through other comprehensive income" (EUR +0.9 mln).
- Item "**Other net provisions for risks and charges**" includes the balance of financial statement item 200 "Net provisions for risks and charges", reduced by component relative to loans to customers of item 200a "commitments and guarantees given" (EUR +7.7 mln), which was included in the specific item "Cost of customer credit".
- Item "**Other gains (losses) on investments**" includes the balance of item 250 "Gains (losses) on investments", cleared of the portion of profit relative to the investments in the associate AXA, consolidated with the equity method, equal to EUR 46.5 mln, reclassified under item "Dividends, similar income and gains (losses) on investments".
- Item "**Restructuring costs/One-off costs**" includes the following amounts:
  - expenses recognised in provisions for early retirement/solidarity fund equal to EUR 3.2 mln, recognised in the financial statements under item 190a "Personnel expenses";
  - charges of EUR 1.0 mln, relating to project initiatives also aimed at complying with the commitments undertaken with DG Comp, accounted for in the financial statements under item 190b "Other administrative expenses".
- Item "**Risks and charges associated with SRF, DGS and similar schemes**" includes expenses deriving from the EU Deposit Guarantee Schemes Directive (DGSD) and the Bank Recovery and Resolution Directive (BRRD), equivalent to EUR 89.6 mln, posted in the financial statements under item 190b "Other administrative expenses".
- Item "**DTA fee**" includes the expenses related to the fees paid on DTAs that can be converted into tax credit as set forth in art. 11 of decree-law no. 59 of 3 May 2016, converted into Law no. 119 of 30 June 2016, recognised in the financial statements under item 190b "Other administrative expenses", for EUR 31.6 mln.
- Item "**Net gains (losses) on property, plant and equipment and intangible assets measured at fair value**" includes the balance of financial statement item 260 "Net gains (losses) on property, plant and equipment and intangible assets measured at fair value".

- Item “**Gains (losses) on disposal of investments**” includes the balance of financial statement item 280 “Gains (losses) on disposal of investments”.
- Item “**Tax expense (recovery)**” includes the balance of item 300 “Tax expense (recovery) on income from continuing operations” cleared of theoretical tax component relating to the Purchase Price Allocation (PPA), which was reclassified to a specific item for an amount of EUR 0.9 mln.
- The overall negative effects of the **Purchase Price Allocation (PPA)** were reclassified to a specific item, excluding them from affected income statement items (in particular “Net interest income” for EUR -2.3 mln and “Net value adjustments to property, plant and equipment and intangible assets” for EUR -0.4 mln, net of a theoretical tax burden of EUR +0.9 mln which was added to the item).

Balance sheet data

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

- asset item “**Loans to central banks**” includes the portion relating to operations with central banks of item 40 “Financial assets measured at amortised cost”;
- asset item “**Loans to banks**” includes the portion relating to operations with banks of item 40 “Financial assets measured at amortised cost” and item 20 “Financial assets measured at fair value through profit or loss”;
- asset item “**Loans to customers**” includes the portion relating to loans to customers of financial statement items 20 “Financial assets measured at fair value through profit or loss”, 40 “Financial assets measured at amortised cost” and 120 “Non-current assets held for sale and disposal groups”;
- asset item “**Securities assets**” includes the portion relating to securities of item 20 “Financial assets measured at fair value through profit or loss”, item 30 “Financial assets measured at fair value through other comprehensive income”, item 40 “Financial assets measured at amortised cost” and item 120 “Non-current assets held for sale and disposal groups”;
- asset item “**Derivative assets**” includes the portion relating to derivatives of item 20 “Financial assets measured at fair value through profit or loss” and item 50 “Hedging derivatives”;
- asset item “**Equity investments**” includes item 70 “Equity Investments” and the portion related to investments in item 120 “Non-current assets held for sale and disposal groups”;
- asset item “**Property, plant and equipment and intangible assets**” includes item 90 “Property, plant and equipment”, item 100 “Intangible assets” and the amounts related to property, plant and equipment and intangible assets in item 120 “Non-current assets held for sale and disposal groups”;
- asset item “**Other assets**”, includes item 60 “Change in value of macro-hedged financial assets”, item 130 “Other assets”, and the amounts in item 120 “Non-current assets held for sale and discontinued operations” not included in the previous items;
- the liability item “**Due to customers**”, includes financial statement item 10b “Financial liabilities measured at amortised cost - deposits from customers” and the component relating to customer securities of financial statement item 10c “Financial liabilities measured at amortised cost - Debt securities issued”;
- liability item “**Securities issued**” includes item 10c “Financial liabilities measured at amortised cost - Debt securities issued”, excluding the component relating to customer securities, and item 30 “Financial liabilities measured at fair value”;
- liability item “**Due to central banks**” includes the portion of item 10a “Due to banks” related to operations with central banks;
- liability item “**Due to banks**” includes the portion of item 10a “Due to banks” related to operations with banks (excluding central banks);
- liability item “**On-balance-sheet financial liabilities held for trading**” includes the portion of item 20 “Financial liabilities held for trading” net of the amounts relating to derivatives for trading;
- liability item “**Derivatives**” includes item 40 “Hedging derivatives” and the portion related to derivatives in item 20 “Financial liabilities held for trading”;

- liability item "**Provision for specific use**" includes item 90 "Employee severance pay" and item 100 "Provisions for risks and charges";
- liability item "**Other liabilities**" includes item 50 "Change in value of macro-hedged financial liabilities", item 70 "Liabilities associated with disposal groups" and 80 "Other liabilities";
- liability item "**Group Net Equity**" includes item 120 "Valuation reserves", item 130 "Redeemable shares", item 150 "Reserves", item 170 "Share capital", item 180 "Treasury shares" and item 200 "Profit (Loss) for the period".

Reclassified income statement

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

Reclassified Consolidated Income Statement				
MONTEPASCHI GROUP	30 06 2021	30 06 2020*	Change	
			Abs.	%
Net interest income	585.2	646.9	(61.7)	-9.5%
Net fee and commission income	754.5	694.3	60.2	8.7%
Income from banking activities	**1,339.7**	**1,341.1**	**(1.4)**	**-0.1%**
Dividends, similar income and gains (losses) on investments	55.4	46.3	9.1	19.7%
Net profit (loss) from trading, the fair value measurement of assets/liabilities and Net gains (losses) on disposals/repurchases	179.4	92.1	87.3	94.8%
Net profit (loss) from hedging	1.9	0.5	1.4	n.m.
Other operating income (expenses)	(12.5)	(27.5)	15.0	-54.5%
Total Revenues	**1,563.9**	**1,452.5**	**111.4**	**7.7%**
Administrative expenses:	(984.8)	(973.2)	(11.6)	1.2%
a) personnel expenses	(718.8)	(707.9)	(10.9)	1.5%
b) other administrative expenses	(266.0)	(265.3)	(0.7)	0.3%
Net value adjustments to property, plant and equipment and intangible assets	(88.5)	(103.9)	15.4	-14.8%
Operating expenses	**(1,073.3)**	**(1,077.1)**	**3.8**	**-0.3%**
Pre-Provision Operating Profit	**490.6**	**375.5**	**115.1**	**30.7%**
Cost of customer credit	**(165.5)**	**(519.3)**	**353.8**	**-68.1%**
Net impairment (losses)/reversals on securities and loans to banks	**1.7**	**(5.5)**	**7.2**	**n.m.**
Net operating income	**326.8**	**(149.3)**	**476.1**	**n.m.**
Net provisions for risks and charges	(42.3)	(357.1)	314.8	-88.2%
Other gains (losses) on equity investments	(0.2)	0.7	(0.9)	n.m.
Restructuring costs / One-off costs	(4.2)	(27.9)	23.7	-85.0%
Risks and charges associated to the SRF, DGS and similar schemes	(89.6)	(76.7)	(12.9)	16.8%
DTA Fee	(31.6)	(35.5)	3.9	-11.0%
Net gains (losses) on property, plant and equipment and intangible assets measured at fair value	(28.2)	4.4	(32.6)	n.m.
Gains (losses) on disposal of investments	14.4	(0.7)	15.1	n.m.
Profit (Loss) for the period before tax	**145.1**	**(642.1)**	**787.2**	**n.m.**
Tax (expense)/recovery on income from continuing operations	58.7	(437.4)	496.1	n.m.
Profit (Loss) after tax	**203.8**	**(1,079.5)**	**1,283.3**	**n.m.**
Net profit (loss) for the period including non-controlling interests	**203.8**	**(1,079.5)**	**1,283.3**	**n.m.**
Net profit (loss) attributable to non-controlling interests	(0.1)	(0.1)	-	n.m.
Parent Company's Profit (loss) for the period before PPA	**203.9**	**(1,079.4)**	**1,283.3**	**n.m.**
PPA (Purchase Price Allocation)	(1.8)	(2.0)	0.2	-9.5%
Parent company's net profit (loss) for the period	**202.1**	**(1,081.4)**	**1,283.5**	**n.m.**

** The Income statement figures as at 30 June 2020 have been restated compared to those published in the Half-yearly Report as at 30 June 2020, following the retrospective application of the change in valuation criteria for investment properties (IAS 40). Furthermore, for the sake of greater comparability, impairment losses on functional properties (IAS 16) referring to the first half of 2020 were reclassified from item "Net value adjustments to property, plant and equipment and intangible assets" to item "Net gains (losses) on property, plant and equipment and intangible assets measured at fair value".*

Quarterly trend in reclassified consolidated income statement

MONTEPASCHI GROUP	2021		2020*			
	2°Q 2021	1°Q 2021	4°Q 2020	3°Q 2020	2°Q 2020	1°Q 2020
Net interest income	305.6	279.6	311.9	331.8	319.8	327.1
Net fee and commission income	382.5	372.0	380.4	355.4	324.4	369.9
Income from banking activities	**688.1**	**651.6**	**692.3**	**687.3**	**644.1**	**697.0**
Dividends, similar income and gains (losses) on investments	34.2	21.2	43.5	11.2	34.5	11.8
Net profit (loss) from trading, the fair value measurement of assets/liabilities and Net gains (losses) on disposals/repurchases	19.6	159.8	(10.2)	61.7	62.2	29.9
Net profit (loss) from hedging	0.3	1.6	1.6	0.5	3.3	(2.8)
Other operating income (expenses)	(1.8)	(10.7)	(10.1)	(12.9)	(21.0)	(6.5)
Total Revenues	**740.4**	**823.5**	**717.1**	**747.7**	**723.1**	**729.4**
Administrative expenses:	(492.0)	(492.9)	(514.7)	(490.6)	(480.2)	(493.0)
a) personnel expenses	(358.7)	(360.1)	(355.2)	(352.0)	(351.2)	(356.7)
b) other administrative expenses	(133.3)	(132.7)	(159.5)	(138.5)	(129.0)	(136.3)
Net value adjustments to property, plant and equipment and intangible assets	(41.0)	(47.5)	(51.0)	(51.3)	(52.9)	(51.0)
Operating expenses	**(533.0)**	**(540.4)**	**(565.6)**	**(541.9)**	**(533.1)**	**(544.0)**
Pre-Provision Operating Profit	**207.4**	**283.1**	**151.4**	**205.8**	**190.0**	**185.4**
Cost of customer credit	**(88.8)**	**(76.7)**	**(126.6)**	**(101.7)**	**(204.8)**	**(314.5)**
Net impairment (losses)/reversals on securities and loans to banks	**5.4**	**(3.7)**	**1.2**	**(1.1)**	**(4.4)**	**(1.1)**
Net operating income	**124.0**	**202.7**	**26.0**	**103.0**	**(19.2)**	**(130.2)**
Net provisions for risks and charges	(50.8)	8.5	(216.2)	(410.7)	(317.0)	(40.1)
Other gains (losses) on equity investments	2.6	(2.8)	1.7	0.4	0.5	0.2
Restructuring costs / One-off costs	(4.0)	(0.1)	(25.1)	(100.7)	(30.4)	2.6
Risks and charges associated to the SRF, DGS and similar schemes	(21.8)	(67.8)	(22.7)	(41.0)	(18.4)	(58.3)
DTA Fee	(15.9)	(15.7)	(17.8)	(17.8)	(17.7)	(17.8)
Net gains (losses) on property, plant and equipment and intangible assets measured at fair value	(0.4)	(27.8)	(28.9)	(3.1)	0.4	4.0
Gains (losses) on disposal of investments	(2.6)	17.0	53.9	0.3	(0.9)	0.2
Profit (Loss) for the period before tax	**31.1**	**114.0**	**(229.0)**	**(469.6)**	**(402.7)**	**(239.4)**
Tax (expense)/recovery on income from continuing operations	52.6	6.1	75.8	20.0	(439.0)	1.6
Profit (Loss) after tax	**83.7**	**120.1**	**(153.2)**	**(449.6)**	**(841.7)**	**(237.8)**
Net profit (loss) for the period including non-controlling interests	**83.7**	**120.1**	**(153.2)**	**(449.6)**	**(841.7)**	**(237.8)**
Net profit (loss) attributable to non-controlling interests	-	(0.1)	-	-	(0.1)	-
Parent Company's Profit (loss) for the period before PPA	**83.7**	**120.2**	**(153.2)**	**(449.6)**	**(841.6)**	**(237.8)**
PPA (Purchase Price Allocation)	(0.9)	(0.9)	(1.3)	(1.1)	(0.9)	(1.1)
Parent company's net profit (loss) for the period	**82.8**	**119.3**	**(154.5)**	**(450.6)**	**(842.4)**	**(239.0)**

** The Income statement figures for 2020 have been restated compared to those published at the respective reporting dates, following the retrospective application of the change in the approach for the valuation of property held for investment purposes (pursuant to IAS 40). Furthermore, for the sake of greater comparability, impairment losses on functional properties (IAS 16) recorded in 2020 were reclassified from item "Net value adjustments to property, plant and equipment and intangible assets" to item "Net gains (losses) on property, plant and equipment and intangible assets measured at fair value".*

Revenue trends

As at 30 June 2021, the Group total **Revenues** were equal to **EUR 1,564 mln**, up 7.7% compared to the same period of the previous year.

This result is mainly due to the increase in Other revenue from banking business, which benefited from the higher profits from the sale of securities and the growth in net commissions, mainly due to higher income from asset management and, in particular, from the placement of products. There was instead a decrease in net interest income, mainly due to the lower contribution of the non-performing portfolio specifically as a result of the deconsolidation of the "Hydra M" portfolio in late 2020, as well as the decline in returns on assets due to interest rate trends and the shift of exposures, with a reduction in the demand and short-term components and growth in the medium/long-term component. On the other hand, Net Interest Income benefited from the positive effects linked to access to the TLTRO-III auctions, although partially offset by the cost of increased deposits at central banks.

With respect to the previous quarter, there was an increase of EUR 37 mln in the income from banking business, mainly the net interest income, which benefited from the initiatives to optimize the cost of funding. Revenues, on the other hand, were down by EUR 83 mln due to the decline in Other revenue from banking business, which in the first quarter included the recognition of profits from the sale of securities.

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

SEGMENT REPORTING	Operating Segments						Corporate Center		#	Total Montepaschi Group	
Primary segment	Retail banking		Wealth Management		Corporate banking				#		
(EUR mln)	30/06/21	Chg % Y/Y	30/06/21	Chg % Y/Y	30/06/21	Chg % Y/Y	30/06/21	Chg % Y/Y		30/06/21	Chg % Y/Y
PROFIT AND LOSS AGGREGATES											
Net interest income	172.8	-45.8%	0.4	-88.9%	291.0	-16.0%	121.0	n.m.		585.2	-9.5%
Net fee and commission income, of which	462.2	14.7%	62.1	13.8%	272.3	-1.3%	(42.1)	7.7%		754.5	8.7%
Fee and commission income	*499.4*	14.6%	*62.6*	13.7%	*299.5*	-0.3%	*(9.8)*	n.m.		*851.7*	*7.8%*
Fee and commission expense	*(37.2)*	13.3%	*(0.5)*	4.2%	*(27.2)*	11.0%	*(32.3)*	-15.0%		*(97.2)*	*1.4%*
Other Revenues from Banking and Insurance Business	34.7	22.4%	10.4	24.6%	36.9	9.8%	154.6	n.m.		236.7	70.4%
Other operating expenses/income	(4.3)	-1.6%	(0.4)	-43.8%	(8.8)	21.1%	1.0	n.m.		(12.5)	-54.5%
Total Revenue	665.4	-10.7%	72.6	9.8%	591.4	-8.8%	234.4	n.m.		1,563.9	7.7%

Note: Following the organizational reorganization of the Head Offices, implemented in June 2021, the results of the "Small Business" service model are now included in "Corporate Banking", no longer in "Retail Banking". The values of the previous year have been recalculated in a consistent manner, therefore the comparison is among homogeneous data.

Net Interest Income was equal to **EUR 585 mln** as at 30 June 2021, down 9.5% compared to the same period of 2020. The decline was driven (i) primarily by the lower contribution of the non-performing portfolio specifically due to the deconsolidation of the "Hydra M" portfolio in late 2020, as well as (ii) the higher cost of institutional funding linked to the issues carried out in the second half of 2020, (iii) the lower contribution of the BMPS securities portfolio, also following sales made in the course of 2020 which continued in 2021, (iv) the negative contribution of hedging derivatives and (v) the decline in returns due to interest rate trends and the shift of exposures, with a reduction in the demand and short-term components and growth in the medium/long-term component. On the other hand, Net Interest Income benefited from the lower cost of commercial funding and the positive effects linked to access to the TLTRO-III auctions for a total of EUR 128 mln, although partially offset by the cost of higher deposits at central banks of approximately EUR 52 mln.

The interest margin for the second quarter of 2021 was up compared to the previous quarter (9.3%), mainly due to the initiatives implemented to optimize the cost of customer deposits and to the greater benefit on TLTRO-III, deriving from the access to the auctions in March and June.

Items	30 06 2021	30 06 2020	Chg. Y/Y		2°Q 2021	1°Q 2021	Chg. Q/Q	
			Abs.	%			Abs.	%
Loans to customers measured at amortised cost	613.9	691.9	(78.0)	-11.3%	313.0	300.9	12.1	4.0%
Loans to Banks measured at amortised cost	67.6	(5.6)	73.2	n.m.	38.5	29.1	9.4	32.3%
Government securities and other non-bank issuers at amortised cost	63.0	76.5	(13.5)	-17.6%	31.9	31.1	0.8	2.6%
Securities issued	(173.3)	(165.9)	(7.4)	4.5%	(84.1)	(89.2)	5.1	-5.7%
Hedging derivatives	(29.2)	(2.8)	(26.4)	n.m.	(16.1)	(13.1)	(3.0)	22.9%
Trading portfolios	16.8	21.5	(4.7)	-21.9%	10.8	6.0	4.8	80.0%
Portfolios measured at fair value	2.4	4.0	(1.6)	-40.0%	1.3	1.1	0.2	18.2%
Financial assets measured at fair value through other comprehensive income	21.7	22.4	(0.7)	-3.1%	9.2	12.5	(3.3)	-26.4%
Other financial assets and liabilities	2.3	4.9	(2.6)	-53.1%	1.1	1.2	(0.1)	-8.3%
Net interest income	**585.2**	**646.9**	**(61.7)**	**-9.5%**	**305.6**	**279.6**	**26.0**	**9.3%**
of which: interest income on impaired financial assets	*30.7*	*84.7*	*(54.0)*	*-63.8%*	*16.3*	*14.4*	*1.9*	*13.2%*

Net fee and commission income in the first half of 2021, were equal to **EUR 755 mln**, with an increase on the same period of the previous year (8.7%). The increase is due to higher income from asset management (+ 22.2%), both through higher commissions on product placement and to higher continuing commissions, which benefited from an increase in average assets under management and in average returns. On the other hand, commissions on loans were down (-5.6%), also following the shift of loans to longer-term forms, and commissions from services (-1.8%), in relation to lower revenues from the administration of current accounts.

The contribution of the second quarter of 2021 was up compared with the previous quarter (2.8%). In particular, there was an increase in revenue from asset management (EUR 5.5 mln), due to income from continuing business, and in fees from traditional banking services (EUR 2.2 mln), due to increased fees on payment services. There was also an increase in other net commissions (EUR 2.8 mln).

Services/value	30 06 2021	30 06 2020	Change Y/Y		2°Q 2021	1°Q 2021	Change Q/Q	
			abs.	%			abs.	%
Assets under management fee	**381.5**	**312.2**	**69.3**	**22.2%**	**193.5**	**188.0**	**5.5**	**2.9%**
Product placement	140.9	97.8	43.1	44.1%	70.8	70.1	0.7	1.0%
Continuing fees	192.3	170.5	21.8	12.8%	98.0	94.3	3.7	3.9%
Placement of securities	21.8	22.8	(0.9)	-4.1%	11.2	10.7	0.5	4.9%
Sales of Protection	26.5	21.2	5.3	25.0%	13.5	13.0	0.5	4.1%
Fee and commisions from traditional activities	**416.6**	**430.1**	**(13.5)**	**-3.1%**	**209.4**	**207.2**	**2.2**	**1.1%**
Credit fees	186.8	197.8	(11.0)	-5.6%	93.2	93.5	(0.3)	-0.3%
Fees from foreign service	24.7	23.4	1.3	5.4%	12.7	12.0	0.7	5.6%
Other services	205.2	208.9	(3.7)	-1.8%	103.5	101.7	1.9	1.8%
Other fee and commission income	**(43.6)**	**(48.1)**	**4.4**	**-9.2%**	**(20.4)**	**(23.2)**	**2.8**	**-12.1%**
Net fees and commission income	**754.5**	**694.3**	**60.2**	**8.7%**	**382.5**	**372.0**	**10.5**	**2.8%**

SEGMENT REPORTING Primary segment	Operating Segments			Corporate Center	Total Montepaschi Group
	Retail banking	Wealth Management	Corporate banking		
	30/06/21	30/06/21	30/06/21	30/06/21	30/06/21
Assets under management fee	**313.7**	**56.6**	**12.8** #	#	**383.1**
Product placement	131.2	6.6	3.2		141.0
Continuing fees	142.4	46.0	4.0		192.4
Placement of securities	18.3	3.8	1.0		23.2
Sales of Protection	21.8	0.1	4.6		26.5
Fee and commisions from traditional activities	**177.7**	**3.0**	**258.9**		**439.6**
Credit fees	39.8	0.9	156.4		197.1
Fees from foreign service	2.1	0.1	24.4		26.6
Other services	135.8	2.0	78.1		215.9
Other fee and commission income	8.1	3.0	27.8	(9.8)	29.0
Net fees and commission income	**499.4**	**62.6**	**299.5** #	**(9.8)** #	**851.7**

Note: Following the organizational reorganization of the Head Offices, implemented in June 2021, the results of the "Small Business" service model are now included in "Corporate Banking", no longer in "Retail Banking". The values of the previous year have been recalculated in a consistent manner, therefore the comparison is among homogeneous data.

Dividends, similar income and gains (losses) on investments were equal to **EUR 55 mln**, up compared to 30 June 2020 (EUR 9 mln), due to the increased contribution of the partnership with AXA in the Bancassurance sector[10]. The contribution in the second quarter of 2021 was higher than in the first quarter due to the recognition of the dividend paid by the Bank of Italy, as well as to the greater contribution from the partnership with AXA[11] in the Bancassurance sector.

Net profit (loss) from trading, fair value measurement of assets/liabilities and Net gains (losses) on disposal/repurchase as at 30 June 2021 was equal to **EUR 179 mln**, an increase compared to the values recorded in the same period of the previous year (EUR 87 mln), although the contribution in the second quarter of 2021 was down compared to the first quarter (EUR -140 mln). The analysis of the main aggregates shows the following:

- **Net profit (loss) from trading** positive and equal to **EUR 32 mln**, up compared to the same period of the previous year, when it had been penalised by tensions in the financial markets connected to the COVID-19 emergency.
  The contribution in the second quarter 2021 was up by EUR 5 mln compared to the previous quarter, due to the higher contribution of the results of Banca MPS.
- **Net profit (loss) from other financial assets/liabilities measured at fair value through profit or loss was positive and equal to EUR 16 mln,** up compared to the negative contribution of EUR 6 mln in the same period of the previous year due to capital gains on equity instruments, debt securities and UCITSs. The contribution of the second quarter of 2021 was equal to **EUR -2.8 mln**, down compared to the positive contribution of **EUR 19 mln** in the first quarter, which had benefited from the aforementioned capital gains on equity instruments, debt securities and UCITSs.
- **Nel gains (losses) on disposal/repurchase** (excluding loans to customers at amortised cost) **were positive for EUR 131 mln** up compared to the same period of the previous year, due to higher gains on sales of securities. The contribution of the second quarter of 2021 was down compared to the previous quarter, as the sales of the securities were made in the first part of the year.

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

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

Items	30 06 2021	30 06 2020	Chg. Y/Y		2°Q 2021	1°Q 2021	Chg. Q/Q	
			Abs.	%			Abs.	%
Financial assets held for trading	(33.2)	(28.6)	(4.6)	16.1%	(23.9)	(9.3)	(14.6)	n.m.
Financial liabilities held for trading	67.6	33.0	34.6	n.m.	26.5	41.1	(14.6)	-35.5%
Exchange rate effects	4.9	9.7	(4.8)	-49.5%	3.6	1.3	2.3	n.m.
Derivatives	(6.9)	8.1	(15.0)	n.m.	12.3	(19.2)	31.5	n.m.
Trading results	**32.4**	**22.2**	**10.2**	**45.9%**	**18.5**	**13.9**	**4.6**	**33.1%**
Net profit (loss) from other financial assets and liabilities measured at fair value through profit or loss	16.2	(6.0)	22.2	n.m.	(2.8)	19.0	(21.8)	n.m.
Disposal / repurchase (excluding loans to customers measured at amortised cost)	130.8	75.9	54.9	72.3%	3.9	126.9	(123.0)	-96.9%
Net profit (loss) from trading, the fair value measurement of assets/liabilities and Net gains (losses) on disposals/repurchases	**179.4**	**92.1**	**87.3**	**94.8%**	**19.6**	**159.8**	**(140.2)**	**-87.7%**

The following items are also included in Revenues:

- **Net profit (loss) from hedging** equal to **EUR 2 mln,** an increase compared to 30 June 2020 (EUR -0.5 mln) and with a contribution of the second quarter of 2021 down on the previous quarter;
- **Other negative operating income/expenses** equal to **EUR 12.5 mln**, an improvement on the first half of 2020 (equal to EUR -27.5 mln) and with a contribution in the second quarter of 2021 improved on the previous quarter (equal to EUR -11 mln), due to the recognition of greater contingent assets.

Operating expenses

As at 30 June 2021 **Operating expenses** were equal to **EUR 1,073 mln**, down on 30 June 2020 (-0.3%) and with a contribution in the second quarter of 2021 down compared to the previous quarter (-1.4%). A closer look at the individual aggregates reveals the following:

- **Administrative expenses** were equal to **EUR 985 mln**, up by 1.2% on the same period of the previous year, but with a contribution in the second quarter of 2021 which was in line with that recorded in the previous quarter. A breakdown of the aggregate shows:
    - **Personnel expenses** were equal to **EUR 719 mln**, up by 1.5% on the same period of the previous year, despite the decline in headcount (linked - primarily - to the 560 terminations relating to the Solidarity Fund recorded between 1 November 2020 and 1 January 2021), in relation to contractual increases deriving from the renewal of the national collective labour agreement and the elimination of savings as a result of from the failure to renew the trade union agreement. The contribution of the second quarter of 2021 was substantially stable compared to the first quarter (-0.4%).
    - **Other administrative expenses** were equal to **EUR 266 mln**, in line with the same period of the previous year (0.3%). The contribution of the second quarter of 2021 was also substantially stable compared to that recorded in the first quarter (0.4%).

- **Net value adjustments to property, plant and equipment and intangible assets** as at 30 June 2021 were equal to **EUR 89 mln**, down on the same period of the previous year (-14.8%) also due to the effects of the introduction of the fair value measurement of properties. The aggregate was also down in the quarter-to-quarter comparison (-13.7%).

Type of transaction	30 06 2021	30 06 2020*	Chg Y/Y		2°Q 2021	1°Q 2021	Chg Q/Q	
			Abs.	%			Abs.	%
Wages and salaries	(520.8)	(511.4)	(9.4)	1.8%	(259.7)	(261.1)	1.4	-0.5%
Social-welfare charges	(142.2)	(140.0)	(2.2)	1.6%	(70.9)	(71.3)	0.4	-0.6%
Other personnel expenses	(55.8)	(56.5)	0.7	-1.2%	(28.1)	(27.7)	(0.4)	1.4%
Personnel expenses	**(718.8)**	**(707.9)**	**(10.9)**	**1.5%**	**(358.7)**	**(360.1)**	**1.4**	**-0.4%**
Taxes	(111.3)	(116.3)	5.0	-4.3%	(54.7)	(56.6)	1.9	-3.4%
Furnishing, real estate and security expenses	(42.9)	(36.4)	(6.5)	17.9%	(24.1)	(18.8)	(5.3)	28.2%
General operating expenses	(96.9)	(100.8)	3.9	-3.9%	(43.6)	(53.3)	9.7	-18.2%
Information technology expenses	(67.5)	(61.2)	(6.3)	10.3%	(36.2)	(31.3)	(4.9)	15.7%
Legal and professional expenses	(34.3)	(51.2)	16.9	-33.0%	(18.9)	(15.4)	(3.5)	22.7%
Indirect personnel costs	(2.5)	(3.5)	1.0	-28.6%	(1.7)	(0.8)	(0.9)	n.m.
Insurance	(23.9)	(20.0)	(3.9)	19.5%	(12.8)	(11.1)	(1.7)	15.3%
Advertising, sponsorship and promotions	(1.7)	(2.5)	0.8	-32.0%	(0.9)	(0.8)	(0.1)	12.5%
Other	83.4	(1.8)	85.2	n.m.	86.6	(3.2)	89.9	n.m.
Expenses recovery	31.6	128.4	(96.8)	-75.4%	(27.0)	58.6	(85.6)	n.m.
Other administrative expenses	**(266.0)**	**(265.3)**	**(0.7)**	**0.3%**	**(133.3)**	**(132.7)**	**(0.5)**	**0.4%**
Tangible assets	(55.1)	(66.6)	11.5	-17.2%	(24.3)	(30.8)	6.5	-21.1%
Intangible assets	(33.4)	(37.3)	3.9	-10.5%	(16.7)	(16.7)	-	0.0%
Net value adjustments to property, plant and equipment and intangible assets	**(88.5)**	**(103.9)**	**15.4**	**-14.8%**	**(41.0)**	**(47.5)**	**6.5**	**-13.7%**
Operating expenses	**(1,073.3)**	**(1,077.1)**	**3.8**	**-0.3%**	**(533.0)**	**(540.4)**	**7.4**	**-1.4%**

** The Income statement figures for 2020 have been restated compared to those published at the respective reporting dates, following the retrospective application of the change in the approach for the valuation of property held for investment purposes (pursuant to IAS 40). Furthermore, for the sake of greater comparability, impairment losses on functional properties (IAS 16) recorded in 2020 were reclassified from item "Net value adjustments to property, plant and equipment and intangible assets" to item "Net gains (losses) on property, plant and equipment and intangible assets measured at fair value".*

As a result of these trends, the **Group's Pre-provision operating profit** was equal to **EUR 491 mln** (EUR 375 mln as at 30 June 2020), with a contribution of the second quarter of 2021 down EUR 76 mln on the previous quarter.

Cost of customer credit

As at 30 June 2021, the **Cost of customer credit** of the Group was equal to **EUR -166 mln**, a EUR 354 mln improvement on the same period of the previous year (EUR -519 mln), when it included a roughly EUR 300 mln increase in adjustments deriving from the changed macroeconomic scenario triggered by the spread of the COVID-19 pandemic. Even excluding this effect, the aggregate was down compared to 1H20 primarily due to the elimination of adjustments on the positions in the "Hydra M" portfolio, deconsolidated at the end of December 2020.

The cost of customer credit in the second quarter of 2021 was up on the previous quarter because of higher provisions on the performing portfolio deriving mainly from the updated estimate of the multi-period PD curves in order to adapt them to the New Definition of Default and the quantitative thresholds used for the allocation to the various stages of risk.

The ratio between the Cost of customer credit and Loans to customers as at 30 June 2021 reflects a **Provisioning** Rate **of 41 bps** (90 bps as at 31 December 2020).

Items	30 06 2021	30 06 2020	Chg. Y/Y		2°Q 2021	1°Q 2021	Chg. Q/Q	
			Abs.	%			Abs.	%
Loans to customers measured at amortised cost	(162.8)	(529.1)	366.3	-69.2%	(89.3)	(73.5)	(15.8)	21.5%
Modification gains/(losses)	(5.3)	(2.8)	(2.5)	89.3%	(0.9)	(4.4)	3.5	-79.5%
Gains/(losses) on disposal/repurchase of loans to customers measured at amortised cost	(0.2)	0.8	(1.0)	n.m.	(0.1)	(0.1)	(0.0)	0.0%
Net change of Loans to customers mandatorily measured at fair value	(4.9)	5.6	(10.5)	n.m.	(0.1)	(4.8)	4.7	-97.9%
Net provisions for risks and charges on commitments and guarantees issued	7.7	6.2	1.5	24.2%	1.6	6.1	(4.5)	-73.8%
Adjustments to cost of customer credit	**(165.5)**	**(519.3)**	**353.8**	**-68.1%**	**(88.8)**	**(76.7)**	**(12.1)**	**15.8%**

The Group's **Net Operating Income** as at 30 June 2021 was **positive and approximately equal to EUR 327 mln**, against a negative value of EUR 149 mln reported in the same period of the previous year. The contribution of the second quarter of 2021, equal to EUR 124 mln, was down compared to the previous quarter, when it had recorded a positive value approximately equal to EUR 203 mln.

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

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

- **Net provisions for risks and charges were** negative and equal to **EUR -42 mln,** an improvement compared to the same period of the previous year (EUR -357 mln) due to lower provisions for legal risks. The contribution of the second quarter of 2021 worsened compared to that recorded in the first quarter due to higher provisions for legal risks and guarantees connected to sales of loans.
- **Other gains (losses) on investments** were equal to **EUR -0.2 mln**, against a gain of EUR 0.7 mln in the same period of the previous year, with a contribution of the second quarter of 2021 equal to EUR 3 mln compared to a result of EUR -3 mln recorded in the first quarter of 2021.
- **Restructuring costs/One-off costs** were equal to **EUR -4 mln**, an improvement compared to EUR -28 mln recorded in the same period of the previous year, when it had included expenses (interest, commissions and other administrative expenses) related to the "Hydra M" transaction. The contribution of the second quarter of 2021 (equal to EUR -4 mln) was worse than that of the first quarter (equal to EUR -0.1 mln).
- **Risks and charges associated with SRF, DGS and similar schemes**, with a balance equal to **EUR -90 mln**, consisting of the contribution paid by the Group due to the Single Resolution Fund (SRF) recognised in the first quarter of 2021, equal to EUR 68 mln and the additional portion in favour of the National Resolution Fund (FRN) recognised in the second quarter of 2021, equal to EUR 22 mln, up compared to the balance recorded in the same period of the previous year following the increase in the volumes of deposits.
- **DTA fee**, equal to **EUR -32 mln.** This amount, calculated according to the criteria set forth in decree-law 59/2016, converted into Law no. 119 of 30 June 2016, represents the fee accrued as at 30 June 2021 on DTA (Deferred Tax Assets) that can be converted into a tax credit.
- **Net gain (losses) on property, plant and equipment and intangible assets measured at fair value,** equal to **EUR -28 mln** includes the write-down on owned properties for business use (pursuant to IAS 16), in application of the new valuation approach applied to the Group's property assets.
- **Gains (losses) on disposal of investments** equal to **EUR 14 mln** related to the sale of property assets**.** As at 30 June 2020, the aggregate was negative for EUR 0.7 mln.

Due to the trends discussed above, the Group's **Profit before tax for the period** was equal to **EUR 145 mln**, against a loss of EUR 642 mln recorded as at 30 June 2020.

Tax expense (recovery) on income from continuing operations recorded a positive contribution of **EUR 58.7 mln** (against EUR -437 mln as at 30 June 2020) mainly due to the valuation of DTAs, calculated in line with the Financial Statements as at 31 December 2020.

In particular, it should be noted that the taxable income for future years was estimated based on the income projections used for the 2020 financial statements, with the exception of the 2021 expected net income which was increased, for the purposes of the assessments in the present half-yearly financial statements, to take into account the evolution of the year which is better than forecasts; the income projections in the new 2021-2025 Strategic Plan, approved by the Board of Directors on 17 December 2020, were not used as this document is still being reviewed by the relevant authorities.

Considering the net effects of the PPA (EUR -1.8 mln), the **Parent Company's net Profit for the period** was equal to **EUR 202 mln**, against a loss of EUR -1,081 mln in the same period of 2020.

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

Reconciliation between Parent Company and Consolidated Net Equity and Profit (Loss) for the period

	Shareholders' equity	Net profit (loss) for the period
Parent Company's net equity	5,034.3	129.3
of which Parent Company's valuation reserves	*195.0*	-
Impact of line-by-line consolidation of subsidiaries	(1,919.5)	97.1
Impact of consolidation of jointly controlled entities and associates	407.4	46.0
Reversal of dividends from subsidiaries	-	(38.7)
Reversal of written-down equity investments	3,049.3	3.2
Other adjustments	(636.1)	(34.8)
Subsidiaries' and associates' valuation reserves	129.8	-
Consolidated balance	**6,065.3**	**202.1**
of which valuation reserves	*324.7*	

Reclassified balance sheet

It should be noted that starting from February 2020, the financial statement data are influenced by the effects linked to the health crisis still under way.

Reclassified Balance Sheet				
Assets	**30 06 2021**	**31 12 2020***	**Chg**	
			abs.	**%**
Cash and cash equivalents	587.1	763.8	(176.7)	-23.1%
Loans to central banks	25,570.5	28,526.2	(2,955.7)	-10.4%
Loans to banks	4,292.1	5,452.3	(1,160.2)	-21.3%
Loans to customers	81,355.8	82,632.3	(1,276.5)	-1.5%
Securities assets	23,121.9	21,623.3	1,498.6	6.9%
Derivatives	2,689.5	3,018.6	(329.1)	-10.9%
Equity investments	1,027.7	1,107.5	(79.8)	-7.2%
Property, plant and equipment/Intangible assets	2,760.0	2,519.7	240.3	9.5%
of which:				
a) goodwill	*7.9*	*7.9*	-	0.0%
Tax assets	1,800.4	1,991.6	(191.2)	-9.6%
Other assets	2,544.7	2,709.7	(165.0)	-6.1%
Total assets	**145,749.7**	**150,345.0**	**(4,595.3)**	**-3.1%**

Liabilities	**30 06 2021**	**31 12 2020***	**Chg**	
			abs.	**%**
Direct funding	94,036.5	103,719.3	(9,682.8)	*-9.3%*
a) Due to customers	83,315.3	91,506.9	(8,191.6)	-9.0%
b) Securities issued	10,721.2	12,212.4	(1,491.2)	*-12.2%*
Due to central banks	29,305.6	23,933.6	5,372.0	22.4%
Due to banks	3,854.3	4,484.5	(630.2)	-14.1%
On-balance-sheet financial liabilities held for trading	3,819.3	4,545.5	(726.2)	-16.0%
Derivatives	2,730.1	3,253.5	(523.4)	*-16.1%*
Provisions for specific use	2,016.9	2,059.2	(42.3)	-2.1%
a) Provision for staff severance indemnities	163.3	166.6	(3.3)	-2.0%
b) Provision related to guarantees and other commitments given	144.6	154.1	(9.5)	-6.2%
c) Pension and other post-retirement benefit obligations	31.4	33.0	(1.6)	-4.8%
d) Other provisions	1,677.6	1,705.5	(27.9)	-1.6%
Tax liabilities	8.0	4.1	3.9	95.1%
Other liabilities	3,912.3	2,572.4	1,339.9	52.1%
Group net equity	6,065.3	5,771.6	293.7	5.1%
a) Valuation reserves	324.7	260.9	63.8	24.5%
d) Reserves	(3,521.0)	(1,684.0)	(1,837.0)	n.m.
f) Share capital	9,195.0	9,195.0	-	-
g) Treasury shares (-)	(135.5)	(313.7)	178.2	-56.8%
h) Net profit (loss) for the period	202.1	(1,686.5)	1,888.6	n.m.
Non-controlling interests	1.4	1.3	0.1	7.7%
Total Liabilities and Shareholders' Equity	**145,749.7**	**150,345.0**	**(4,595.3)**	**-3.1%**

** Balance sheet figures as at 31 December 2020 have been restated compared to those published in the 2020 Financial Statements following the retrospective application of the change in valuation criteria for investment properties (IAS 40).*

Reclassified Balance Sheet - Quarterly Trend						
Assets	**30 06 2021**	**31 03 2021**	**31 12 2020***	**30 09 2020***	**30 06 2020***	**31 03 2020***
Cash and cash equivalents	587.1	550.3	763.8	662.4	679.9	611.2
Loans to central banks	25,570.5	26,116.8	28,526.2	18,679.7	15,037.8	8,109.5
Loans to banks	4,292.1	4,278.4	5,452.3	4,934.9	5,757.3	4,938.8
Loans to customers	81,355.8	82,259.0	82,632.3	87,098.7	82,510.6	82,206.1
Securities assets	23,121.9	22,562.1	21,623.3	23,024.6	25,569.4	26,006.3
Derivatives	2,689.5	2,757.5	3,018.6	3,023.0	3,129.1	3,233.8
Equity investments	1,027.7	1,069.2	1,107.5	991.8	953.9	892.0
Property, plant and equipment/Intangible assets	2,760.0	2,784.5	2,519.7	2,535.8	2,560.0	2,825.2
of which:						
a) goodwill	*7.9*	*7.9*	*7.9*	*7.9*	*7.9*	*7.9*
Tax assets	1,800.4	1,919.8	1,991.6	2,114.1	2,196.1	2,768.0
Other assets	2,544.7	2,361.2	2,709.7	3,209.6	3,255.7	2,668.8
Total assets	**145,749.7**	**146,658.8**	**150,345.0**	**146,274.6**	**141,649.9**	**134,259.7**
Liabilities	**30 06 2021**	**31 03 2021**	**31 12 2020***	**30 09 2020***	**30 06 2020***	**31 03 2020***
Direct funding	94,036.5	99,053.6	103,719.3	98,418.1	97,585.2	95,367.2
a) Due to customers	83,315.3	87,124.1	91,506.9	86,827.3	86,139.8	83,680.4
b) Securities issued	10,721.2	11,929.5	12,212.4	11,590.8	11,445.4	11,686.8
Due to central banks	29,305.6	26,373.1	23,933.6	23,994.9	21,330.6	15,997.9
Due to banks	3,854.3	3,816.4	4,484.5	4,733.6	4,853.9	4,752.1
On-balance-sheet financial liabilities held for trading	3,819.3	3,179.5	4,545.5	3,122.2	2,192.1	2,407.1
Derivatives	2,730.1	2,759.0	3,253.5	3,293.9	3,419.2	3,174.4
Provisions for specific use	2,016.9	2,011.3	2,059.2	1,942.4	1,570.9	1,310.3
a) Provision for staff severance indemnities	163.3	164.2	166.6	182.1	180.3	166.4
b) Provision related to guarantees and other	144.6	147.1	154.1	153.0	152.6	155.3
c) Pension and other post-retirement benefit	31.4	32.3	33.0	33.1	34.0	35.2
d) Other provisions	1,677.6	1,667.7	1,705.5	1,574.2	1,204.0	953.4
Tax liabilities	8.0	8.1	4.1	3.0	3.0	3.3
Other liabilities	3,912.3	3,451.0	2,572.4	4,001.0	3,541.4	3,327.7
Group net equity	6,065.3	6,005.4	5,771.6	6,764.2	7,152.2	7,918.0
a) Valuation reserves	324.7	367.6	260.9	153.5	35.2	(41.5)
d) Reserves	(3,521.0)	(3,415.8)	(1,684.0)	(1,872.1)	(1,816.5)	(1,816.4)
f) Share capital	9,195.0	9,195.0	9,195.0	10,328.6	10,328.6	10,328.6
g) Treasury shares (-)	(135.5)	(260.7)	(313.7)	(313.7)	(313.7)	(313.7)
h) Net profit (loss) for the period	202.1	119.3	(1,686.5)	(1,532.1)	(1,081.4)	(239.0)
Non-controlling interests	1.4	1.4	1.3	1.3	1.4	1.7
Total Liabilities and Shareholders' Equity	**145,749.7**	**146,658.8**	**150,345.0**	**146,274.6**	**141,649.9**	**134,259.7**

** Balance sheet figures for 2020 quarter have been restated compared to those published at the respective reporting dates following the retrospective application of the change in valuation criteria for investment properties (IAS 40).*

Customer funding

The Group's **Total Funding** as at 30 June 2021 was equal to **EUR 198.6 bn**, with a decrease in volumes of EUR 4.9 bn compared to 31 March 2021, due to the decrease in Direct Funding (EUR -5.0 bn). Total Funding was also down on 31 December 2020 (EUR -7.2 bn) due to the decrease in Direct Funding (EUR -9.7 bn) only partially offset by the increase in Indirect Funding (EUR 2.5 bn).

Background

In the first half of the year, the economic recovery has progressively consolidated, mainly due to the gradual removal of restrictions on movements and increased social interaction resulting from the improvement in the health situation induced by the vaccination campaign. However, there is still uncertainty due to the possibility of new waves of infections and, therefore, caution remains in regard to spending and investment; the preference for liquidity remains high, but the growth of precautionary saving seems to have slowed down, leaving room for the search for greater profitability of the financial assets held. In the year to May, household current accounts were close to EUR 25 bn, with a decelerating trend also due to the recovery of expenditure on products and services made available again; on the other hand, the liquidity held in bank accounts by for businesses remains substantially stable. In addition, there was a sharper decline in time deposits, which fell below EUR 200 bn (-6% Y/Y), while the gradual increase in redeemable with notice continues (1.5%), supported by postal deposits. The trend in these components has resulted in a slowdown in the annual growth of total bank deposits held by the private sector, which in May was below 9% (from 11.1% at the end of 2020). The wide availability of ECB liquidity has allowed banks to avoid foreign funding (foreign deposits -8.3% Y/Y) and bond issues (net issues negative by more than EUR 5 bn in the first quarter of 2021). In April, bonds, to residents and non-residents, were equal to 12.4% of total deposits, more than two percentage points less than a year earlier.

The interest rate on deposits of non-financial companies and households recorded another slight decrease, having dropped, in May, to 0.32% (-1bp compared to December 2020), reflecting the decrease in household term deposits and in current accounts of non-financial companies. The rate on the stock of bonds continued its downward trend, falling to 1.80% (-14bps compared to the end of last year).

The net inflows of savings into mutual funds continued, with more than EUR 27 bn raised in the first five months of the year, through both the networks of financial advisors and bank branches. Investors have mainly bought into equity and balanced funds, which offer the greatest potential for significant returns. Assets under management were equal to EUR 1,190 bn, an 18% annual increase, helped by the comparison with the period of outbreak and spread of the pandemic; the increase was also due to a positive market effect (estimated at around 3% between December and May). In the same period, net flows of individual retail portfolio management exceeded EUR 4.5 bn, with total funds rising above EUR 150 bn (+20% Y/Y). There was also significant increase in new production of savings policies, with flows exceeding pre-pandemic levels; net inflows continue to be positive, close to EUR 10 bn in the first quarter 2021. The market seems increasingly to be turning away from the more conservative solutions, especially to the advantage of classic unit[-linked] products.

Customer Funding					Chg Q/Q		Chg 31/12		Chg Y/Y	
	30 06 2021	31 03 2021	31 12 2020	30 06 2020	Abs.	%	Abs.	%	Abs.	%
Direct funding	94,036.5	99,053.6	103,719.3	97,585.2	(5,017.1)	-5.1%	(9,682.8)	-9.3%	(3,548.7)	-3.6%
Indirect funding	104,594.6	104,440.5	102,067.3	98,702.9	154.0	0.1%	2,527.2	2.5%	5,891.7	6.0%
Total funding	**198,631.1**	**203,494.1**	**205,786.6**	**196,288.1**	**(4,863.1)**	**-2.4%**	**-7,155.6**	**-3.5%**	**2,343.0**	**1.2%**

Volumes of **Direct Funding** stood at **EUR 94.0 bn**, with a decrease of EUR 5.0 bn compared to the end of March 2021. The decrease is primarily linked to a decline in repurchase transactions (EUR -2.6 bn), but other forms of funding (EUR -1.2 bn), bond issues (EUR -1.2 bn) and time deposits (EUR -0.7 bn) were down as well. On the other hand, current accounts increased (EUR 0.7 bn).

Direct Funding was down by EUR 9.7 bn on the end of December 2020, mainly due to the decline in repurchase transactions (EUR -5.6 bn), bond issues (EUR -1.5 bn), term deposits (EUR -1.4 bn) and other forms of funding (EUR -1.3 bn). On the other hand, current accounts increased (EUR 0.2 bn).

The contraction in the bond segment is the result of a covered bond reaching maturity, while that in other segments was due to the initiative taken by the Parent Company to reduce the rates paid to customers, mainly corporate, and more generally to optimise the cost of funding.

The Group's market share[12] on Direct Funding was 3.83% (figure updated in April 2021), down compared to December 2020 (3.93%).

Direct funding										
Type of transaction	30 06 2021	31 03 2021	31 12 2020	30 06 2020	Change Q/Q		Change 31.12		Change Y/Y	
					Abs.	%	Abs.	%	Abs.	%
Current accounts	68,155.9	67,459.2	67,988.7	60,943.2	696.7	1.0%	167.2	0.2%	7,212.7	11.8%
Time deposits	7,379.0	8,074.5	8,827.4	9,273.1	(695.5)	-8.6%	(1,448.4)	-16.4%	(1,894.1)	-20.4%
Reverse repurchase agreements	3,934.4	6,519.3	9,508.4	10,283.2	(2,584.9)	-39.6%	(5,574.0)	-58.6%	(6,348.8)	-61.7%
Bonds	10,721.3	11,929.5	12,212.4	11,445.4	(1,208.3)	-10.1%	(1,491.1)	-12.2%	(724.0)	-6.3%
Other types of direct funding	3,845.9	5,071.1	5,182.4	5,640.3	(1,225.2)	-24.2%	(1,336.5)	-25.8%	(1,794.4)	-31.8%
Total	**94,036.5**	**99,053.6**	**103,719.3**	**97,585.2**	**(5,017.2)**	**-5.1%**	**(9,682.8)**	**-9.3%**	**(3,548.6)**	**-3.6%**

Indirect Funding was equal to **EUR 104.6 bn,** stable compared to 31 March 2021 as a result of the growth of the Assets under Management component (EUR 2.0 bn), which benefited from positive net flows and a positive market effect, almost fully offset by the decrease in the Assets under Custody component (EUR -1.9 bn), which was impacted by changes involving a major customer.

Compared to 31 December 2020, Indirect Funding grew by EUR 2.5 bn due to the increase in Assets under Management component (EUR 3.7 bn), which benefited from both positive net flows and a positive market effect, while the Assets under custody component fell by EUR 1.2 bn due to the aforementioned changes involving a major customer.

Indirect Funding										
	30 06 2021	31 03 2021	31 12 2020	30 06 2020	Change Q/Q		Change 31/12		Change Y/Y	
					Abs.	%	Abs.	%	Abs.	%
Assets under management	64,125.4	62,081.7	60,400.3	57,737.0	2,043.7	3.3%	3,725.1	6.2%	6,388.5	11.1%
Funds	*29,245.5*	*27,856.6*	*26,992.2*	*25,761.2*	*1,388.8*	*5.0%*	*2,253.2*	*8.3%*	*3,484.3*	*13.5%*
Individual Portfolio under Management	*5,288.8*	*5,246.9*	*5,130.5*	*4,939.4*	*41.9*	*0.8%*	*158.3*	*3.1%*	*349.4*	*7.1%*
Bancassurance	*29,591.2*	*28,978.2*	*28,277.5*	*27,036.4*	*613.0*	*2.1%*	*1,313.7*	*4.6%*	*2,554.8*	*9.4%*
Assets under custody	40,469.1	42,358.8	41,667.0	40,965.9	(1,889.7)	-4.5%	(1,197.9)	-2.9%	(496.7)	-1.2%
Government securities	*13,770.8*	*13,685.1*	*13,223.5*	*13,419.9*	*85.7*	*0.6%*	*547.3*	*4.1%*	*350.9*	*2.6%*
Others	*26,698.3*	*28,673.7*	*28,443.5*	*27,546.0*	*(1,975.4)*	*-6.9%*	*(1,745.2)*	*-6.1%*	*(847.6)*	*-3.1%*
Total funding	**104,594.6**	**104,440.5**	**102,067.3**	**98,702.9**	**154.0**	**0.1%**	**2,527.2**	**2.5%**	**5,891.7**	**6.0%**

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

Loans to customers

As at 30 June 2021, the Group's **Loans to Customers** were equal to **EUR 81.4 bn**, down EUR 0.9 bn compared to the end of March 2021, mainly as a result of the decrease in repurchase transactions (EUR -0.8 bn). There was also a decrease in Other loans (EUR -0.3 bn) and current accounts (EUR -0.1 bn), while mortgages were up (EUR 0.2 bn), also affected by the disbursements and the extension of moratoria granted under the government decrees issued following the COVID-19 emergency.

The aggregate fell by EUR 1.3 bn in comparison with 31 December 2020. The EUR 1.8 bn increase in mortgages, also influenced by the aforementioned disbursements and moratoria granted in connection with the government decrees issued following the COVID-19 emergency, was more than offset by the decrease in repurchase transactions (EUR -1.9 bn), other loans (EUR -1.0 bn) and current accounts (EUR -0.2 bn),

The market share[13] of the Group stood at 4.50% (last available figure from April 2021), up 7 basis points from the end of 2020.

Background

The legal and regulatory measures adopted last year (in particular, the ban on revocations, the extension and suspension of payments on some types of loans) have been extended to the whole of 2021, but the use of the moratoria (now only granted for principal payments) has almost halved, as many companies did not request an extension; at mid-June, the loans subject to moratoria were just under EUR 130 bn. In regard to the conditions for the offer of bank credit, there was a marginal tightening in the first quarter of 2021 followed by a stabilisation, according to the ISTAT survey and the Bank of Italy's Bank Lending Survey. In the first five months of the current year, bank loans continued to increase at a rapid pace, despite a minor slowdown due to weaker demand from corporate customers; for the private sector, net of repurchase agreements with central counterparties and adjusted to take into account sales of loans, annual growth fell below 4% in May. Recourse to loan guarantees continues to be substantial, but for non-financial companies the growth rate of loans has fallen sharply (from +8.3% at the end of 2020 to +4.6%); the recovery of the production cycle was, in fact, also financed by using part of the liquidity held for precautionary purposes. The Government's decision to extend the measures to facilitate the exit from the emergency until the end of the year will continue to ensure companies have access to medium-term loans at low rates and banks are able to meet the demand for credit, with a reduced impact on capital requirements. The decrease in the share guaranteed by the state aims at sharpening the banks' focus on the creditworthiness of the applicants. The annual growth rate of bank loans to households, instead, increased, from +2.3% at the end of 2020 to +4%, driven by residential mortgage loans and despite the permanent weakness of the consumer credit market. Demand for residential mortgage loans (over 80% addressed to fixed-rate products) is supported by the recovery of sales, which returned, in the first quarter of 2021, to the levels of 2008, driven by the search for more suitable and sustainable solutions, often outside the major towns, and the improvement in prospects, confirmed by the most recent residential market survey carried out by the Bank of Italy. Low interest rates and the extension of the moratorium on mortgage payments also help supporting demand.

With regard to interest rates, there was a further decline both for loans to non-financial businesses, with rates down to 1.73% in May (-6 bps on the end of 2020), and for loans to households, with the rate at 2.71% (-7 bps). With regard to new loans, there was instead a differentiated trend between businesses and households; for the former, the average rate continued to fall, to 1.13% in May (-20bps compared to the fourth quarter of last year), while the downward trend for new loans of all types was reversed for households; on mortgage loans, the rate rose to 1.40% (from 1.26% in the fourth quarter of 2020), on consumer credit it went back above 6% and on other loans it reached 2.9%, around 40bps more than at the end of 2020.

In the first part of the year, the increase in bad loans was very limited (1.5% annual rate net of sales), held back by the extension of the moratoria and public guarantees on loans; the ratio of bad loans to loans fell to 3%. Among non-performing loans, there was a significant increase, in the first quarter of 2021, in the category of those past due or overdrawn for more than 90 days, reflecting the entry into force of the new EBA regulations on the identification of exposures in a state of prudential default. The flow of new non-performing loans in relation to total loans was stable at 1.1%, two tenths higher than the minimum reached in the third quarter of last year. The sales of non-performing loans slowed down significantly.

[13] Loans to ordinary resident customers, including non-performing loans and net of repurchase transactions with central counterparties.

Loans to customers

Type of transaction	30 06 2021	31 03 2021	31 12 2020	30 06 2020	Change Q/Q		Change 31.12		Change Y/Y	
					Abs.	%	Abs.	%	Abs.	%
Current accounts	2,823.6	2,935.1	3,038.5	3,896.2	(111.5)	-3.8%	(214.9)	-7.1%	(1,072.6)	-27.5%
Mortgages	56,970.5	56,750.8	55,200.2	50,978.9	219.7	0.4%	1,770.3	3.2%	5,991.6	11.8%
Other forms of lending	12,655.2	12,924.9	13,616.3	15,330.5	(269.7)	-2.1%	(961.1)	-7.1%	(2,675.3)	-17.5%
Repurchase agreements	6,668.1	7,497.9	8,617.1	6,450.1	(829.8)	-11.1%	(1,949.0)	-22.6%	218.0	3.4%
Non performing loans	2,238.4	2,150.3	2,160.2	5,854.9	88.1	4.1%	78.2	3.6%	(3,616.5)	-61.8%
Total	**81,355.8**	**82,259.0**	**82,632.3**	**82,510.6**	**(903.2)**	**-1.1%**	**(1,276.5)**	**-1.5%**	**(1,154.8)**	**-1.4%**
Stage 1	*64,223.7*	*65,194.8*	*65,449.2*	*61,767.5*	*(971.1)*	*-1.5%*	*(1,225.5)*	*-1.9%*	*2,456.2*	*4.0%*
Stage 2	*14,763.5*	*14,784.4*	*14,901.2*	*14,734.7*	*(20.9)*	*-0.1%*	*(137.7)*	*-0.9%*	*28.8*	*0.2%*
Stage 3	*2,222.4*	*2,133.6*	*2,138.7*	*5,779.2*	*88.8*	*4.2%*	*83.7*	*3.9%*	*(3,556.8)*	*-61.5%*
Performing loans measured at fair value	*130.2*	*129.6*	*121.8*	*153.5*	*0.6*	*0.5%*	*8.4*	*6.9%*	*(23.3)*	*-15.2%*
Non-performing loans measured at fair value	*16.0*	*16.6*	*21.4*	*75.7*	*(0.6)*	*-3.6%*	*(5.4)*	*-25.2%*	*(59.7)*	*-78.9%*

Loans to customers measured at amortised cost		Stage 1	Stage 2	Stage 3	**Total**
30 06 2021	Gross exposure	64,315.5	15,254.1	4,149.0	**83,718.6**
	Adjustments	91.8	490.6	1,926.6	**2,509.0**
	Net exposure	64,223.7	14,763.5	2,222.4	**81,209.6**
	Coverage ratio	*0.1%*	*3.2%*	*46.4%*	***3.0%***
	% on Loans to customers measured at amortised cost	*79.1%*	*18.2%*	*2.7%*	***100.0%***

Loans to customers measured at amortised cost		Stage 1	Stage 2	Stage 3	**Total**
31 03 2021	Gross exposure	65,273.0	15,270.4	4,018.2	**84,561.6**
	Adjustments	78.2	486.0	1,884.6	**2,448.8**
	Net exposure	65,194.8	14,784.4	2,133.6	**82,112.8**
	Coverage ratio	*0.1%*	*3.2%*	*46.9%*	***2.9%***
	% on Loans to customers measured at amortised cost	*79.4%*	*18.0%*	*2.6%*	***100.0%***

Loans to customers measured at amortised cost		Stage 1	Stage 2	Stage 3	**Total**
31 12 2020	Gross exposure	65,524.1	15,419.4	3,940.5	**84,884.0**
	Adjustments	74.9	518.2	1,801.8	**2,394.9**
	Net exposure	65,449.2	14,901.2	2,138.7	**82,489.1**
	Coverage ratio	*0.1%*	*3.4%*	*45.7%*	***2.8%***
	% on Loans to customers measured at amortised cost	*79.3%*	*18.1%*	*2.6%*	***100.0%***

Loans to customers measured at amortised cost		Stage 1	Stage 2	Stage 3	Total
30 06 2020	Gross exposure	61,843.0	15,292.3	11,354.0	**88,489.3**
	Adjustments	75.6	557.5	5,574.8	**6,207.9**
	Net exposure	61,767.4	14,734.8	5,779.2	**82,281.4**
	Coverage ratio	*0.1%*	*3.6%*	*49.1%*	***7.0%***
	% on Loans to customers measured at amortised cost	*75.1%*	*17.9%*	*7.0%*	***100.0%***

Loans classified as Stage 1, equal to EUR 64.3 bn, were down both compared to 31 December 2020 (EUR 65.5 bn) and compared to 31 March 2021 (EUR 65.3 bn). Loans classified as Stage 2, with gross exposure equal to EUR 15.3 bn at 30 June 2021, were stable compared to EUR 15.4 bn recorded at 31 December 2020 and EUR 15.3 bn as at 31 March 2021. The overall trend shows a substantial stability of the absolute levels and coverage of the three stages: at the moment there is no sign of the expected deterioration of the portfolio due to the gradual expiry of the regulatory moratoria granted to customers (the amount of which is gradually decreasing since the end of 2020).

Non-performing exposures of loans to customers

Total Non-performing Loans to Customers of the Group as at 30 June 2021 were equal to **EUR 4.2 bn** in terms of gross exposure, slightly up compared to 31 December 2020 (EUR 4.0 bn) and compared to 31 March 2021 (EUR 4.1 bn). In particular, the gross bad loan exposure, equal to EUR 1.6 bn, was slightly up compared to 31 December 2020 (EUR 1.5 bn) and compared to 31 March 2021. The gross UTP loan exposure, equal to EUR 2.5 bn, was basically stable compared to 31 December 2020 (EUR 2.4 bn) and compared to 31 March 2021. Gross non-performing past due loans were equal to EUR 99 mln, up by EUR 24 mln compared to 31 December 2020 and down by EUR 22 mln compared to 31 March 2021.

As at 30 June 2021, the Group's **net exposure in terms of non-performing loans to customers** was equal to **EUR 2.2 bn**, slightly up compared to 31 December 2020 and compared to 31 March 2021.

The ratio between net non-performing loans to customers and total net loans to customers as at 30 June 2021 was 2.8%, slightly up compared to December 2020 (2.6%) and compared to 31 March 2021 (2.6%). In detail, in percentage terms, UTP loans went from 1.9% of total loans in December 2020 to 1.8% in March 2021 and 2.0% at 30 June 2021; bad loans were equal to 0.7%, unchanged compared both to December 2020 and compared to March 2021. The percentage of non-performing past due loans was equal to 0.1%, stable compared both to December 2020 and to March 2021.

Loans to customers		Bad loans	Unlikely to pay	Non-performing Past due Loans	**Total Non-performing loans to customers**	Perfoming loams	**Total**
30 06 2021	Gross exposure	1,614.7	2,501.0	99.1	**4,214.8**	79,699.8	**83,914.6**
	Adjustments	1,041.5	909.1	25.8	**1,976.4**	582.4	**2,558.8**
	Net exposure	573.2	1,591.9	73.3	**2,238.4**	79,117.4	**81,355.8**
	Coverage ratio	*64.5%*	*36.3%*	*26.0%*	***46.9%***	*0.7%*	***3.0%***
	% on Loans to customers	*0.7%*	*2.0%*	*0.1%*	***2.8%***	*97.2%*	***100.0%***
31 03 2021	Gross exposure	1,544.0	2,424.2	121.5	**4,089.7**	80,673.0	**84,762.7**
	Adjustments	999.7	908.5	31.1	**1,939.3**	564.4	**2,503.7**
	Net exposure	544.3	1,515.7	90.4	**2,150.4**	80,108.6	**82,259.0**
	Coverage ratio	*64.7%*	*37.5%*	*25.6%*	***47.4%***	*0.7%*	***3.0%***
	% on Loans to customers	*0.7%*	*1.8%*	*0.1%*	***2.6%***	*97.4%*	***100.0%***
31 12 2020	Gross exposure	1,498.7	2,438.0	75.6	**4,012.3**	81,065.3	**85,077.6**
	Adjustments	933.7	897.4	21.0	**1,852.1**	593.1	**2,445.2**
	Net exposure	565.0	1,540.6	54.6	**2,160.2**	80,472.2	**82,632.4**
	Coverage ratio	*62.3%*	*36.8%*	*27.8%*	***46.2%***	*0.7%*	***2.9%***
	% on Loans to customers	*0.7%*	*1.9%*	*0.1%*	***2.6%***	*97.4%*	***100.0%***
30 06 2020	Gross exposure	6,295.3	5,105.1	194.6	**11,595.0**	77,288.8	**88,883.8**
	Adjustments	3,433.5	2,260.1	46.4	**5,740.0**	633.2	**6,373.2**
	Net exposure	2,861.8	2,845.0	148.2	**5,855.0**	76,655.6	**82,510.6**
	Coverage ratio	*54.5%*	*44.3%*	*23.8%*	***49.5%***	*0.8%*	***7.2%***
	% on Loans to customers	*3.5%*	*3.4%*	*0.2%*	***7.1%***	*92.9%*	***100.0%***

As at 30 June 2021**, the Non-performing loan coverage ratio** was 46.9%, up compared to 31 December 2020 (46.2%). In particular, the coverage ratio for bad loans rose from 62.3% in December 2020 to 64.5% in June 2021, while that of UTP loans recorded a slight reduction from 36.8% in December 2020 to 36.3% in June 2021. The coverage ratio for non-performing past due loans decreased from 27.8% in December 2020 to 26.0% in June 2021.

The coverage ratio for non-performing loans was instead down compared to 31 March 2021 (47.4%) mainly due to the reduction in the coverage ratio for UTP loans, which decreased from 37.5% at 31 March 2021 to 36.3% at 30 June 2021.

The reduction in the coverage of UTP loans is essentially due to the transit to bad status of positions with very high coverage percentages accompanied by the entry into the category of positions mainly secured and, therefore, with a coverage ratio below average.

Change in gross exposures

abs/%		Bad loans	Unlikely to pay	Non performing past due exposures	**Total Non-performing loans to customers**	Perfoming loams	**Total**
Q/Q	abs.	70.7	76.8	(22.4)	**125.1**	(973.2)	**(848.1)**
	%	4.6%	3.2%	-18.4%	**3.1%**	-1.2%	**-1.0%**
31.12	abs.	116.0	63.0	23.5	**202.5**	(1,365.5)	**(1,163.0)**
	%	7.7%	2.6%	31.1%	**5.0%**	-1.7%	**-1.4%**
Y/Y	abs.	(4,680.6)	(2,604.1)	(95.5)	**(7,380.2)**	2,411.0	**(4,969.2)**
	%	-74.4%	-51.0%	-49.1%	**-63.6%**	3.1%	**-5.6%**

Changes in coverage ratios

	Bad loans	Ulikely to pay	Non performing past due exposures	**Total Non-performing loans to customers**	Perfoming loams	**Total**
Q/Q	*-0.2%*	*-1.1%*	*0.4%*	***-0.5%***	*0.0%*	***0.1%***
31.12	*2.2%*	*-0.5%*	*-1.7%*	***0.7%***	*0.0%*	***0.2%***
Y/Y	*10.0%*	*-7.9%*	*2.2%*	***-2.6%***	*-0.1%*	***-4.1%***

Trend of non-performing loans to customers	30 06 2021		2°Q 2021		1°Q 2021		30 06 2020		Chg. 2°Q 2021/1°Q2021 Total Non-performing loans to customers		Chg. Y/Y Total Non-performing loans to customers	
	Non-performing loans to customers	*of which Bad loans*	Non-performing loans to customers	*of which Bad loans*	Non-performing loans to customers	*of which Bad loans*	Non-performing loans to customers	*of which Bad loans*	Abs.	%	Abs.	%
Gross exposure, opening balance	**4,012.3**	**1,498.7**	**4,089.7**	**1,544.0**	**4,012.3**	**1,498.7**	**11,907.9**	**6,423.5**	**77.4**	**1.9%**	**(7,895.6)**	**-66.3%**
Increases from performing loans	521.9	8.7	298.6	5.6	223.3	3.1	565.5	29.3	75.3	33.7%	(43.6)	-7.7%
Transfers to performing loans	(107.4)	(15.0)	(47.7)	-	(59.7)	(15.0)	(124.5)	(0.4)	12.0	-20.1%	17.1	-13.7%
Collections (including gains on disposals)	(215.9)	(35.4)	(107.0)	(20.1)	(108.9)	(15.3)	(500.4)	(214.9)	1.9	-1.7%	284.5	-56.9%
Write-offs (including loss on disposal)	(39.5)	(27.4)	(23.2)	(18.7)	(16.3)	(8.7)	(145.8)	(82.3)	(6.9)	42.3%	106.3	-72.9%
+/- Other changes	43.4	185.1	4.4	103.9	39.0	81.2	(107.7)	140.1	(34.6)	-88.7%	151.1	n.m.
Gross exposure, closing balance	**4,214.8**	**1,614.7**	**4,214.8**	**1,614.7**	**4,089.7**	**1,544.0**	**11,595.0**	**6,295.3**	**125.1**	**3.1%**	**(7,380.2)**	**-63.6%**
Opening balance of overall adjustments	**(1,852.1)**	**(933.7)**	**(1,939.3)**	**(999.7)**	**(1,852.1)**	**(933.7)**	**(5,800.1)**	**(3,441.5)**	**(87.2)**	**4.7%**	**3,948.0**	**-68.1%**
Adjustments / write-backs	(168.0)	(64.7)	(68.3)	(20.6)	(99.7)	(44.1)	(365.9)	(129.4)	31.4	-31.5%	197.9	-54.1%
+/- Other changes	43.7	(43.1)	31.2	(21.2)	12.5	(21.9)	426.0	137.4	18.7	n.m.	(382.3)	-89.7%
Closing balance of overall adjustments	**(1,976.4)**	**(1,041.5)**	**(1,976.4)**	**(1,041.5)**	**(1,939.3)**	**(999.7)**	**(5,740.0)**	**(3,433.5)**	**(37.1)**	**1.9%**	**3,763.6**	**-65.6%**
Net exposure, closing balance	**2,238.4**	**573.2**	**2,238.4**	**573.2**	**2,150.4**	**544.3**	**5,855.0**	**2,861.8**	**88.0**	**4.1%**	**(3,616.6)**	**-61.8%**

Other financial assets/liabilities

As at 30 June 2021, the Group's **Securities assets** were equal to **EUR 23.1 bn**, up compared to 31 December 2020 (EUR 1.5 bn), in relation to the increase in the trading component referring in particular to the subsidiary MPS Capital Services, offset only in part by the downturn in Financial assets measured at fair value through other comprehensive income and the amortised cost component. It should be noted that the market value of securities in Loans to customers at amortised cost is EUR 9,513.5 mln (with implicit capital gains of around EUR 206.7 mln).

The aggregate was up also compared to 31 March 2021 (+EUR 0.6 bn) due to the increase in financial assets valued at fair value through other comprehensive income (+EUR 0.4 bn) and financial assets measured at amortized cost (+EUR 0.2 bn), attributable to the Parent Company for purchases mainly of government securities.

On-balance-sheet financial liabilities held for trading, due specifically to the subsidiary MPS Capital Services, were equal to **EUR 3.8 bn** at 30 June 2021 and were down compared to 31 December 2020 (EUR -0.7 bn) and up compared to 31 March 2021 (EUR 0.6 bn) on the subsidiary MPS Capital Services.

As at 30 June 2021, the **Net position in derivatives** posted an improvement compared to 31 December 2020, while it deteriorated compared to 31 March 2021.

Items	30 06 2021	31 03 2021	31 12 2020	30 06 2020	Chg. Q/Q		Chg. 31.12		Chg. Y/Y	
					Abs.	%	Abs.	%	Abs.	%
Securities assets	23,121.9	22,562.1	21,623.3	25,569.4	559.8	2.5%	1,498.6	6.9%	(2,447.5)	-9.6%
Financial assets held for trading	*7,442.1*	*7,440.8*	*5,247.1*	*8,572.7*	*1.3*	*0.0%*	*2,195.0*	*41.8%*	*(1,130.6)*	*-13.2%*
Financial assets mandatorily measured at fair value	*333.0*	*338.1*	*317.8*	*511.0*	*(5.1)*	*-1.5%*	*15.2*	*4.8%*	*(178.0)*	*-34.8%*
Financial assets measured at fair value through other comprehensive income	*5,313.0*	*4,938.0*	*5,777.9*	*6,067.8*	*375.0*	*7.6%*	*(464.9)*	*-8.0%*	*(754.8)*	*-12.4%*
Financial assets held for sale	*0.0*	*0.1*	*0.6*	*0.0*	*(0.1)*	*-100.0%*	*(0.6)*	*-100.0%*	*0.0*	*n.m.*
Loans to customers measured at amortised cost	*9,306.8*	*9,116.9*	*9,520.5*	*9,635.5*	*189.9*	*2.1%*	*(213.7)*	*-2.2%*	*(328.7)*	*-3.4%*
Loans to banks measured at amortised cost	*727.0*	*728.2*	*759.4*	*782.4*	*(1.2)*	*-0.2%*	*(32.4)*	*-4.3%*	*(55.4)*	*-7.1%*
On-balance-sheet financial liabilities held for trading	(3,819.3)	(3,179.5)	(4,545.5)	(2,192.1)	(639.8)	20.1%	726.2	-16.0%	(1,627.2)	74.2%
Net positions in Derivatives	(40.6)	(1.6)	(234.9)	(290.1)	(39.0)	n.m.	194.3	-82.7%	249.5	-86.0%
Other financial assets and liabilities	**19,262.0**	**19,381.0**	**16,842.9**	**23,087.2**	**(119.0)**	**-0.6%**	**(6,244.3)**	**-27.0%**	**(3,825.2)**	**-16.6%**

Items	30 06 2021		31 03 2021		31 12 2020		30 06 2020	
	Securities assets	On-balance-sheet financial liabilities held for trading	Securities assets	On-balance-sheet financial liabilities held for trading	Securities assets	On-balance-sheet financial liabilities held for trading	Securities assets	On-balance-sheet financial liabilities held for trading
Debt securities	22,536.7	-	22,008.9	-	21,124.5	-	25,114.6	-
Equity instruments and Units of UCITS	585.2	-	553.2	-	498.8	-	454.8	-
Loans	-	3,819.3	-	3,179.5	-	4,545.5	-	2,192.1
Total	**23,121.9**	**3,819.3**	**22,562.1**	**3,179.5**	**21,623.3**	**4,545.5**	**25,569.4**	**2,192.1**

Interbank position

As at 30 June 2021, the Group's **net interbank position** stands at **EUR 3.3 bn** in funding, against EUR 5.6 bn in lending as at 31 December 2020, as a result of further access to TLTRO3 auctions for a total of EUR 5.5 bn accompanied by a decline in deposits on the required reserve account and loans to banks. Compared to 31 March 2021 (which registered a net interbank position of EUR 0.2 bn in lending), the change is driven by the additional access to TLTRO3 auctions in the amount of EUR 3 bn at the end of June and to the decline in deposits on the required reserve account

Interbank balances										
					Change Q/Q		Change 31.12		Change Y/Y	
	30/06/21	31/03/21	31/12/20	30/06/20	Abs.	%	Abs.	%	Abs.	%
Loans to banks	4,292.1	4,278.4	5,452.3	5,757.3	13.7	0.3%	(1,160.2)	-21.3%	(1,465.2)	-25.4%
Deposits from banks	3,854.3	3,816.4	4,484.5	4,853.9	37.9	1.0%	(630.2)	-14.1%	(999.6)	-20.6%
Net position with banks	**437.8**	**462.0**	**967.8**	**903.4**	**(24.2)**	**-5.2%**	**(530.0)**	**-54.8%**	**(0.5)**	**-51.5%**
Loans to central banks	25,570.5	26,116.8	28,526.2	15,037.8	(546.3)	-2.1%	(2,955.7)	-10.4%	10,532.7	70.0%
Deposits from central banks	29,305.6	26,373.1	23,933.6	21,330.6	2,932.5	11.1%	5,372.0	22.4%	7,975.0	37.4%
Net position with central banks	**(3,735.1)**	**(256.3)**	**4,592.6**	**(6,292.8)**	**(3,478.8)**	**n.m**	**(8,327.7)**	**-181.3%**	**2,557.7**	**-40.6%**
Net interbank position	**(3,297.3)**	**205.7**	**5,560.4**	**(5,389.4)**	**(3,503.0)**	**n.m.**	**(8,857.7)**	**-159.3%**	**2,092.1**	**-38.8%**

As at 30 June 2021, the operational liquidity position showed an unencumbered Counterbalancing Capacity **equal to approx. EUR 31.1 bn**, basically unchanged compared with 31 March 2021. On the other hand, the aggregate was down compared to 31 December 2020 (EUR -2.1 bn) due to lower commercial deposits and the maturity of market bonds.

Disclosure on Fair Value

Qualitative information

The methodologies used to calculate fair values have not changed compared to 2020 and therefore reference should be made, for a comprehensive reading, to the information provided in section A.4 “Disclosure on Fair Value” of the Consolidated Explanatory Notes at 31 December 2020. In this regard, it should be noted that the valuation methodologies of property assets held for business use and for investment purposes are described in the section of these Explanatory Notes, in which information is given of the change in the real estate valuation approach carried out on 31 March 2021. For the purposes of this section, it should be noted that the MPS Group updates the assessments by obtaining special appraisals from a qualified and independent company. More in detail, the fair value estimate is updated at least once a year, for properties held for investment purposes, while, for properties for business use, the update takes place over a two-year period unless there are changes in the price trend on the real estate market, identified through scenario analysis, equal to +/- 10% of the book value.

Assets and liabilities measured at fair value on a recurring basis: breakdown by fair value level

Asset and liabilities measured at fair value	30 06 2021				31 12 2020*			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
1. Financial assets measured at fair value through profit or loss of which:	6,841.6	3,358.1	382.4	10,582.1	4,610.0	3,700.8	365.1	8,675.9
a) Financiale asset held for trading	6,841.4	3,261.5	-	10,102.9	4,609.9	3,605.0	-	8,214.9
c) Other financial assets mandatorily measured at fair value	0.2	96.6	382.4	479.2	0.1	95.8	365.1	461.0
2. Financial assets measured at fair value through other comprehensive income	4,477.3	607.0	228.7	5,313.0	4,927.9	621.4	228.6	5,777.9
3. Hedging derivatives	-	28.8	-	28.8	-	50.8	-	50.8
4. Property, plant and equipment	-	-	2,015.6	2,015.6	-	-	247.5	247.5
Total assets	**11,318.9**	**3,993.9**	**2,626.7**	**17,939.5**	**9,537.9**	**4,373.0**	**841.2**	**14,752.1**
1. Financial liabilities held for trading	3,819.3	1,283.7	3.9	5,106.9	4,545.5	1,456.5	-	6,002.0
2. Financial liabilities designated at fair value	-	116.1	-	116.1	-	193.3	-	193.3
3. Hedging derivatives	-	1,442.6	-	1,442.6	-	1,797.0	-	1,797.0
Total liabilities	**3,819.3**	**2,842.4**	**3.9**	**6,665.6**	**4,545.5**	**3,446.8**	**-**	**7,992.3**

** The balance sheet values as of 31 December 2020, for row “4. Property, plant and equipment”, have been restated, compared to those published in the 2020 Financial Statements, following the retrospective application of the change in valuation criteria used for investment properties (IAS 40).*

The financial instruments measured at fair value and classified in level 3 of the hierarchy consist of instruments not listed in active markets, valued using the mark-to-model approach, for which input data include, inter alia, non-observable market data significant for measurement purposes or observable market data that require significant adjustment based on non-observable data, or that require internal assumptions and estimations of future cash flows.

As at 30 June 2021, among financial assets held for trading, there were approximately EUR 53 mln of assets of level 1 that at the end of the previous year were classified at level 2 and EUR 26 mln of assets of level 2 that at the end of the previous year were classified at level 1. These changes in level concerned bond issues and were essentially due to the improvement/worsening of the liquidity of these securities (measured in terms of bid-ask size of the quoted price), which allowed these reclassifications, in compliance with the provisions of the group policy on the valuation of financial instruments.

As for OTC derivatives, in compliance with IFRS 13, the MPS Group calculates adjustments to values, obtained through valuation models using risk-free interest rates, to take into account the creditworthiness of the individual counterparties. This risk measure, known as Credit Value Adjustment (CVA), is estimated for all positions in OTC derivatives with non-collateralised institutional and commercial counterparties and with counterparties having a Credit Support Annex (CSA) not in line with market standards. The methodology is based on the calculation of expected operational loss linked to counterparty rating and estimated on a position’s duration. The exposure includes future credit variations represented by add-ons.

Market-consistent probability measurements are employed in the calculation of CVAs in order to gauge market expectations resulting from CDS, also taking into consideration the historical information available within the Group. As at 30 June 2021, the change for the CVA correction was negative and equal to approx. EUR 15.4 mln.

The Group calculates the value adjustment of OTC derivatives in a mirror image fashion and on the same perimeter to take into account its creditworthiness, Debit Value Adjustment (DVA). At 30 June 2021, the DVA was positive and equal to a total of EUR 6.8 mln.

Changes in financial assets measured at fair value on a recurring basis (level 3)

30 06 2021

	Financial assets measured at fair value through profit or loss		Financial assets measured at fair value through other comprehensive income	Property, plant and equipment
	Total	of whichi: c) Other financial assets mandatorily measured at fair value		
1. Opening balances*	**365.1**	**365.1**	**228.6**	**247.5**
2. Increases	**55.3**	**55.3**	**0.3**	**1,778.4**
2.1 Purchase	-	-	-	-
2.2 Profits charged to:	15.1	15.1	0.3	-
2.2.1 Income statement	15.1	15.1	-	-
- of which capital gains	15.1	15.1	-	-
2.2.2 Equity	-	-	0.3	-
2.3 Transfers from other levels	-	-	-	-
2.4 Other increases	40.2	40.2	-	1,778.4
3. Decreases	**38.0**	**38.0**	**0.2**	**10.3**
3.1 Sales	-	-	0.1	-
3.2 Repayments	23.0	23.0	-	-
3.3 Losses charged to:	11.7	11.7	0.1	-
3.3.1 Income statement	11.7	11.7	-	-
- of which capital losses	11.7	11.7	-	-
3.3.2 Equity	-	-	0.1	-
3.4 Transfers to other levels	-	-	-	-
3.5 Other decreases	3.3	3.3	-	10.3
4. Closing balance	**382.4**	**382.4**	**228.7**	**2,015.6**

** The "opening balances" for the column "property, plant and equipment" have been restated, compared to those published in the 2020 Financial Statements, following the retrospective application of the change in valuation criteria for investment properties (IAS 40).*

As at 30 June 2021, property, plant and equipment measured at fair value on a recurring basis consisted of real estate held for business and investment purposes (EUR 2,015.6 mln). The market value at 31 March 2021 of properties held for business use, equal to EUR 1,773.6 mln, is shown in the sub-item "2.4 Other increases", taking into account the prospective representation of the transition from measurement at cost to fair value measurement;

The column "Other financial assets mandatorily measured at fair value" at the line item:

- "2.2.1 Profits charged to the income statement - of which capital gains", equal to approximately EUR 15.1 mln, includes approximately EUR 13.4 mln as revaluations of securities and EUR 1.7 mln as revaluations of receivables;
- "2.4 Other increases", equal to EUR 40.2 mln, includes EUR 26.8 mln for new loans and positions that during the year were classified from the loan portfolio at amortized cost to the portfolio of other assets mandatorily measured at fair value as a result of substantial credit changes inconsistent with the SPPI test and EUR 13.4 mln for changes in the securities portfolio.

- "3.2 Repayments", equal to EUR 23.0 mln, includes EUR 4.9 mln for reimbursement of units of UCITS and EUR 18.1 mln for reimbursements on credit positions;
- "3.3.1 Losses charged to the income statement - of which capital losses", equal to EUR 11.7 mln, refers to impairments recognised during the six-month period on non-performing loans (EUR 6.6 mln) and on debt securities (EUR 5.1 mln);
- "3.5 Other decreases", equal to EUR 3.3 mln, refers almost entirely to changes in the securities portfolio.

Changes in financial liabilities measured at fair value on a recurring basis (level 3)

30 06 2021

		Financial liabilities held for trading
1. Opening balances		**-**
2.Increases		**3.9**
2.1 Issues		1.7
2.2 Losses posted to		-
2.2.1 Income statemet		-
- of which capital losses		-
2.2.2 Equity	X	
2.3 Transfers from other levels		2.2
2.4 Other increases		-
3. Decreases		**-**
3.1 Redemptions		-
3.2 Repurchases		-
3.3 Profits posted to:		-
3.3.1 Income statemen		-
- of which capital gains		-
3.3.2 Equity	X	
3.4 Transfers from other levels		-
3.5 Other decreases		-
4. Closing balance		**3.9**

Information on "day one profit/loss"

The Group did not recognise "day one profits/losses" on financial instruments pursuant to B.5.1.2A of IFRS 9; therefore, no disclosure is provided pursuant to paragraph 28 of IFRS 7 and other related IAS/IFRS paragraphs.

Fair value level 2: measurement techniques and inputs used

Items	Fair value 30 06 2021							Type	Valuation technique(s)	Inputs used
	Financial assets held for trading	Other Financial assets mandatorily measured at fair value	Financial assets measured at fair value through other comprehensive income	Hedging deivatives	Financial liabilities held for trading	Financial liabilities designated at fair value	Hedging deivatives			
Debt securities	649.9	45.6	578.7	X	-	116.1	X	Bonds	Discounted Cash Flow	Interest rate curve, CDS curve, Basi(yield), Inflation Curves
								Structured bonds	Discounted Cash Flow	Interest rate curve, CDS curve, Basi(yield), Inflation Curves + inputs necessary to measure optional component
								Notes	Notes	Discounted Cash Flow
								Notes	Market price	Market price
Equity instruments	-	-	28.3	X	X	X	X	Share/Equity Instruments	Market price	Market price, recent transactions, appraisals, manager reports
								Equity Instruments	Discount cash flow	Share price, beta sector, free risk rate
								Equity Instruments	Net asset adjusted	Carring Amount Asset/Liabilities
Units of UCITS	-	51.0	X	X	X	X	X	Funds/PE	Nav Investor report	Management report, technical data sheet of assets held in portfolio
Financial Derivatives	2,611.5	X	X	28.8	1,160.1	X	1,442.6	IR/Asset/Currency Swaps	Discounted Cash Flow	Interest rate curve, CDS Curve, Basi(yield), Inflation Curve, Foreign exchange rates and correlation
								Equity swaps	Discounted Cash Flow	Share price, Interest rate curve, Foreing exchange rates
								Forex Singlename Plain	Option Pricing Model	Interest rate curve, Foreing exchange rates, Forex volatility
								Forex Singlename Exotic	Option Pricing Model	Interest rate curve, Foreing exchange rates, Forex volatility (Surface)
								Equity Singlename Plain	Option Pricing Model	Interest rate curve, share price, foreign exchange rates, Equity volatility
								Equity Singlename Exotic	Option Pricing Model	Interest rate curve, share price, foreign exchange rates, Equity volatility (Surface), Model imputs
								Equity Multiname Plain	Option Pricing Model	Interest rate curve, share price, foreign exchange rates, Equity volatility, Quanto correlation, Equity/Equity correlation
								Equity Multiname Exotic	Option Pricing Model	Interest rate curve, share price, foreign exchange rates, Equity volatility (surface), Model inputs, Quanto correlation, Equity/Equity correlatio
								Plain Rate	Option Pricing Model	Interest rate curve, inflation curves,bond prices,foreign exchange rates, Rate volatility, rate correlations
								Spot-Forward	Market price*	Market price, Swap Point
Credit Derivatives	0.1	X	X	-	123.6	X	-	Default swaps	Discounted Cash Flow	CDS curves, Interest rate curve
Total assets	3,261.5	96.6	607.0	28.8	X	X	X			
Total liabilities	X	X	X	X	1,283.7	116.1	1,442.6			

*prices for identical financial instruments listed in non-active markets (IFRS 13 par. 82 section b)

Fair value level 3: measurement techniques and inputs used

Items	Fair value 30 06 2021			Type	Valuation techinque(s)	Unobservable inputs	Range (weighted average)
	Other Finacial assets mandatorily measured at fair value	Financial assets measured at fair value through other comprehensive income	Financial liabilities held for trading				
Debt securities	121.4	-	-	Junior Tranche NPL Securitization	Discounted Cash Flow	Yield	18.0%
				Notes	Discounted Cash Flow	Discount rate	10%
Equity instruments	4.4	228.7	X	Equity instruments	External Pricing	Cet1 target, Cost of Equity, Growth rate	13.3%/10%/2%
				Equity investments	Discounted Cash Flow	Liquidity base/Equity/Growth rate	20%/8%/0.4
				Equity investemts	Cost/Net equity	Fair value asset	0-23.3 €/mln
Loans	146.2	-	-	Loans	Discounted Cash Flow	NPE spread	1.92% / 4.52%
				Loans	Discounted Cash Flow	LGD	0% / 59.3%
				Loans	Discounted Cash Flow	PD	0.09% / 45%
				Loans	Discounted Cash Flow	PE spread	0.02% / 0.59%
Units of UCITS	110.4	X	X	Closed-end Fund	External pricing	Fair value asset	9.7 €/mln
				Real estate closed-end Fund	Discounted Cash Flow	Discount rate	10.4%
				Alternative Investments Fund	Discounted Cash Flow	Discount rate	10.4%
Financial Derivatives	X	X	3.9	Derivative rate	Discounted cash flow	Surrender rate (lapse risk)	3% / 20%
Total Assets	382.4	228.7	X				
Total liabilities	X	X	3.9				

A description of Level 3 instruments that show significant sensitivity to changes in unobservable inputs is provided below.

The “Other financial assets mandatorily measured at fair value” column in the category “Debt securities” measured using the Discount Cash Flow method include the junior tranches of the Siena NPL securitisation of the Group's non-performing loans. Its value at 30 June 2021 was equal to EUR 4.8 mln and was affected by the sharp decline in the recovery of non-performing loans as a result of the pandemic scenario. The sensitivity of this position, defined as the change in value for each percentage point of total return of the security, was estimated at approximately EUR 0.7 mln. The same category includes EUR 82.9 mln referring to the notes of the “Norma” multioriginator securitisation, also valued with the Discounted Cash Flow method. For these positions the change in the discount rate (+/-1%) and forecasted distributions (+/-10%) would result in the following range of values: EUR 72.4 – 93.3 mln.

Lastly, the same category includes EUR 32.5 mln referring to some equity instruments acquired by the Parent Company under credit restructuring agreements.

The “Other financial assets mandatorily measured at fair value” column also includes loans (EUR 146.2 mln) that are mandatorily measured at fair value. The unobservable parameters are Probability of Default (PD), Loss Given Default (LGD) and the different spreads for performing and non-performing assets. The change in these parameters, of 10%, 5%, and 1%, respectively, would have an impact on fair value of approximately EUR -6.5 mln.

In the context of the same accounting portfolio, equity securities include EUR 3.4 mln for the investment in the Voluntary Scheme, represented by the shares resulting from the conversion of the subordinated security issued by Carige following the Bank’s overall capital strengthening transaction.

The majority of the units of UCITS refers to units of funds received in exchange for the sale of non-performing loans (Back2bonis, IDEA CCR I and II, Nuova Finanza, Efesto), equal EUR 86.3 mln. A change in the discount rate (+/- 1%) and forecasted distributions (+/- 10%) would result in the following range of values: EUR 75.3 – 97.9 mln The units of UCITS category also includes the total of the contributions, made from June 2016 to the Italia Recovery Fund (formerly Atlante due) with a book value of EUR 9.7 mln. This position takes into account the fund’s residual assets after the write-off of the two main equity investments in the fund’s assets (BPVI and Veneto Banca).

The “Financial assets measured at fair value through other comprehensive income” accounting portfolio includes the shareholding in Bank of Italy (EUR 187.5 mln), measured using the Discounted Cash Flow method. The shareholding was measured with the methodology identified by the Committee of Experts in the document “Revaluation of shareholdings in the Bank of Italy”. This document not only details the valuation techniques adopted to reach the end result, but identified the following entity-specific parameters: the market beta, equity risk premium, and the cash flow base. The valuation of that equity investment is also confirmed in market transactions carried out in recent years by certain banks. The range of possible values that can be assigned to these parameters cause the following changes in value: roughly EUR -35 mln for every 100 bps increase in the equity risk premium, roughly EUR -56 mln for every 10 pp increase in the market beta, and roughly EUR -33 mln for every 10 pp increase in the cash flow base.

This category also includes equity securities representing all investments measured at fair value that could not be measured according to a market-based model. These positions amount to approximately EUR 41 mln.

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis

Financial asset/liabilities not measured at fair value or measured at fair value on a non -recurring basis	30 06 2021		31 12 2020*	
	Book value	Total Fair value	Book value	Total Fair value
1. Financial assets measured at amortised cost	121,102.9	126,858.2	126,739.7	133,656.3
3. Non-current assets held for sale and disposal groups	74.3	71.7	155.3	52.9
Total Assets	**121,177.2**	**126,929.9**	**127,144.8**	**133,977.7**
1. Financial liabilities measured at amortised costs	127,080.3	127,371.0	131,944.0	132,410.8
Total Liabilities	**127,080.3**	**127,371.0**	**131,944.0**	**132,410.8**

** The balance sheet values as of 31 December 2020 do not include item "2. Property, plant and equipment held for investment", compared to those published in the 2020 Financial Statements, following the retrospective application of the change in valuation criteria for investment properties (IAS 40). We have also restated the balance sheet values as of 31 December 2020, for row "3. Non-current assets held for sale and disposal groups".*

With reference to par. 96 of IFRS 13, the Group does not apply the portfolio exception provided for in par. 48 of IFRS 13.

Shareholders' equity

At 30 June 2021, the **Shareholders' equity of the Group and non-controlling interests** amount to approximately **EUR 6.1 bn**, up EUR 294 mln from 31 December 2020, due i) to the increase in valuation reserves, ii) to the profit for the period and iii) to the net effect of EUR 178.2 mln decrease in treasury shares as a result of sales carried out by the Parent Company, offset by the negative trading result of EUR 153.1 mln recognised in Other Reserves.

Compared to 31 March 2021, however, an increase of EUR 60 mln was recorded, attributable i) to the 2Q21 profit, partly neutralised by reduced valuation reserves and ii) to the net effect of the EUR 125.2 mln decrease in treasury shares as a result of disposals carried out by the Parent Company, offset by the negative trading result of EUR 107.6 mln recognised in Other reserves

Reclassified Consolidated Balance Sheet

Equity	30 06 2021	31 03 2021	31 12 2020*	30 06 2020*	Chg Q/Q		Chg 31/12		Chg Y/Y	
					Abs.	%	Abs.	%	Abs.	%
Group Net Equity	6,065.3	6,005.4	5,771.6	7,152.2	59.9	1.0%	293.7	5.1%	(1,086.9)	-15.2%
a) Valuation reserves	324.7	367.6	260.9	35.2	(42.9)	-11.7%	63.8	24.5%	289.5	n.m.
d) Reserves	(3,521.0)	(3,415.8)	(1,684.0)	(1,816.5)	(105.2)	3.1%	(1,837.0)	n.m.	(1,704.5)	93.8%
f) Share capital	9,195.0	9,195.0	9,195.0	10,328.6	-	n.m.	-	n.m.	(1,133.6)	-11.0%
g) Treasury shares (-)	(135.5)	(260.7)	(313.7)	(313.7)	125.2	-48.0%	178.2	n.m.	178.2	-56.8%
h) Net profit (loss) for the period	202.1	119.3	(1,686.5)	(1,081.4)	82.8	69.4%	1,888.6	n.m.	1,283.5	n.m.
Non-controlling interests	1.4	1.4	1.3	1.4	-	0.0%	0.1	7.7%	-	0.0%
Shareholders' equity of the Group and Non-controlling interests	**6,066.7**	**6,006.8**	**5,772.9**	**7,153.6**	**59.9**	**1.0%**	**293.8**	**5.1%**	**(1,086.9)**	**-15.2%**

** Balance sheet figures for 2020 have been restated compared to those published at the respective reporting dates, following the retrospective application of the change in valuation criteria for investment properties (IAS 40).*

It should be noted that, due to the loss recorded as at 31 December 2020, equal to EUR 1.9 bn, the Parent Company now meets the conditions specified in Art. 2446 of the Italian Civil Code.

The Shareholders, at the meeting on 6 April 2021, in compliance with art. 6 of Decree Law no. 23 of 8 April 2020, transposed with amendments by Law no. 40 of 5 June 2020, as amended by Law no. 178 of 30 December 2020, resolved to refer the decisions set forth in article 2446 paragraph 2 of the Italian Civil Code, concerning the share capital decrease, to the Shareholders' Meeting that will be called to resolve on the capital strengthening measures, to take into account the previous losses and the loss for the year, and therefore to carry over the loss for the year, equal to EUR 1.9 bn.

Capital adequacy

Regulatory capital and statutory requirements

As a result of the conclusion of the SREP conducted with reference to the figures as at 30 June 2020 and also taking into account the information received after that date, with the submission on 28 December 2020 of the 2020 SREP Decision, the ECB asked the Parent Company to maintain, effective 1 January 2021, a consolidated TSCR level of 10.75%, which includes 8% as a Pillar 1 minimum requirement ("P1R") pursuant to Art. 92 of the CRR and 2.75% as Pillar 2 additional requirement ("P2R"), which must be respected at least for 56.25% with CET1 and at least 75% with Tier 1.

With regard to Pillar II Capital Guidance (P2G), the ECB expects the Parent Company to adapt, on a consolidated basis, to a requirement of 1.3%, to be fully met with Common Equity Tier 1 capital in addition to the overall capital requirement (OCR). Failing to comply with this capital guidance is not the same as failure to comply with capital requirements.

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

Accordingly, the Group must meet the following requirements at the consolidated level as at 30 June 2021:

- CET1 Ratio of 8.74%;
- Tier 1 Ratio of 10.75%;
- Total Capital Ratio of 13.44%.

These ratios include, in addition to the P2R, 2.5% for the Capital Conservation Buffer, 0.19% for the O-SII Buffer, and 0.002% for the Countercyclical Capital Buffer.[14]

It should also be noted that, as from June 2021, the MPS Group is subject to the additional regulatory measures introduced by Regulation (EU) 2019/876 ("**CRR II**") in force since 27 June 2019.

Among the main changes that apply to the MPS Group since 28 June 2021:

- the introduction of a minimum leverage ratio requirement equal to 3% of Tier 1 Capital; this ratio represents a supplementary Pillar 1 requirement with respect to risk-based indicators and pursues the objective of limiting the accumulation of leverage in the banking sector;
  As at 30 June 2021, the MPS Group applied the temporary exclusion of certain exposures to central banks from the calculation of the overall exposure measure and, in compliance with the requirements of the reference regulations, must maintain an adjusted leverage ratio of 3.1%, notwithstanding the minimum requirement of 3%.
- the introduction of a structural liquidity indicator with a 1-year time horizon (Net Stable Funding Ratio, or NSFR) equal to 100%; the indicator was introduced to ensure that assets and liabilities have a sustainable maturity structure;
- the review of the prudential treatment of exposures to UCITS, envisaging the application of a weighting coefficient of 1250% (fall-back approach) in the event that the bank is unable to apply the look-through method, the method based on the management regulation, or the method based on the calculation carried out by third parties;
- the introduction of the new standardised method for counterparty risk (SA-CCR) for banks that hold derivatives totalling more than EUR 100 mln in notional value.

[14] Calculated considering the exposure as at 30 June 2021 in the various countries in which MPS Group operates and the requirements established by the competent national authorities.

As at **30 June 2021**, the Group's capital on a transitional basis was as shown in the following table:

Categories / Values	30 06 2021	31 12 2020	Chg. 31 12 2020	
			Abs.	%
OWN FUNDS				
Common Equity Tier 1 (CET1)	6,058.3	6,053.3	5.0	0.08%
Tier 1 (T1)	6,058.3	6,053.3	5.0	0.08%
Tier 2 (T2)	1,684.0	1,806.6	(122.6)	-6.78%
Total capital (TC)	7,742.3	7,859.9	(117.6)	-1.50%
RISK-WEIGHTED ASSETS				
Credit and Counterparty Risk	35,154.6	35,409.6	(255.0)	-0.72%
Credit valuation adjustment risk	813.0	440.4	372.6	84.60%
Market risks	2,586.8	2,487.4	99.4	4.00%
Operational risk	11,431.4	11,565.6	(134.2)	-1.16%
Total risk-weighted assets	**49,985.8**	**49,903.0**	**82.8**	**0.17%**
CAPITAL RATIOS				
CET1 capital ratio	**12.12%**	**12.13%**	**-0.01%**	
Tier1 capital ratio	**12.12%**	**12.13%**	**-0.01%**	
Total capital ratio	**15.49%**	**15.75%**	**-0.26%**	

Compared to 31 December 2020, CET1 increased by a total of EUR 5 mln, essentially due to the following:

- profit for the period equal to EUR 202 mln;
- decrease in treasury shares as a result of the sale of a portion of these, with an overall effect on shareholders' equity of EUR 25 mln;
- improvement in the balance of the Other Comprehensive Income reserve for a total of EUR 64 mln, including the net positive effect of the revaluation of properties held for business use (IAS 16) equal to EUR 165 mln, partially offset by the decline in valuation reserves on debt securities;
- increase in deductions related to DTAs, securitisations and intangible assets (EUR -32 mln), in addition to the decrease in the non-deductible deductions relating to significant financial investments and DTAs (EUR +102 mln);
- decline in the neutralisation of the impact of IFRS 9 connected to the first-time adoption of the accounting standard as set forth in Regulation (EU) 2017/2935 (inclusive of the positive effect of the related DTAs), equal to a total of EUR -266 mln, due to the filter going from 70% to 50%;
- sterilisation of the capital impacts associated with the increase in credit value adjustments recognised in the period as at 30 June 2021 with respect to 1 January 2020 for stage 1 and 2 portfolios as set forth in Regulation (EU) 2020/873. This Regulation calls for the reintroduction within CET1 of a progressively decreasing share of the effect of higher adjustments, expected to be equal to 100% in 2021: as at 30 June, this effect was equal to EUR -106 mln (including the related tax effect);

Therefore, the Parent Company, on a consolidated basis, meets all capital requirements, including those relating to the P2G.

Tier 2 fell by EUR -123 mln compared to the end of December 2020, due to the reduction in the contribution to Tier 2 of the excess value adjustments over expected losses.

Hence, the Total Capital Ratio reflects an overall decrease in own funds equal to EUR -118 mln.

The RWAs recorded a slight overall increase equal to EUR 82.8 mln. Notably, there was a decrease in the RWAs related to credit and counterparty risk (EUR -255.1 mln): this was the result of an increase due to the update of the AIRB models following the 2019 ECB inspections for EUR 1.2 bn which was more than offset by the effect of public guarantees on new disbursements and the reduction in RWAs related to standard credit risk. There was also: an increase in CVA risk (EUR 372.5 mln), essentially due to the new methods of calculating CRR II; an increase in RWAs for market risks (EUR 99.4 mln) and a decrease in RWAs for operational risk (EUR -134.2 mln). Overall, as a result of the new CRR II, RWAs increased by around EUR 600 mln.

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

In particular, the ECB announced that it will allow large banks to temporarily operate below the capital level defined by Pillar II Capital Guidance, the Capital Conservation Buffer (CCB) and the Liquidity Coverage Ratio (LCR). These temporary measures are in addition to the decrease in countercyclical buffer rates applied by some national authorities.

With regard to regulatory developments on capital requirements, in May 2021 the final decision was received concerning the two inspections carried out by the ECB (IMI 4357 and 5258) for the revision of the AIRB models by the Group in 2019 (Model Change 2019). The new AIRB models were implemented in production starting from 30 June 2021, resulting in an increase in RWA of around EUR 1.2 bn compared to June 2021: there will be an estimated further increase of around EUR 3 bn in the coming quarters, as the updating of internal ratings with the new models is gradually completed.

These models were calibrated using the new definition of default in 2020 (Model Change 2019 NDOD), aligning the estimates of the models to the NDOD introduced in the internal credit processes starting from 1 January 2021; this change was also reviewed by the ECB with a special inspection (IMI 4857), for which the final decision was sent to the Group in July 2021. The update of the NDOD models will be implemented from 3Q2021 with an estimated RWA increase equal to approx. EUR 0.5 bn.

Also, in 2021 the Group will re-estimate the models for full alignment with the EBA Guidelines (EBA-GL-2017-16) with an expected increase in RWAs estimated at around EUR 4.3 bn. This restatement will be reviewed by the ECB in the fourth quarter of 2021 and the impact will be included in the capital requirements not before the second quarter of 2022.

Lastly, it should be noted that the Group has taken part in the 2020 EU-wide stress test, the results of which were published on 30 July 2021. These are consistent with the Capital Plan sent to the ECB on 29 January 2021, which provides for a capital strengthening of EUR 2.5 bn.

In the baseline scenario, the CET1/T1 *ratio* would go from 9.9% to 9.3% at the end of the three-year horizon, on a fully loaded basis.

Including the impact of the sale of treasury shares, the change in the valuation criteria of the real estate portfolio, the synthetic securitisation announced on 23 July, and the 1Q21 profit, the Bank's Fully Loaded CET1 - after the hypothetical EUR 2.5 bn share capital increase and in the adverse scenario - would be equal to 6.6%.

For further information, please refer to the section "Prospects and outlook on operations".

Disclosure on risks

Risk Governance

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

Policies relating to the assumption, management, coverage, monitoring and control of risks are defined by the Board of Directors of the Parent Company. Specifically, the Board of Directors periodically defines and approves strategic risk management guidelines and quantitatively expresses the Group's overall risk appetite, in line with the annual budget and multi-year projections.

For 2021, at the beginning of the year, the Board of Directors of Banca Monte Paschi di Siena S.p.A. approved the "Group Risk Appetite Statement 2021" (RAS 2021) for the Montepaschi Group and its breakdown by Legal Entity/Business Unit.

The Risk Control Function is specifically assigned the task of conducting the monitoring of indicators, drawing up a periodic report for the Board of Directors and implementing the escalation/authorisation processes in the event of overdrawn amounts.

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

In addition, the ICAAP and ILAAP packages were sent to the Regulator in accordance with the ECB's regulatory prescriptions set forth in the "ECB Guide to the internal capital/liquidity adequacy process (ICAAP/ILAAP)" of November 2018 and the "Technical implementation of the EBA Guidelines on ICAAP/ILAAP information for SREP Purposes".

The Montepaschi Group is one of the Italian banks subject to the ECB's Single Supervisory Mechanism. In the first half of 2021, the Group has continued to actively support interaction with the ECB-Bank of Italy Joint Supervisory Team (JST).

For additional information, see the Consolidated Report on Operations as at 31 December 2020, available in the Investor Relations section on the website www.mps.it.

Internal Capital

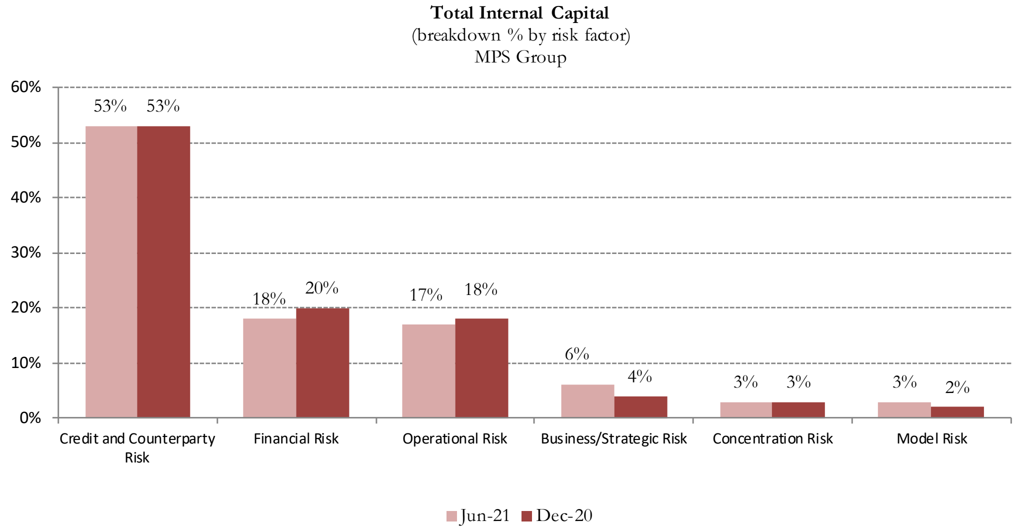
Risk assessment models

The Internal Capital is the minimum amount of capital resources required to cover economic losses resulting from unforeseen events caused by exposure to different types of risk.

With regard to the methods used to measure Internal Capital, compared to what is noted in the Explanatory Notes to the 2020 Consolidated Financial Statements, there are no significant methodological changes to report. The approach used to quantify the risks-to-capital, to which the Group is exposed, is the one referred to in the literature as Pillar 1 Plus. This approach envisages that the Pillar 1 requirements for Credit and Counterparty Risk (which already include those relating to Issuer Risk on the Banking Book, Equity Investment Risk and Real Estate Risk) and Operational Risk, be increased by the requirements from internal models relating to Market Risks, both Trading Book and Banking Book, Banking Book Interest Rate Risk (Financial Risks), Concentration Risk, Business/Strategic Risk and Model Risk.

Overall Internal Capital is calculated without considering inter-risk diversification, therefore simply by adding together the internal capital contributions of the individual risks (Building Block). This approach is consistent with the prudent approach suggested by the SREP (Supervisory Review and Evaluation Process) Guidelines published by the EBA.

Risk exposure



The Group also manages and quantifies Liquidity Risk on an ongoing basis (risk-to-liquidity, as defined in the SREP Guidelines) through internal organisational methodologies and policies.

Main risks and uncertainties

<u>Risk identification</u>

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

After identification, risks are mapped into significance classes. Credit risk, market risk and operational risk, which includes legal risk, business and strategic risk, as well as liquidity risk for the funding risk and liquidity risk components, were included in the high significance class (more information in the following paragraph).

The medium significance class included counterparty risk, interest rate risk on the banking book, equity and reputational risk, model risk and compliance risk, cyber risk and IT risk, as well as - on the liquidity side - the asset concentration risk, funding concentration risk and intraday liquidity risk.

The remaining risks were classified as low significance or insignificant.

The most significant risks and uncertainties at this moment are described below.

<u>Risks linked to the expected capital shortfall</u>

The Group estimates an expected capital shortfall with respect to overall capital requirements. To address the expected shortfall, the 2021-2025 Strategic Plan and the Capital Plan were approved and sent to DG Comp and the ECB for the necessary assessments. In the event that the implementation of a structural solution (aggregation with another bank or transfer to the market of shares held by MEF and/or to Italian and international investors) does not take place in the short/medium term, the Capital Plan envisages a capital strengthening of EUR 2.5 bn.

In the absence of the "structural solution", DG Comp should evaluate the intervention of the State on the basis of the Bank's stand-alone viability. This assessment poses, in principle, significant uncertainties on the Parent Company's capital strengthening process and on a capital increase at market conditions. If the State intervention were to be classified by DG Comp as "State aid", the principle of cost sharing envisaged by regulations in force would be applied.

Lastly, if DG Comp and the ECB deem the Group to be non-viable, this would trigger the resolution process or, if the resolution was not deemed to be in the public interest, the orderly liquidation of the Group.

Risks associated with regulatory stress tests

The Group has participated in the 2021 EU-wide stress test and is therefore exposed to the uncertainties deriving from its outcome. The outcome of the exercise was published by the EBA on 30 July 2021 and will be discussed with the supervisory authorities (JST ECB-Bankit) in view of the SREP 2021 process. Therefore, it cannot be ruled out that, following these discussions, a greater need for capital strengthening might be identified than the one previously estimated by the Parent Company.

Operational risk

Exposure to operational risk is confirmed as highly significant. Particularly significant issue with prospects not yet fully outlined include disputes pending against previous representatives in relation to the share capital increases for the period 2008-2015, as well as the burden sharing carried out in 2017 at the time of the precautionary recapitalisation.

Other important components for the purposes of exposure to operational risk are cyber security risk and IT risk, also due to the extension of the use of web collaboration and smart working tools. However, it is believed that these potential risks can be mitigated in light of the numerous initiatives adopted, such as the strengthening of the access authentication system.

Business and strategic risk

The heavily negative context connected to the COVID-19 pandemic inevitably had repercussions on the business dynamics of the MPS Group in 2020 and in the first half of 2021. Despite the prospective benefit of the vaccination campaigns, uncertainty remains high regarding the timing of normalisation, also following the recent spread of new variants of the virus, with the prospect of the risk connected to economic and market dynamics still characterized by high degrees of uncertainty.

From a strategic perspective, the Group is waiting for the approval of the new Business Plan by DG Comp, with the associated risks related to the schedule and possible change in contents in the discussions with the institutional parties involved.

This process is intertwined with the path that arises from the commitment undertaken by the Italian State to dispose by the end of 2021 of its stake in MPS, acquired following the precautionary recapitalisation of 2017. So far, a specific implementation strategy to meet this commitment has not been found: compliance is pursued mainly by searching for a structural solution and, only subordinately, through a capital increase, the execution of which is in any case subject to approval by DG Comp and the European Central Bank for the relevant aspects.

Funding risk and liquidity risk

In general, during the first half of 2021, the Group's liquidity profile remained at very strong levels, consolidating the path already recorded during 2020.

With regard to funding risk, the sustainability of the funding profile (understood as the ability to finance banking activities with stable resources) was pursued, in the first half of 2021, mainly through access to additional TLTRO III auctions.

With reference to short-term liquidity risk, after having experienced, in the past, phases of stress on liquidity, the Group has gradually built a very robust liquidity position in recent years. However, it continues to be classified as "high" risk given the particular regulatory focus on internal models for determining cash outflows.

Due to its specific nature, despite the demonstrated capital strength, liquidity risk generally continues to be high as "fast-moving", sudden systematic or idiosyncratic crises may develop, with immediate and strong repercussions on both customer behaviour and market access.

Other risks

Risks associated with capital adequacy

The Group is exposed to the risk that Supervisory Authorities may impose additional requirements and/or parameters for purposes of calculating capital adequacy requirements, or adopt unfavourable interpretations, resulting in an inability to comply with the requirements, which could lead to measures restricting its profitability or other measures laid out by supervisory regulations, or make it necessary to adopt further capital strengthening measures. The Group is currently benefiting from the measures adopted by the Supervisory Authorities, with reference to both capital requirements and liquidity, intended to support banks in mitigating the economic impact of the COVID-19 pandemic.

Risks associated with audits by Supervisory Authorities

The Group is exposed to the risk that the measures taken over time to eliminate the critical issues identified by Supervisory Authorities following the audits conducted/to be conducted may not be effective. Furthermore, if the Group is unable to promptly comply with the Supervisory Authorities' requests, it could be subject to penalties, or to various measures restricting its operations, or other measures set forth by supervisory regulations.

Reputational risk

The Group's reputational profile continues to highlight certain weaknesses, mainly related to media exposure for past events, for certain proceedings still pending, despite rulings being recently issued in favour of the Bank, for the debate on the Parent Company's mission in view of the exit of the Italian State from the Parent Company's ownership structure. It cannot be excluded that, despite the mitigation measures implemented, the Group may suffer in the future an increase in its risk profile, notably with regard to liquidity risk in a negative media climate resulting from external factors such as, for example, the publication of the results of the EBA Stress Test.

Risk linked to representations and warranties given in the sales of non-performing loans

The signing of contracts to transfer portfolios of non-performing loans entailed, aside from the primary benefits for which they were carried out, also the resulting assumption of specific contractual commitments, including in particular representations and warranties ("R&W") which are binding for a specific period of time, and the violation of which entails the obligation for the Parent Company and the other Group banks (Transferors) to provide compensation to the transferees for the damage suffered through the disbursement of sums.

The compensation, or that financial amount intended to compensate a party for harm suffered, is an essential part of all disposal agreements as it is the instrument whereby the acquirer protects itself with respect to certain events and, especially, the possible faults that may be present in the credit facilities acquired.

The R&Ws, the violation of which requires the Transferors to provide compensation, always have a pre-established duration (between a minimum of 12 months and a maximum of 36 months) in order to prevent the Transferors from being overly exposed to requests for compensation and the associated disbursement risk. In standard contracts, the R&Ws protect the transferees with respect to the minimum requirements that a transferred loan is supposed to meet, such as its existence, its principal amount, the presence of the minimum documentation required to enforce it, or the elements necessary for the transferees to carry out all necessary judicial and out-of-court recovery activities.

In more exceptional cases (based on the contractual context or the agreed price), as took place for the disposal of the bad loan portfolio as part of the securitisation of loans carried out by the Group in favour of Siena NPL S.r.l. in December 2017, a particularly complex set of R&Ws issued by the Transferors was agreed upon in the contracts, outlined in a specific annex containing 62 R&Ws which govern in a very detailed manner a number of the characteristics of the loans subject to disposal, which the Transferors have represented as true and existing when the contracts were signed.

In any event, the damage subject to compensation can never exceed the price paid for the acquisition of the defective loan plus any expenses incurred and an interest component at a rate set forth in the contract and in any case at overall level a maximum amount (cap) is established beyond which the Transferors are not required to provide any compensation even in the presence of confirmed violations. The cap is generically determined as a percentage of the price paid for a specific portfolio; in particular, for the sale to Siena NPL, already mentioned, it was equal to 28%. The R&W released expired on 31 July 2021. By that date, around 10 thousand claims were received for a relief sought equal to approx. EUR 0.7 bn; of those reviewed, just over 80% were deemed unfounded.

For other sales of bad loans for which representations and warranties still apply, i.e. Race and Morgana, the expiry dates are respectively 1 September and 1 October 2021, and envisage disbursement caps equal to 15% and 20% of the disposal price for the individual portfolios.

With regard to the disposal of UTP loans, it should be noted that the representations and warranties issued to the various transferees involved in the various transactions carried out by the Group over the last few years, expire, at the latest, in May 2023.

Lastly, it should be noted that, as part of the demerger transaction known as "Hydra M", which became effective on 1 December 2020, the Parent Company issued representations and warranties in favour of AMCO, whose violation can be asserted by the beneficiary company no later than 30 November 2022 and envisage a cap of approximately 10% of the total assets of the demerged complex net of the related assets.

Risks associated with securitisations

The Group has maintained a series of exposures towards the securitisation transactions carried out and, therefore, with respect to the trend of collections and recoveries of the securitised portfolio. In this case, the exposure to the relative risks would remain, in terms of effective return and possibility of recovery of the investment made, when the flows deriving from securitised assets are lower than those expected over the life of the transaction.

Risks associated with the exposure and performance of the real estate sector

As part of its operations, the Group is exposed to risk in the real estate sector, both as a result of investments directly held in owned properties and, in the context of lending activities, as a result of loans granted to companies operating in the real estate sector, whose cash flows are mainly generated by the rental or sale of properties (known as commercial real estate), as well as from the activity of granting loans to private individuals backed by real estate collateral.

Risks related to outsourcing certain services

The Group is exposed to the risks associated with outsourcing certain services and, in particular, to risks deriving from (i) operations and continuity of outsourced services or (ii) any indemnity obligations borne by the Parent Company provided for in the contracts governing the aforementioned delegation of services.

Risks related to the economic-political context

The Group is exposed to the risk linked to the evolution of Italian economic conditions and to a general trend of the European and global economy, which continue to exhibit significant elements of uncertainty (see the "Reference context" section).

The Group's results are heavily influenced by the general economic context and by dynamics in financial markets and, in particular, by the performance of Italian economy (based on, among other things, factors such as the solidity perceived by investors, prospects of expected growth of the economy, creditworthiness, stability of the political context), as it is the country in which the Group operates almost exclusively.

Delays in the immunization campaign or the spread of resistant variants of the COVID-19 virus, in the short term, and an inefficient or incomplete implementation of the growth-promoting policies specified in the National Recovery and Resilience Plan (*Piano Nazionale di Ripresa e Resilienza, PNRR*), in the medium term, could lead to a slower recovery of the Italian economy, with effects on the sustainability of public debt and on the BTP-Bund spread, to which the Italian banking system, including the Group, is exposed. The approaching of the last six month-period before the election of the new President of the Republic (scheduled for early 2022) could produce, in the next few months, a heated political confrontation within the current government majority.

Risks associated with the COVID-19 pandemic

Starting from the last week of February 2020, the health emergency induced by the ongoing pandemic affected both market performance and commercial operations, the latter penalized by increasingly stringent containment measures imposed, which led to the interruption of many production activities in Italy and in the world.

Such economic disturbances are reflected in the modelling of forward-looking economic scenarios, used both for the definition of the SICR and for the quantification of the expected loss in accordance with IFRS 9. Estimating the impacts that the combination of factors such as GDP, interest rates, government support measures and unemployment rates, with specific sectoral factors, may have on customer solvency is highly challenging and requires a high degree of judgement to be exercised, also considering that the historical data in the current context are of little help.

In Italy, the first half of 2021 saw the launch of massive vaccination campaigns, through which it should be possible to ensure the containment of new pandemic waves and the resumption of all economic activities. This recovery, accompanied by the specific monetary and fiscal support measures put in place by governments and central banks, is expected to continue with a certain intensity in the following two-year period, however, the levels of pre-COVID activity are likely to be recovered only in the medium-long term. The recovery path will inevitably depend on the correct exploitation of the resources made available by European countries through debt-sharing instruments, the use of which however presents critical issues such as: observance of the timing of presentation of projects, the generation of effective added value from these projects, the efficiency of bureaucratic systems and national companies in carrying out projects. The risk remains that, once the phase of exceptional support of economic policies is over, growth will not be sufficiently sustained to allow the management of public (and private) debts that have considerably increased in the meantime.

If, as anticipated, the serious situation caused by the pandemic would portend an unprecedented economic crisis, on the other hand it is strongly contrasted by the measures of the budget policy in direct support to demand, included for Italy in particular in the "Cura Italia" and "Rilancio" (Relaunch) decree-laws. Measures such as the credit moratorium and public guarantees on new loans were in fact fundamental in preventing further negative effects from materializing, avoiding liquidity crises in companies.

These elements show that there is a significant potential risk, also referred to by the Supervisory Authorities, of a deterioration in assets which could arise in the coming quarters.

With reference to operational risks, the modification and/or extension of some existing processes, such as those relating to digital services, web collaboration tools and smart working tools, and the inability to implement standard business processes, but to envisage "in derogation" procedures, for example for the process of formalising contracts, inevitably exposes the Group to greater operational risks relative to possible legal disputes, potential fraud and cyber attacks.

In fact, the COVID-19 pandemic has increased the Group's level of exposure to components of Cyber Security Risk. On one hand, the threat of cyber criminals has intensified, who exploit the attention and emotions produced by the pandemic to launch targeted attacks through emails and web pages, aimed at obtaining access credentials for IT systems and payment instruments ("phishing") and spreading malware. On the other hand, phenomena such as the massive transition to smart working, the extra impetus to use banking services through remote access channels, the use of e-commerce and, more generally, the digitalisation of interpersonal relationships, give rise to new vulnerabilities, connected to users' level of preparation with respect to threats from the network and the use of personal devices and home networks that are not always adequately managed from the IT security perspective.

In this situation, the potential risks for business continuity to which the Group is exposed also increase, in relation to the increased dependence on infrastructure and network equipment to ensure user access to the information system.

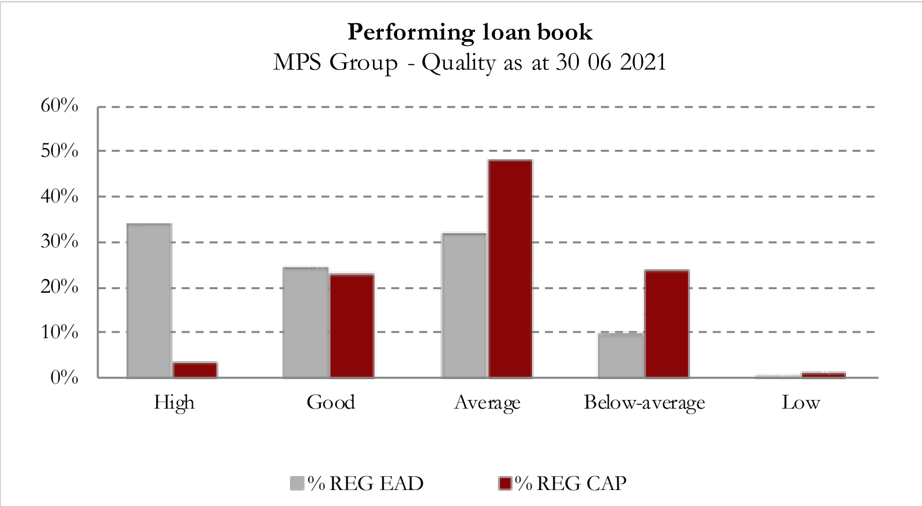
However, the Group believes that these potential risks can be mitigated in light of the numerous initiatives adopted, such as strengthening the control and monitoring system, and in consideration of the reasons that prompted the Group to promptly comply with the provisions issued in order to support the country during a health emergency and protect its production system.

Credit risks

Lending is the Group's core business and the main risk component, representing approximately 40% of the Group's total RWA (around 50% on Pillar 1 RWA). The classification as high risk has therefore remained unchanged compared to the previous year, also in view of the coming into force of new regulations for the definition of default and of the addendum on the provisioning of non-performing loans.

In general, despite weak signs of economic recovery, the global economic situation could continue to have a negative impact on the ability of the Group's customers to meet their obligations and hence produce a significant deterioration in the credit quality of the Parent Company and/or the Group, with possible negative effects on the assets and the economic and financial position of the Parent Company and/or the Group.

The chart below provides a credit quality breakdown of the Group portfolio as at 30 June 2021 by exposure to risk and Regulatory Capital. It can be seen that about 58% (60% as at 31 December 2020) of risk exposure relates to high- and good-quality customers (positions in financial assets are excluded). It should be noted that the ranking below also includes exposure to banks, government agencies and non-regulated financial and banking institutions, which are not included in the AIRB approaches. As borrowers, these entities are nevertheless subject to a credit standing assessment using official ratings, if any, or appropriate benchmark values that have been determined internally.



Risk assessment model

Credit risk is analysed in-house for management purposes using the Credit Portfolio Model, which was developed internally by the Parent Company and produces detailed outputs in the form of traditional risk measures such as Expected Loss, Unexpected Loss, both management (intra-risk diversified with a representative period of one year and a confidence interval calibrated to the target rating assigned to the Group) and regulatory. Several inputs are considered: probability of default (PD), obtained through validated and non-validated models, LGD rates (management and regulatory), number and types of guarantees supporting the individual credit facilities, regulatory and management CCF on the basis of which the regulatory and management EAD are estimated respectively.

The Group is currently authorised to use the Advanced Internal Rating Based (AIRB) models to determine capital requirements against credit risk on the portfolios of "exposures to businesses" and "retail exposures" of the Parent Company, MPS Capital Services and MPS Leasing & Factoring, and is awaiting validation of the EAD parameter and roll-out of the domestic Non Banking and Financial Institutions (NBFI) portfolio for these counterparties.

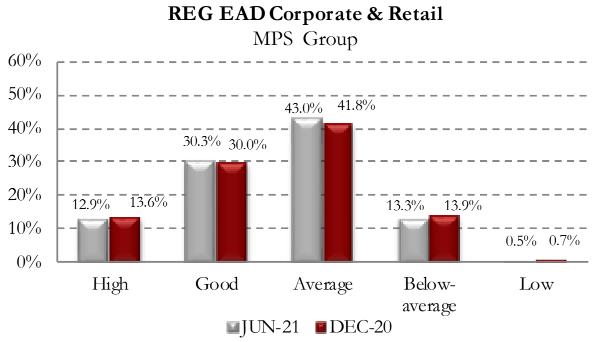
The Group has used PD, LGD and EAD parameters, estimated for regulatory purposes to calculate Risk Weighted Assets, also for other operational and internal management purposes. These provide the basis of calculation for different systems of measurement and monitoring, and specifically for the:

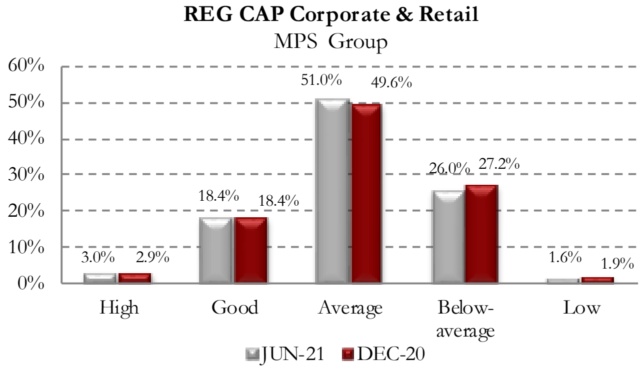
- measurement of internal and regulatory capital for credit risk;
- calculation of risk-adjusted performance and measurement of value creation;
- risk-adjusted pricing processes;
- credit direction processes;
- across all credit processes (disbursement, review, management and follow-up) which are fully "engineered" in the Electronic Loan File application (*Pratica Elettronica di Fido or PEF*), under which the borrower's rating is the result of a process which evaluates - in a transparent, structured and consistent manner - all the economic-

financial, behavioural and qualitative information regarding customers with whom the bank has credit risk exposures.

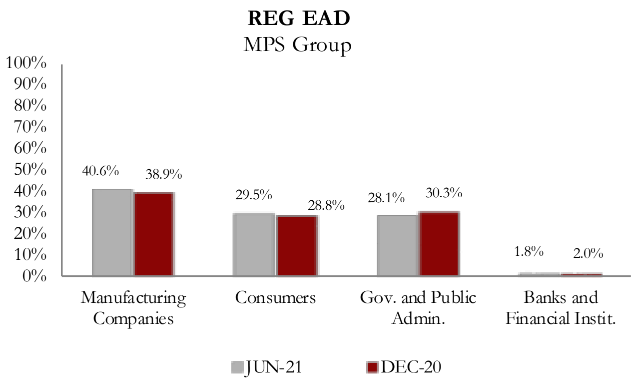
Risk exposure

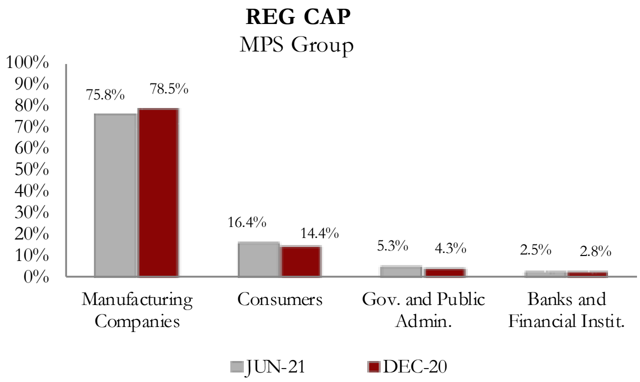
The charts below provide a credit quality breakdown of the MPS Group's portfolio (BMPS, MPS Capital Services, MPS L&F and Widiba) as at 30 June 2021 compared to the end of 2020 for Regulatory Exposure at Default (REG EAD) and Regulatory Capital (REG CAP) of the performing Corporate and Retail portfolios.





The charts below show the distribution of the MPS Group's REG EAD and REG CAP by type of customer as at 30 June 2021 compared to the end of 2020.





Counterparty risk

Risk assessment model

With regard to the Counterparty Risk measurement methods, there are significant changes to report compared to 2020.

- As envisaged by the regulatory provisions, in measuring exposure to counterparty risk the Group used the new regulatory approach defined in CRR2 as "standardised approach for counterparty risk" (SA CCR) to calculate Exposure at Default (EAD) for derivative transactions and LST (Long Settlement Transactions), effective from 30 June 2021, and the comprehensive approach specified in CCR to calculate the EAD for SFTs (Securities Financing Transactions). For management purposes, the MPS Group maintains the market value model for calculating the EAD for the Derivatives and LST sectors and the comprehensive approach for the SFT sector.
- The counterparty risk measurement perimeter comprises all Group banks and subsidiaries, with regard to positions held in the Supervisory Banking Book and Trading Book.
- The capital requirement for Credit Value Adjustment (CVA) along with the insolvency requirement covers unforeseen losses recorded in the OTC Derivatives segment following a change in counterparty creditworthiness, excluding central counterparties and non-financial counterparties below the EMIR clearing threshold. The Group calculates the CVA requirement using the standardised method envisaged by the Basel/CRD IV regulatory framework. For the calculation of this requirement, the regulatory update of the method for calculating the EAD value is taken into account as indicated in the first point of this paragraph.

Exposure to sovereign debt risk

We provide below a breakdown of the Group's exposure to sovereign debt risk in government bonds, loans and credit derivatives as at 30 June 2021.

The exposures are broken down by accounting categories.

COUNTRY	DEBT SECURITIES					LOANS	CREDIT DERIVATIVES
	Financial assets measured at fair value through profit or loss		Financial assets measured at fair value through other comprehensive income		Financial assets measured at amortised cost	Financial assets measured at amortised cost	Financial assets held for trading
	Nominal	Fair value=book value	Nominal	Fair value=book value	Book value	Book value	Nominal
Argentine	0.3	-	-	-	-	-	-
Austria	10.0	10.0	-	-	-	-	-
Azerbaijan	-	-	-	-	0.3	-	-
Belgium	5.0	4.2	8.0	6.7	-	-	-
France	10.0	9.6	15.0	14.0	7.4	-	-
Germany	10.0	9.3	-	-	-	-	-
Greece	-	-	50.0	50.1	-	-	-
Italy	2,750.0	2,441.5	4,211.0	4,282.2	5,793.0	1,863.6	3,472.6
Mexico	-	-	15.0	14.4	-	-	-
Peru	-	-	2.0	2.0	-	-	-
Portugal	6.0	5.5	20.0	21.6	2.5	-	-
Romania	-	-	15.0	15.7	-	-	-
Spain	38.4	44.0	10.0	10.2	1,400.8	-	-
United States	-	-	66.5	68.9	-	-	-
South Africa	-	-	5.0	5.6	-	-	-
Turkey	2.3	2.4	-	-	-	-	-
Other Countries	5.3	5.7	(0.1)	-	(0.1)	-	-
Total 30 06 2021	**2,837.3**	**2,532.2**	**4,417.4**	**4,491.4**	**7,203.9**	**1,863.6**	**3,472.6**
Total 31 12 2020	**158.7**	**42.0**	**4,796.5**	**4,897.7**	**7,241.0**	**1,749.9**	**3,415.9**

As at 30 June 2021, the residual duration of the exposure to sovereign debt was 5.07 years.

Market risks

Market risk continues to be a significant risk for the Group, given the potential volatility of the underlying market variables, with particular reference to sovereign exposures, both in the Trading and in the Banking Book, as also confirmed by the Supervisor, which has pointed out the significant exposure and concentration of the Group on Italian government bonds in terms of issuer risk and the corresponding vulnerability of the portfolio to unfavourable changes in market conditions, in particular in regard to the Italian credit spread, for positions mainly classified under AC (Amortizing Cost). The relevance of market risks is also confirmed in view of the prospects for future regulatory changes of capital requirements regarding the trading portfolio (Fundamental Review of the Trading Book).

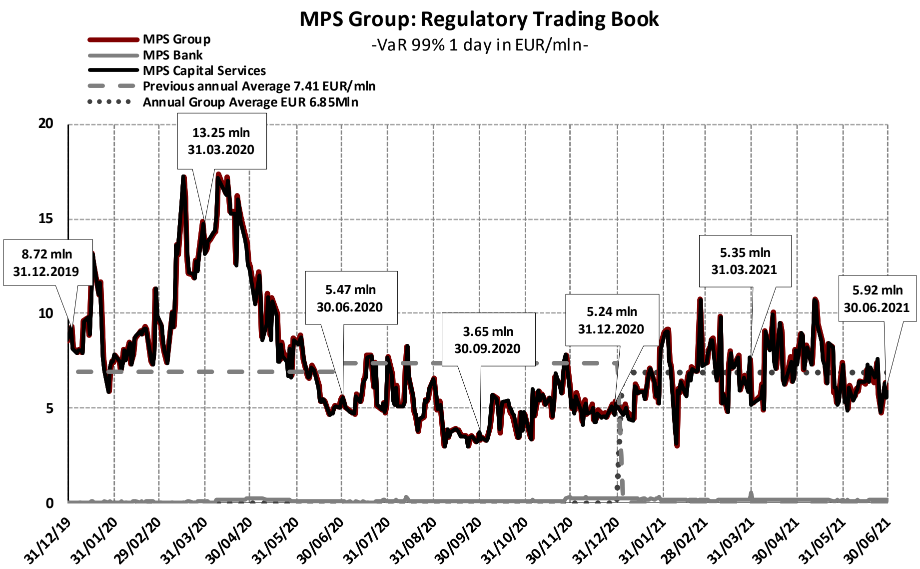
Despite the spread remaining in 2021 at the very low levels of the last five years, as a condition for greater capital stability, in terms of market risks, the Group has decided to apply the temporary prudential filter for the 2020-2022 period to positions at FVOCI as set forth in art. 468 of Regulation (EU) 2020/873 of the European Parliament and of the Council of 24 June 2020 as part of the adjustments in response to the COVID-19 pandemic, effective as of the reference date of 30 June 2020. Following the adoption of this treatment, the change in the FVOCI Reserve on government securities of EU Member States calculated with respect to the level at the end of 2019 is sterilised with the application of the phase-in coefficients set by the regulation (100% for 2020, 70% for 2021 and 40% for 2022), resulting in a stabilisation of the prospective capital effects related to the variability in the market parameters for the Group's FVOCI portfolio sensitive to the Italian credit spread risk. However, a further future worsening of the Reserve and/or losses on the segment as a result of the evolution of the risk factors cannot be excluded.

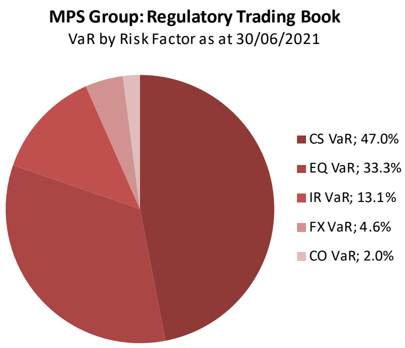
From a management perspective, market risk on the Group's Regulatory Trading Book, measured as VaR, equal to EUR 5.92 mln as at 30 June 2021, has increased slightly compared to the end of March (EUR 5.35 mln) and is lower than the yearly average (EUR 6.85 mln).

During the first half of the year, VaR trends were influenced by the subsidiary MPS Capital Services, mainly for own trading activities in the Credit Spread – Interest Rate segment (transactions in Italian government bonds and long futures) and, to a lesser extent, Client-Driven activities in the Equity segment (options and equity futures on the main market indices). The Parent Company's portfolio contribution to total VaR was negligible.

During the six-month period, VaR volatility resulted from the activities at the auctions on Italian government securities carried out by the subsidiary MPS Capital Services as primary dealer, with temporary changes in the exposure to Italy CS risk, mainly short-term. The contribution of the EQ segment on total VaR increased in the six-month period, linked to bancassurance product structuring activities.

During the six-month period, the average of Italian sovereign bonds held in the Group's trading books rose to roughly EUR 4.1 bn in nominal terms (an EUR 0.67 bn increase compared to the average in the second half of 2020), resulting in an increase in the average VaR (EUR 1.85 mln) compared to the second half of the previous year.





The VaR breakdown shows that the Credit Spread (CS) is the main risk factor, accounting for 47.0% of the Regulatory Trading Book Gross VaR of the Group, with Equity (EQ) accounting for 33.3%, Interest Rate (IR) for 13.1%, Forex (FX) for 4.6% and Commodity (CO) for 2.0%.

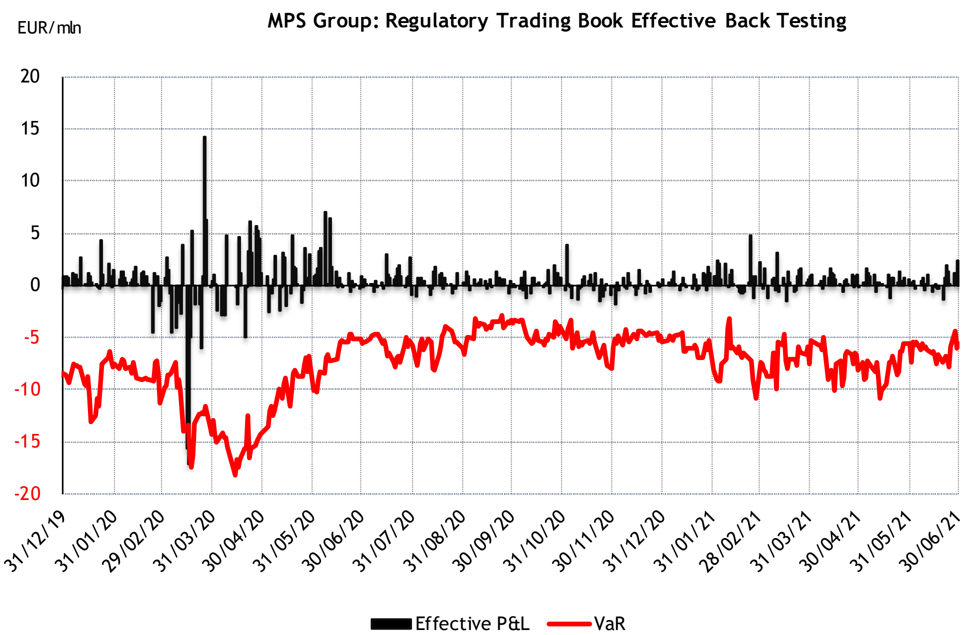
MPS Group: Regulatory Trading Book VaR 99% 1 day in EUR/mln

	VaR	Date
End of Period	5.92	30/06/2021
Min	3.04	09/02/2021
Max	10.79	25/02/2021
Average	6.85	

In the first six months of 2021, the Regulatory Trading Book Gross VaR of the Group ranged between a low of EUR 3.04 mln on 9 February 2021 and a high of EUR 10.79 mln on 25 February 2021, with an average value of EUR 6.85 mln. The Regulatory Trading Book VaR as at 30 June 2021 was equal to EUR 5.92 mln.

VaR model backtesting

The chart below shows the effective backtesting results of the internal Market Risks model in relation to the Group's Regulatory Trading Book for 2020 and the first six months of 2021:



No exceptions in the first half of 2021.

Structured credit product

As at 30 June 2021, the securities positions on structured credit products other than own securitisations had a book value of EUR 356.9 mln, compared to EUR 385.2 mln as at 31 December 2020.

This section does not analyse the securitisations issued by Siena NPL from the disposal of bad loans on 22 December 2017 since, although the Group has no stake in the vehicle and the notes are not held for liquidity requirements (self-securitisations), the loans transferred to the vehicle were originated by the Group. Likewise, the ABS issued by the Norma SPV as part of a securitisation of non-performing loans, also originated by banks outside the Group, are not considered.

With regard to the regulatory classification, the positions in securities on structured credit products are primarily held by the subsidiary MPS Capital Services (94.0%) and allocated mainly to the Regulatory Trading Book (88.4% of the total). The remaining positions are held by the Parent Company. The most common accounting classification is the category "Financial assets measured at fair value through profit or loss" (88.4%), followed by the categories "Financial assets measured at amortised cost" (6.0%) and "Financial assets measured at fair value through other comprehensive income" (5.6%).

The underlying asset categories transferred are predominantly residential mortgage loans (39.2%) and non-performing loans (19.8%). It should be noted that, for the second category, 49.6% of the positions held have benefited from the public guarantee on securitisations (known as GACS).

Geographically speaking, the countries the loans transferred were granted in are Italy (53.4%), Ireland (13.0%) and the Netherlands (10.3%).

In terms of structured credit product risk, 88.6% of the book value of the exposures consists of investment grade securities (with rating up to BBB- included); they are mostly senior tranches (72.8%), followed by mezzanine (23.3%) and junior (3.9%) tranches.

Liquidity risk

Risk assessment model

The Group has used a **Liquidity Risk Framework** for many years now, intended as the set of tools, methodologies, organisational and governance setups which ensures both compliance with national and international regulations and adequate liquidity risk governance in the short (Operating Liquidity) and medium/long (Structural Liquidity) term, under business as usual and stress conditions. The reference Liquidity Risk model for the Montepaschi Group is "centralised" and calls for the management of short-term liquidity reserves and medium/long-term financial balance at Parent Company level, guaranteeing solvency on a consolidated and individual basis for the Subsidiaries.

The management of the Group's **Operational Liquidity** aims at ensuring the capacity of the Group to meet the cash payment obligations within a short-term time frame. The essential condition for a normal course of business in banking is the maintenance of a sustainable imbalance between cash inflows and outflows in the short term. From the operational perspective, the benchmark metric in this respect is the difference between net cumulative cash flows and Counterbalancing Capacity, i.e. the reserve of liquidity in response to stress conditions over a short time horizon, in addition to the Liquidity Coverage Ratio (LCR) regulatory measure - Delegated Act. From the extremely short-term perspective, the Group adopts a system for the analysis and monitoring of intraday liquidity, with the goal of ensuring normal development during the day of the bank's treasury and its capacity to meet its intraday payment commitments.

Management of the Group's **Structural Liquidity** is intended to ensure the structural financial balance by maturity buckets over a time horizon of more than one year, both at Group and individual company level. Maintenance of an adequate dynamic ratio between medium/long-term assets and liabilities is aimed at preventing current and prospective short-term funding sources from being under pressure. The benchmark metrics are gap ratios which measure both the ratio between deposits and loans over more-than-1-year and the ratio between deposits and retail loans (regardless of their maturities or for maturities exceeding 3 years), in addition to the regulatory measurement of the Net Stable Funding Ratio (NSFR) in accordance with the BCBS definition. The Group also defined and formalised the asset encumbrance management and monitoring framework with the goal of analysing:

- the overall degree of encumbrance of total assets;
- the existence of a sufficient quantity of assets that may be encumbered but which are free;

- the Group's capacity to transform bank assets into eligible assets (or in an equivalent manner, to encumber non-eligible assets in bilateral transactions).

The liquidity position is monitored under business-as-usual conditions and under specific and/or system-wide **stress** scenarios based on the Liquidity Stress test Framework. The exercises have the twofold objective of promptly reporting the Bank's major vulnerabilities in exposure to liquidity risk and allowing for prudential determination of surveillance levels, to be applied to the Liquidity Risk measurement metrics within the scope of the annual Risk Appetite Statement.

Risk exposure

As at 30 June 2021, the MPS Group was adequate in terms of both Operating Liquidity, with an LCR equal to 194.2%, and Structural Liquidity, with an NSFR equal to 135.1%.

It should also be noted that the ratio of 1-month balance to the Group's consolidated assets is equal to 19.9%.

Operational risks

Risk assessment model

The Group has an advanced internal system for operational risk management, which has the following key characteristics:

- Model type: Advanced Measurement Approach (AMA) in combined use AMA/BIA (Basic Indicator Approach). Mixed LDA/Scenario approach with Loss Distribution Approach (LDA) on internal and external historical series and Scenario Analyses (management evaluations of contextual and control factors and on the main operational criticalities);
- Confidence level: 99.90%;
- Holding period: 1 year;
- Scope: all Group companies;
- Risk measures: operating losses and capital absorption.

The approach defines the standards, methods and instruments that make it possible to measure risk exposure and the effects of mitigation by business area.

Risk exposure

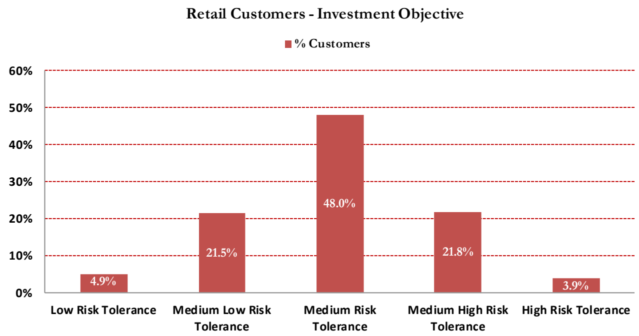
As at 30 June 2021, the number of operational risk events observed in the first half of the year was unchanged compared to those observed in 2020 while the losses were higher. The Regulatory Requirement was essentially stable compared to December 2020.

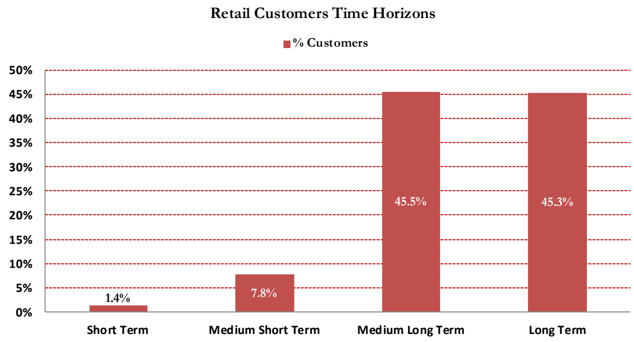
Financial risks of investment services

From 3 January 2018, the MiFID II directive (2014/65/EU) came into force in the entire European Union. Together with MiFIR or Markets in financial instruments regulation (EU Regulation 600/2014), this has changed the reference framework of European legislation.

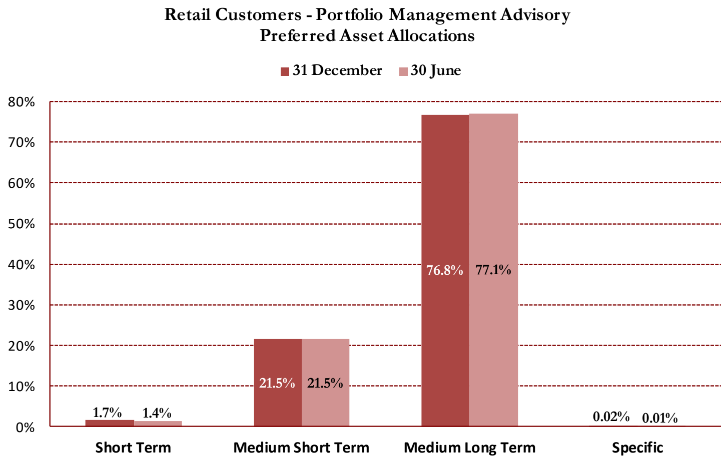
Banca MPS and Banca Widiba have revised the methods of customer profiling and the rules for determining the indicators underlying a customer's risk profile, adopting a new MiFID questionnaire introduced on 2 January 2018.

The graphs below show the distribution as at 30 June 2021 of the Investment Objective and Time Horizon indicators issued by Retail customers who have fully completed the MiFID questionnaire and who hold positions in investment products.





At the end of June 2021, the portfolios held by Retail customers on the basis of formalised "advanced" advisory proposals to obtain optimum asset allocation were mainly distributed into the recommended, long-term, asset allocation macro-classes.



Main types of legal, employment and tax risks

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

In this context, the proceedings involving the MPS Group also experienced slowdowns and some deferments, with a generalised postponement of the deadlines of the proceedings as well as hearings, scheduled, mostly electronically, in compliance with the rights of defence of the parties as established by each court.

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

Legal disputes and out-of-court claims

The risks associated with legal disputes – i.e. disputes brought before judicial authorities and arbitrators – are carefully reviewed by the Group.

In case of disputes and out-of-court claims for which the disbursement of financial resources to perform the underlying legal obligation is believed to be "probable" and the relevant amount can be reliably estimated, allocations are made to the Provisions for risks and charges using statistical or analytical criteria.

The following were pending as at 30 June 2021:

- legal disputes with total relief sought, where quantified, equal to approx. EUR 4.9 bn. In particular:
  - approx. EUR 2.2 bn relief sought in disputes for which the risk of losing the case is deemed "likely" and provisions of EUR 1.0 bn have been made;
  - approx. EUR 1.0 bn relief sought in disputes for which the risk of losing the case is deemed "possible";
  - approx. EUR 1.7 bn relief sought in the remaining disputes, for which the risk of losing the case is deemed "remote";
- out-of-court claims with total relief sought, where quantified, equal to approx. EUR 5.0 bn. Specifically:
  - approx. EUR 5.0 bn in relief sought from claims for which there is a "likely" risk of losing the case;
  - approx. EUR 0.02 bn in relief sought from claims for which there is a "possible" risk of losing the case.

On 21 July 2021, the Parent Company and the Fondazione Monte dei Paschi di Siena reached a preliminary agreement approved by the BoD of the Parent Company on 5 August 2021, on out-of-court claims that may be summarised as referring to the Banca Antonveneta acquisition, the 2011 capital increase and the 2014-2015 capital increases. The preliminary agreement provides for a final settlement of any pending dispute, in addition to the payment of EUR 150 mln and a commitment to enhance the Parent Company's artistic heritage. As a result of this preliminary agreement, after the execution of the settlement, Banca MPS will be able to reduce the claims for compensation, currently equal to EUR 3.8 bn.

Considering also the effects of this preliminary agreement, concluded after 30 June 2021, the total relief sought extrajudicially would be reduced to approx. EUR 1.2 bn. In particular:

- approx. EUR 1.2 bn in claims attributable to disputes for which there is a "likely" risk of losing the case;
- approx. EUR 0.02 bn in claims attributable to disputes for which there is a "possible" risk of losing the case.

Note that the Group has exercised the possibility granted by IAS 37 of not providing detailed disclosures on the provisions allocated in the financial statements if such information may seriously jeopardise its position in disputes and in potential settlement agreements.

The main information of the most significant cases, by macro-category or individually, is provided below.

Disputes regarding compound interest, interest and conditions

Following the change in orientation by the Supreme Court of Cassation (*Corte di Cassazione*) on the legitimacy of the practice of capitalising on a quarterly basis the interest payable accrued on current accounts, as of 1999 there has been a progressive increase in claims for the return of interest expense resulting from quarterly compound interest. In these lawsuits, the plaintiffs also contest the legitimacy of the interest rate and the methods to determine the commissions applied to the accounts. In this regard, the interpretation introduced since 2010 by the Supreme Court on usury - according to which overdraft fees (*Commissioni di Massimo Scoperto*), even before Italian Law no. 2/2009 was enforced, should have been calculated on the basis of the effective global rate (*Tasso Effettivo Globale* - TEG), contrary to Bank of Italy guidelines - is frequently the pretext for the actions brought by customers. The plaintiffs most often claim irregularities in current account balances; however, claims concerning compound interest are also increasingly frequent: these cases are based on the alleged illegitimacy of the so-called "French-style amortisation" in mortgage loans, and violation of Italian Law no. 108/1996 on usury in term loans. Aware that the jurisprudential interpretation is often disadvantageous (although not unanimous), at least with respect to certain issues, the Group is committed to maximising the arguments in its defence - which do exist, particularly concerning the statute of limitations - identifiable in the regulatory and interpretative framework. For this type of dispute, provisions for risks have been made equal to EUR 124.3 mln (against total relief sought of EUR 295.8 mln), compared with EUR 127.2 mln recognised as at 31 December 2020 (against relief sought of EUR 303.1 mln).

Dispute regarding bankruptcy rescindments

The reform implemented from 2005 has reduced and limited the scope of bankruptcy rescindments, particularly those relating to current account remittances. For those that can still be filed, or already pending at the effective date of the reform, the Group is giving maximum emphasis to all the arguments available in defence. For this type of dispute, as at 30 June 2021, provisions for risks had been made equal to EUR 24.8 mln (total claims equal to EUR 127.1 mln), compared to EUR 26.2 mln recognised as at 31 December 2020 (against claims equal to EUR 131.4 mln).

Disputes concerning bonds issued by countries or Companies that subsequently defaulted, and financial plans

The considerable defensive efforts made in this type of lawsuit resulted over the years in the emergence of some favourable jurisprudential orientations, at least with respect to certain specific cases, which are allowing balanced risk control. It should be noted that starting from 2015, several unfavourable rulings were issued by the Supreme Court – with its latest order no. 6252 published on 14 March 2018 by the Civil Cassation Section 1 - pursuant to which "the financial product called 4You does not entail an interest worthy of protection, under the regulatory framework, as it does not comply with the general principles set forth in art. 38 and 47 Italian Const.", due to the evident synallagmatic unbalance. Following these judgements it is considered established that the judicial decisions are likely to be unfavourable with regard to the Parent Company's reasons. For this type of dispute, provisions for risks were made equal to EUR 7.2 mln (against total relief sought equal to EUR 21.3 mln), compared to EUR 8.1 mln recognised as at 31 December 2020 (against total relief sought equal to EUR 24.0 mln).

Dispute with purchasers of subordinated bonds issued by Group companies

Following the burden-sharing plan implemented in 2017 in application of Decree-Law no. 237/2016, some investors who had purchased subordinated bonds issued by Group companies (later becoming shareholders as a result of the aforementioned measure, with resulting losses compared to the amount initially invested) sued the Parent Company, claiming that, at the time of the investment, it did not inform customers regarding the nature and characteristics of the financial instruments purchased, also raising objections on the proper fulfilment of obligations with which the Parent Company must comply as a financial intermediary.

This dispute is primarily related to investments in Lower Tier II bonds; indeed, in the majority of the cases the investors had their securities converted into ordinary shares pursuant to the law, without being able to benefit from the public offering for settlement and exchange promoted by the Parent Company pursuant to Decree no. 237/2016 (known as Burden Sharing Decree).

However, for the sake of comprehensiveness, we would like to point out other cases in which although the counterparties purchased Upper Tier II securities, they claim that they were unable to participate in the public offering due to misselling by the Parent Company, or in any event they had objections relating to the Upper Tier II securities purchased after 31 December 2015 (cut-off date).

Lastly, a limited number of disputes concerns cases in which investors sold their bonds prior to the Burden Sharing pursuant to Decree no. 237/2016.

The focus of the opposing claims is concentrated on the alleged lack of disclosure and/or in any case violations of specific regulations on financial intermediation.

The total relief sought in these disputes as at 30 June 2021 was equal to EUR 46.9 mln (EUR 49.9 mln as at 31 December 2020), while the provisions made were equal to EUR 27.3 mln (down by EUR 2.3 mln compared to 31 December 2020).

Disputes and out-of-court claims related to financial information distributed in the 2008-2015 period

The Parent Company is exposed to civil action, to the consequences of decisions arising from criminal proceedings (29634/14 and 955/16), and to out-of-court claims with regard to the financial information disclosed during the 2008-2015 period.

As at 30 June 2021, the total relief sought for this type of dispute was equal to approx. EUR 5.7 bn, divided as follows (data in EUR mln):

Type of dispute	30/06/21	31/03/21	31/12/20
Civil dispute	677	676	662
Filed civil claim cp 29634/14	137	137	137
Filed civil claim cp 955/16 *	158	159	177
Out-of-court claims **	4,693	4,672	4,698
Total claims	**5,665**	**5,644**	**5,674**

(*) The decrease in relief sought is due to the fact that following the conviction handed down by the Court of Milan on 15 October 2020, the justifications of which were filed on 7 April 2021, about a hundred civil parties were excluded. The relief sought had been considered to be at likely risk.
(**) On 21 July 2021, the Parent Company and the Fondazione Monte dei Paschi di Siena reached a preliminary agreement approved by the BoD of the Parent Company on 5 August 2021, concerning the out-of-court claims, agreement that provides for a settlement that would definitively settle all pending disputes. As a result of this agreement, Banca MPS will be able to reduce the claims for compensation equal to EUR 3.8 bn.

The main lawsuits are outlined below by type.

Banca Monte dei Paschi di Siena S.p.A. vs. Alken Fund Sicav and Alken Luxembourg S.A.

On 22 November 2017, the counterparties (the "Funds") served a complaint on the Parent Company, as well as Nomura International, Giuseppe Mussari, Antonio Vigni, Alessandro Profumo, Fabrizio Viola and Paolo Salvadori, before the Court of Milan, requesting that the court confirm and declare: (i) the alleged liability of the Parent Company pursuant to art. 94) of the Consolidated Law on Finance, as well as for the deeds of defendants Mussari, Vigni, Profumo and Viola pursuant to art. 2935 of the Italian Civil Code due to the offences perpetrated against the plaintiffs; (ii) the alleged liability of defendants Mussari and Vigni in relation to investments made by the Funds in 2012 on the basis of false information; (iii) the alleged liability of defendants Viola, Profumo and Salvadori in relation to investments made by the Funds subsequent to 2012; and (iv) the alleged liability of Nomura pursuant to art. 2043 of the Italian Civil Code and, as a result, order BMPS and Nomura jointly and severally to provide compensation for financial damages equal to EUR 423.9 mln for Alken Funds Sicav and EUR 10 mln for lower management fees and reputational damage to the management company Alken Luxembourg SA, as well as jointly and severally with Banca MPS and Nomura the defendants Mussari and Vigni for damages resulting from the investments made in 2012, and Viola, Profumo and Salvadori for damages subsequent to 2012. The counterparties also requested that the defendants be ordered to provide compensation for non-financial damages upon confirmation that they were guilty of the offence of providing false corporate disclosures. The Parent Company duly appeared and set out is defence. In the alternative, for the denied possibility of granting the opposing applications, the Parent Company applied for recourse against Nomura. The first hearing, initially set for 18 September 2018, was deferred to 11 December 2018, in order to allow discussion between the parties on the transversal issues formulated by a number of defendants. It should be noted that in the judgement, three individuals intervened, separately and independently, claiming damages for a total of approx. EUR 0.7 mln. At the hearing of 11 December, the Judge reserved his decision on the preliminary objections raised by the parties. Upon lifting the reservation and accepting the objections raised by all the defendants, the Judge declared Alken's summons null and void, due to failure to specify the dates of the share purchases and the nullity of the powers of attorney, assigning the plaintiffs a deadline of 11 January 2019 to supplement the applications and rectify the defects of the powers of attorney. On the other hand, the judge considered Alken's claims concerning the alleged incorrect accounting of the claims to be sufficiently specific and rejected the plea of nullity of the acts of intervention. Following the plaintiff's additions, the defendants insisted on the objections of nullity of the summons and powers of attorney. At the end of the discussion on these objections, which took place at the hearing of 30 January 2019, the Judge reserved his decision. Upon lifting the reservation, the Judge - considering that these preliminary questions must be decided together with the merit - granted the preliminary terms pursuant to art. 183, paragraph six of the Italian Code of Civil Procedure and adjourned the hearing for discussion of the preliminary requests to 2 July 2019. At that hearing, the Parent Company requested and obtained a deadline of 8 July to object to the demands submitted by an intervener (whose intervention the Parent Company acknowledged at the hearing), after the parties discussed and illustrated their respective preliminary briefs and the relative petitions. At the end of the discussion, the Judge reserved the right to decide on the preliminary evidence. By order of 24 July 2019, the Investigating Judge rejected the request for a court-appointed expert witness submitted by Alken, deeming that the case was ready for a decision considering the subjective characteristics of the plaintiff (professional investor) and the operations of Alken on the BPMS shares (with acquisitions which extended "after October 2014, after 16 December and after 13 May 2016", as reported in the order of 24 July 2019).

At the hearing of 7 July 2020, the Judge rejected Alken's request to refer the case to the preliminary investigation and admitted the new documents produced by Alken (reserving all assessment of their relevance to the panel). With sentence issued on 7 July 2021, the Court of Milan rejected all requests made by Alken, which was ordered to refund the legal costs of the Parent Company. The claim of a single intervener was accepted for an amount approximately equal to EUR 47,500.00.

York and York Luxembourg Funds vs Banca MPS S.p.A.

On 11 March 2019, the York and York Luxembourg Funds served a writ of summons to the Parent Company's registered office, bringing an action before the Court of Milan (Section specialised in corporate matters) against Banca MPS S.p.A., Messrs. Alessandro Profumo, Fabrizio Viola, Paolo Salvadori as well as Nomura International PLC, ordering the defendants, jointly and severally, to pay damages amounting to a total of EUR 186.7 mln and - subject to an incidental finding that the offence of false corporate communications has been committed - to compensation for non-monetary damages to be paid on an equitable basis, pursuant to art. 1226 of the Italian Civil Code, plus interest, revaluation, interest pursuant to art. 1284, para. IV of the Italian Civil Code, and interest compound pursuant to art. 1283 of the Italian Civil Code.

The plaintiffs' claim is based on alleged losses incurred as part of its investment transactions in MPS totalling EUR 520.30 mln, carried out through the purchase of shares (investment of EUR 41.4 mln by York Luxembourg) and derivative instruments (investment of EUR 478.9 mln by York Funds). The plaintiffs' quantified their comprehensive losses at EUR 186.7 mln.

The investment transactions challenged began in March 2014, when Messrs. Fabrizio Viola and Alessandro Profumo held the offices of CEO and Chairman, respectively, of Banca MPS S.p.A. The plaintiffs charge alleged unlawful behaviour by top management of the Parent Company in falsifying the financial representation in financial statements, substantially modifying the assumptions used in measurements of financial instruments issued by the Parent Company.

The first hearing, initially scheduled for 29 January 2020, was deferred to 4 February 2020. The Parent Company duly appeared before the court. On 3 February 2020, a voluntary intervention pursuant to art. 105, paragraph 1 of the Italian Code of Civil Procedure was filed, whereby the intervener demanded compensation for the full loss of its investment equal to EUR 14 thousand, made in the course of 2014 in equity securities. The Judge ordered the separation of the case introduced by the intervener. The main case was postponed to the preliminary hearing scheduled for 1 March 2022. Negotiations between the parties continue to find a way to a settle the dispute.

Banca Monte dei Paschi di Siena S.p.A./ Civil action and third-party action of the Parent Company as civilly liable party

The investors submitted claims for compensation against the Parent Company as part of the criminal proceedings no. 29634/14 r.g.n.r. (General Criminal Records Registry) (a total of 1,240) pending before the Court of Milan, in which the Parent Company was involved as a civilly liable party, as well as the other criminal proceedings no. 955/16 r.g.n.r. (there are a total of 2,272 civil parties) with reference to the financial statements, reports and other corporate communications of the Parent Company from 31 December 2012 to 31 December 2014 and with reference to the half-yearly report as at 30 June 2015, in which the Parent Company, which was found guilty in the first instance pursuant to Legislative Decree 231/01, also had civil liability.

Criminal proceeding no. 29634/14

With reference to the criminal proceedings in relation to "Alexandria", after the service of the order of closing of the preliminary investigations, the Office of the Public Prosecutor at the Court of Milan sought the committal for trial of the former Top Management of the Parent Company and two members of the Management of Nomura for false corporate disclosures and market manipulation. Note that the criminally liable conduct ascribed to the various parties under investigations refer to the financial statements closed on 31 December in 2009, 2010, 2011 and 2012, and to the balance sheet as at 31 March 2012, 30 June 2012, and 30 September 2012.

As regards the offences allegedly committed by the above-mentioned individuals, the Public Prosecutor also sought the committal for trial of the Parent Company and Nomura in relation to the administrative offences pursuant to Legislative Decree 231/2001.

In March 2016 this proceeding was combined with the other legal action pending before the Court of Milan in relation to the investigations concerning the Santorini, FRESH 2008 and Chianti Classico transactions.

By an order of 13 May 2016, the Preliminary Hearing Judge (in Italian, the "GUP") authorized the lodging and admissibility of the claims for damages of the offended parties against the entities already involved in the proceedings as defendants pursuant to Legislative Decree 231/2001.

On 2 July 2016, with the approval of the Public Prosecutor, the Parent Company filed a request for plea bargain in the criminal proceedings, in relation to the objections made against the Bank in accordance with Legislative Decree 231/2001.

After the request for plea bargain, the Parent Company's position was closed. With the plea bargain, accepted by the Preliminary Hearing Judge on 14 October 2016, the Parent Company exits the proceedings as defendant in the administrative offence following crimes committed by its own former executives, limiting the consequences to an administrative financial penalty of EUR 600 thousand and a confiscation, for EUR 10 mln, without exposing itself to the risk of higher penalties.

Lastly, with regard to the above, on 1 October 2016 the Preliminary Hearing Judge ordered the committal for trial of the defendants other than the Parent Company. At the hearing on 15 December 2016, the civil parties, those already admitted in the previous "Alexandria" proceedings as well as the new civil parties, requested that the Parent Company, Nomura and Deutsche Bank be summoned as civilly liable parties in relation to the offences with which the former directors and executives committed for trial were charged.

Following an extensive closed session meeting, the Court summoned the banks as civilly liable parties, providing the notification deadline to the parties of 10 January 2017, allowing for the completion of notifications at the latest by 31 January 2017 and scheduling the hearing for 21 February 2017.

At the hearing on 21 February 2017, the Parent Company appeared before the court as a civilly liable party.

During the proceedings, by order of 6 April 2017 the Court of Milan decided on the requests for the exclusion of civil parties submitted by the defence teams of the defendants and the civilly liable parties, excluding several civil parties.

In addition, the claim of damages as a civil party by the Parent Company with respect to Giuseppe Mussari, Antonio Vigni, Daniele Pirondini and Gian Luca Baldassarri was also excluded on the assumption of its contributory liability with respect to the defendants.

At the hearing on 16 May 2019, once the public prosecutor's indictment was completed, requests for sentencing for nearly all of the defendants were formulated and convictions were requested pursuant to Italian Legislative Decree 231/01, as well as seizures for the two foreign banks involved, Deutsche Bank AG and Nomura International PLC.

At the hearings on 23 and 30 May 2019, the civil parties that summoned the Parent Company as a civilly liable party formulated their demands for compensation in writing.

The Fondazione MPS, which had not cited the Parent Company as civilly liable, made no direct request to it, but instead formulated demands against the natural person defendants and executives/former executives, as well as the representatives of Nomura.

The Bank of Italy which, like the Fondazione MPS, did not summon the Parent Company as a civilly liable party, asked for the defendants to be sentenced to pay a sum to be settled on an equitable basis.

As regards CONSOB, which summoned the Parent Company as a civilly liable party, for nearly all damage items it requested a quantification on an equitable basis, except for that relating to supervisory costs quantified as a total of roughly EUR 749 thousand. The provisional amount is requested alternatively, to the extent of roughly EUR 298 thousand.

At the hearings on 3 June 2019 the lawyer of Banca Monte dei Paschi di Siena as a party bearing civil liability presented arguments; at the subsequent hearings on 6, 13, 17, 20 and 27 June 2019, the lawyers of the defendants presented their arguments.

At the hearings on 4, 11 and 18 July 2019, the lawyers of the other defendants and those of the civilly liable Deutsche Bank presented their arguments.

Furthermore, the hearing on 18 July 2019, the defence attorneys of some civil parties declared on the record that they revoked their actions against the Deutsche and Nomura defendants, as well as the requests for compensation from such banks as civilly liable parties, revocations that were subsequently filed at the next hearings on 11 and 19 September 2019.

At the same hearing on 19 September, 2 civil actions against the defendants, former representatives of the Parent Company, were revoked, with consequent waivers of the requests for compensation as a civilly liable party, which resulted in a decreased total amount of the claim intended as the sum of the requested monetary and non-monetary damages, from around EUR 191 mln to around EUR 137 mln.

On 30 September 2019, the discussions of the foreign defendant entities pursuant to Italian Legislative Decree 231/01, Deutsche Bank and Nomura, were concluded.

The trial continued on 31 October 2019 to incorporate possible new revocations of civil party actions, as well as on 8 November, when the final hearing was held.

On 8 November 2019, the Court read the conclusion of the ruling in first instance by convicting all defendant natural persons, and pursuant to Legislative Decree 231/2001, the legal persons of Deutsche Bank AG and Nomura International PLC. The reasons were filed on 12 May 2020.

The Parent Company, in the capacity of civil liable person (not accused pursuant to Legislative Decree 231/2001 and to a previous agreement) was convicted – jointly with the defendant natural persons and the two foreign banks – and ordered to pay compensation for damages in favour of the civil parties that had entered an appearance, in separate civil proceedings, since the Court rejected the request for allowing an amount on a provisional basis and immediately enforceable, pursuant to art. 539 of the Italian Code of Criminal Procedure.

The Parent Company filed an appeal before the Court of Appeal of Milan against the first instance sentence, as the civilly liable party, found jointly and severally liable with the defendants. The appeal proceedings have been scheduled to start on 2 December 2021.

Criminal proceeding no. 955/16

On 12 May 2017 the committal for trial of the representatives Alessandro Profumo, Viola Fabrizio and Salvadori Paolo was requested within new criminal proceedings before the Court of Milan, in which they were charged with false corporate disclosures (art. 2622 of the Italian Civil Code) in relation to the accounting of the "Santorini" and "Alexandria" transactions with reference to the Parent Company's financial statements, reports and other corporate communications from 31 December 2012 to 31 December 2014 and with reference to the half-yearly report as at 30 June 2015, as well as market manipulation (art. 185 of the Consolidated Law on Finance) in relation to the disclosures to the public concerning the approval of the financial statements and the balance sheets specified above.

In relation to these proceedings, in which the Parent Company is identified as the injured party, the first hearing was held on 5 July 2017, during which several hundred natural persons and a number of trade associations asked to appear before the court as civil parties. The Preliminary Hearing Judge postponed the proceedings to 29 September 2017 for the deliberation of the requests as well as for consolidation with the proceedings pending against the Parent Company, as the defendant entity pursuant to Italian Legislative Decree 231/01 for the same actions with which Mr Profumo, Mr Viola and Mr Salvadori are currently charged. At the hearing on 29 September 2017, 304 of the 337 who requested were admitted as civil parties. The remaining parties were excluded due to lack of legitimatio ad causam. At the same hearing, the proceedings pending against the Parent Company, as the party liable under administrative law, were joined with those pending against the natural persons. Therefore, the Judge admitted the summons of the Parent Company as a civilly liable party and adjourned the proceedings to the hearings of 10 November 2017 and 24 November 2017 to allow for the service of the related notifications.

At the hearing on 10 November 2017, the defence attorney of Mr Salvadori objected on the basis of the alleged nullity of the committal for trial request against his client as the compulsory charge against the client should have been formulated only for the offence pursuant to art. 2622 of the Italian Civil Code and not also for that pursuant to art. 185 of the Consolidated Law on Finance. In connection with this issue, this defence attorney also objected on the grounds of the Milan A.G.'s lack of jurisdiction.

At the hearing on 24 November 2017, the Preliminary Hearing Judge handed down an order:

- declaring the nullity of the request for committal for trial with respect to Mr Salvadori;
- ordering the separation of the relative position from the main proceedings (pending against Mr Viola and Mr Profumo, as well as the Parent Company) with reference to the section relating to the alleged offence pursuant to art. 185 of the Consolidated Law on Finance;
- reserving any decision concerning issues of jurisdiction until such time as the public prosecutor makes his own determinations in this regard.

The Public Prosecutor then served the notice of conclusion of the investigations to Mr. Salvadori for the offence pursuant to art. 185 Consolidated Law on Finance and filed the (new) request for committal for trial against Mr. Salvadori for said offence and, finally, requested the (new) preliminary hearing (again for the crime of market manipulation).

At the hearing on 9 February 2018, the Preliminary Hearing Judge acknowledged the filing in the meantime of:

- the ultimate Parent Company defence brief concerning jurisdiction;
- the documents submitted by the defence attorney of Mr Viola and Mr Profumo;
- of the briefs of Mr Bivona and Mr Falaschi; as well as
- a request for an order for attachment submitted by the latter against Mr Viola and Mr Profumo.

After which time, the Preliminary Hearing Judge convened the proceedings against Mr Salvadori following his removal from the proceedings ordered during the previous hearing with regard to the charge pursuant to art. 185 of the Consolidated Law on Finance.

The civil parties readmitted again requested the summons of Banca MPS as civilly liable party. Therefore, the Preliminary Hearing Judge adjourned the case - also for the proceedings against Mr Viola and Mr Profumo - to the hearing of 13 March 2018 which was not held by abstention and was therefore postponed to 6 April 2018 for the appearance before the court of the liable party and for the discussion of and decision on the matter of jurisdiction.

Following the formalisation of the appearance before the court by the Parent Company, the Public Prosecutor requested the issue of a pronouncement of acquittal because there is no case to answer or because the act does not constitute an offence depending on the charge in question. On the outcome of the hearing, the schedule was updated on 13, 20 and 27 April 2018 for the continuance of discussion and the possible issue of the final ruling of the preliminary hearing.

Following the outcome of the preliminary hearing, the Preliminary Hearing Judge found no grounds for a decision not to proceed to judgement and ordered the committal for trial of the defendants, natural persons (Messrs. Viola, Profumo and Salvadori) and Banca MPS (as entity liable pursuant to Italian Legislative Decree 231/01). Only Mr Salvadori was found not to be subject to proceedings for the charge pursuant to Article 185 of the Consolidated Law on Finance.

At the hearing of 17 July 2018, 2,243 civil parties joined the lawsuit. Some of these have formally requested the mention of the Parent Company as party with civil liability, while most of the defence attorneys only requested the extension of the lawsuit to their clients with regard to the Parent Company, as a party with civil liabilities already called in the lawsuit. Some civil parties brought a lawsuit to the ultimate Parent Company as responsible party in pursuant to Italian Legislative Decree no. 231/2001. At the outcome, the Court adjourned to the hearings of 16 October and 6, 13 and 19 November 2018. Only the preliminary questions relating to the civil parties joining the lawsuit were heard at the hearing of 16 October 2018.

On 16 October 2018, the hearing for discussion of the civil parties joining the lawsuit was regularly held, as per the last hearing of 17 July 2018, with the addition of another 165 civil parties. The defendants and the Parent Company pleaded that the latter were late. At the hearing of 6 November 2018, the Board, upon lifting of the reservation, ordered the exclusion of some civil parties, which consequently amounted to 2,272 (349 of which had quantified the alleged damages), and the extension of the cross-examination between the ultimate Parent Company/undertaking and the new civil parties admitted, without further formalities and rejecting the request for summons by CONSOB, the Bank of Italy and EY S.p.A. as civilly liable parties.

At the hearing of 19 November 2018, the Court rejected by order the objections relating to the issue of lack of territorial jurisdiction previously raised by the defence. Consequently, the proceedings were declared open and the hearing was scheduled for 18 March 2019, with reservation of the decision on the request for an order of attachment against Mr Profumo and Mr Viola, submitted by a number of parties. The reserve was lifted with decision dated 3 December 2018, through which the Court rejected the request for an order of attachment against the aforementioned executives.

At the hearing on 16 June 2020, following the indictment, the representatives of the Public Prosecutor's office requested the acquittal of the defendants.

On 9 July 2020, the first hearing dedicated to the conclusions of the civil parties started and at the subsequent hearing on 16 July 2020, the discussion of the civil parties was concluded. The proceedings continued with the discussions of the defendants' attorneys in September 2020.

On 15 October 2020, the Court of Milan read the conclusion of the ruling in the first instance, registered under number 10748/20, sentencing all natural person defendants and the Parent Company pursuant to Italian Legislative Decree 231/01. The reasons were filed on 7 April 2021.

In its reasons, the Court analysed the conduct with which the defendants were charged with reference to the incriminating circumstances pursuant to art. 2622 of the Italian Civil Code (false disclosure) and pursuant to art. 185 of the Consolidated Law on Finance (market manipulation) and confirmed the grounds of the administrative offences with which the Parent Company was charged pursuant to arts. 5, 6, 8 and 25 ter, letter b) of Italian Legislative Decree 231/01, limited to the offence of false disclosure in relation to the 2012 financial statements and the 2015 half-yearly report, as well as pursuant to arts. 5, 8 and 25 sexies of Italian Legislative Decree 231/01 due to market manipulation relating to press releases concerning the approval of the financial statements as at 31 December 2012, 31 December 2013, 31 December 2014 and the half-yearly report as at 30 June 2015, imposing an administrative fine of EUR 0.8 mln.

With reference to the Parent Company's position as civilly liable party, the grounds for the ruling explained the reasons for the generic sentencing to provide compensation for damages based on which demands for relief from civil parties may be accepted, on the basis of art. 2049 of the Italian Civil Code, in separate civil proceedings.

In the grounds for the ruling, the exclusion from the criminal proceedings of approx. 100 civil parties was confirmed, as already announced in the operative part of the judgement.

The Parent Company filed an appeal before the Court of Appeal of Milan against the first instance sentence, as the civilly liable party, jointly and severally liable with the defendants, having administrative liability under Italian Legislative Decree 231/2001.

Banca Monte dei Paschi di Siena S.p.A./Caputo + 25 other names

On 4 December 2020, Giuseppe Caputo + 25 other names sued the Parent Company before the Court of Milan to challenge the investments made by them in compliance with the share capital increases ordered by the same, or through purchases on the electronic market between 2014 and 2015.

The plaintiffs complain that they have suffered serious damage as a result of the disclosure discrepancy disclosed on the market by the Parent Company, and also dispute the incorrect accounting of impaired loans starting from the 2013 financial statements, referring to criminal proceedings 33714/16 underway at the Court of Milan; they also contest the unfair commercial practices put in place by the Parent Company, the investments in diamonds, a completely unreasonable business plan and non-compliant business organization.

On these grounds, also recalling art. 185 of the Italian Criminal Code, they ask for full compensation for the damage suffered, equal to the entire amount paid for the purchase of MPS shares, with a final quantification of the claim of approximately EUR 25.8 mln.

The Parent Company duly appeared before the court and the case was adjourned to 7 February 2022.

Investigations on the 2012, 2013, 2014 financial statements and the 2015 half-yearly report with reference to "non-performing loans"

In relation to criminal proceedings no. 955/16, in 2019, with a special order of removal, the Parent Company was involved, as the party bearing administrative liability pursuant to Italian Legislative Decree no. 231/2001, with reference to an allegation pursuant to art. 2622 of the Italian Civil Code concerning the 2012, 2013 and 2014 financial statements and the 2015 half-yearly report formulated with reference to an alleged overvaluation of non-performing loans.

On 25 July 2019, the Preliminary Investigations Judge of the Court of Milan ruled, on one hand, to dismiss the proceedings against the Parent Company, as a party liable pursuant to Italian Legislative Decree no. 231/2001, but on the other hand, ordered the continuation of the investigations of the defendant natural persons (chairman of the Board of Directors, CEO and pro-tempore Chairman of the Board of Statutory Auditors) thus rejecting the request for dismissal presented by the public prosecutor and also supported by an expert witness report assigned by the Attorney General's office.

The investigations continued in the form of an evidence gathering procedure for which the Preliminary Investigations Judge has appointed two experts who have recently delivered their reports.

The Parent Company has taken note of the content of the report and will follow the developments of the proceedings in question with the utmost attention, also to assess any effect on the civil disputes already pending, the subject matter of which is substantially overlapping with the facts described in the report.

The proceedings – even though dismissed as regards the Parent Company as an administrative liable party – continues to be important for Banca MPS due to the very likely recognised liability for damages that the credit institution would be called on to assume, should criminal proceedings be initiated.

At the hearing on 8 June 2021, the evidence gathering procedure ended and the Preliminary Investigations Judge sent the documents to the Public Prosecutor's Office, setting a 45-day indicative term for the Public Prosecutor to carry out any other investigations and make a decision.

Criminal proceeding 2112/2017 Court of Siena

On 4 January 2021, the Parent Company received a writ of summons as civilly liable party, from the liquidator of Siena Calcio, in the criminal proceedings involving, as well as Mezzaroma Massimo, Giuseppe Mussari and two other former bank executives and 1 current employee of the Group.

The notification object of the aforementioned criminal proceedings is the one referred to in art. 223 par. 2 n. 2 Bankruptcy Law and concerns the corporate transaction carried out between the end of 2011 and the beginning of 2012, concerning the sale of the trademarks of A.C. Siena S.p.A. to Newco B&W Communication s.r.l., transaction, in turn, conditional on the provision of a loan from the Bank of EUR 22 mln to allow B&W to pay the consideration.

The Parent Company is being asked to pay compensation for financial and non-financial damages jointly and severally with the corporate officers and employees pursuant to art. 2049 Italian Civil Code. The relief sought has not been exactly quantified, however the liquidator has noted that the damage to company assets is at least equal to EUR 65.1 mln, given by the difference between the bankruptcy liabilities and the recoverable assets.

At the hearing on 18 February 2021, the Parent Company has appeared as civilly liable party, choosing as legal representative Prof. Vittorio Manes of the bar of Bologna. At the aforementioned hearing, the public and private prosecutions asked for the indictment of the accused, while the defence mainly argued the duplication of disputes for the same fact, qualified as "unlawful granting of credit" in the connected and prior criminal proceedings and as "corporate bankruptcy" in these proceedings.

At a later hearing on 25 March 2021, all defendants were indicted and the hearing was scheduled for 15 June 2021.

At the hearing on 15 June, proceedings were adjourned to 5 October 2021.

Out-of-court claims for the repayment of sums and/or compensation for damages by Shareholders and Investors of Banca Monte dei Paschi di Siena S.p.A. in relation to the 2008, 2011, 2014 and 2015 share capital increases

In relation to capital increases and the allegedly incorrect financial information contained in the prospectuses and/or in the financial statements and/or in the price sensitive information for the period 2008-2011, as at 30 June 2021, the Parent Company had received 1,318 out-of-court claims for a total of roughly EUR 4.2 bn in quantified claims. As at 30 June 2021, the residual relief sought by the plaintiffs that did not file civil suits was equal to EUR 4.2 bn.

These claims – brought individually or collectively – although naturally heterogeneous, are mostly justified by generic references to the Parent Company's alleged violation of the industry legislation governing disclosure and, therefore, were rejected by the Parent Company in that they were considered generic, unfounded, not backed by suitable documentary evidence, and in some cases past the statute of limitations.

Another 2,077 out-of-court claims relating to the share capital increases in 2014-2015 must be added to the ones indicated above, for a claim amount of approximately EUR 536.9 mln (EUR 484.6 mln considering only the plaintiffs who did not file civil suits).

The grand total amount claimed as at 30 June 2021 was therefore equal to EUR 4.7 bn.

Initiative Promoted by the Fondazione Monte dei Paschi di Siena ("Fondazione MPS")

The out-of-court claims related to the share capital increases include the claims filed by the Fondazione MPS, which, on 31 July 2020, sent three letters of formal notice to the Parent Company regarding three different issues that can be summarized as follows in reverse chronological order:

(i) letter relating to the 2014 and 2015 share capital increases - and, in particular, the alleged incorrect accounting of the Santorini and Alexandria transactions in the 2012-2015 period - by which the Parent Company is requested to pay compensation for damages of no less than EUR 171 mln approximately;
(ii) letter concerning the 2011 share capital increase - referring to the issues identified in the context of proceeding No. 29634/14, relating to the alleged incorrect accounting of the Santorini and Alexandria transactions in the period 2008-2012 - with which damages are requested from the Parent Company for a total of EUR 496.4 mln Euro 93.9 mln for reputational damage;
(iii) the third and final letter refers to the acquisition of Banca Antonveneta resolved in November 2007 and completed the following year upon completion of the authorization process by the Bank of Italy, as well as disclosure errors and accounting errors relating to the FRESH transaction. This letter demands compensation for a loss resulting from the participation in the 2008 capital increase (EUR 2,667 mln for the option component, to which EUR 366 mln must be added for the reserved share capital increase component). The letter also demands compensation for damages (not yet quantified) resulting from having subscribed the 2011 capital increase based on false information on the FRESH transaction.

With respect to these initiatives, which overall result in a claim for damages totalling EUR 3.8 bn, the Parent Company has expressed a critical position. In addition to a series of preliminary findings (including the expiry of the statute of limitations with regard to the most remote events), there are a number of arguments on a 'substantive' level that can be opposed to the requests of the Fondazione. Among these, by way of example only, the following should be noted:

a. Fondazione MPS at the time of the events held approx. 49% of the Parent Company's ordinary capital and appointed half of the members of the Board of Directors. Fondazione MPS was therefore the majority shareholder of BMPS and was able to guide its decisions, especially the strategic ones;
b. with reference to the Antonveneta transaction and the financial transactions carried out to obtain the necessary funding, Fondazione MPS (which had never in the past formulated objections or reservations with respect to BMPS), according to what has emerged from documents acquired as part of the proceedings pursuant to art. 2395 of the Italian Civil Code, promoted by the same entity, has already initiated a series of actions (incompatible with the objections made to BMPS) aimed at challenging the liability of the members of its Board of Directors, as well as of the lending banks and its advisors (in the latter case without obtaining satisfaction, since, on the contrary, it was established that the Fondazione MPS had unreservedly agreed to the strategic decision to acquire Banca Antonveneta). These initiatives are also relevant in terms of the connection between the conduct currently charged to the Parent Company and the damage suffered by the Fondazione;
c. the key role of Fondazione MPS, in the context of the acquisition of Banca Antonveneta, also has been brought to light at the case law level, as can be seen also by reading the grounds of judgment 29634/14, which devotes an entire paragraph to the role of the Fondazione.

On 21 July 2021, the Parent Company and the Fondazione Monte dei Paschi di Siena reached a preliminary settlement agreement approved by the BoD of the Parent Company on 5 August 2021, to settle all out-of-court claims that may be summarised as referring to the Banca Antonveneta acquisition, the 2011 capital increase and the 2014-2015 capital increases. The agreement provides for a final settlement of any pending dispute, in addition to the payment of EUR 150 mln and a commitment to enhance the Parent Company's artistic heritage. As a result of this preliminary agreement, after the execution of the settlement, Banca MPS will be able to reduce the claims for compensation, currently equal to EUR 3.8 bn.

The settlement was valued for the purposes of the Condensed Consolidated Half-yearly Financial Statements. In fact, although the preliminary agreement was reached after 30 June 2021, it refers to situations existing at the reporting date of the half-yearly financial statements.

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Generally speaking, and in application of the provisions of international accounting standard IAS 37, with regard to legal disputes, the civil action filed in the criminal proceedings 29634/14 and out-of-court claims relating to disputes regarding the period 2008-2011, the Parent Company has assessed from the arising of this first disputes the risk of losing as "probable" and has therefore set aside provisions for risks and charges in the financial statements. The assessments made regarding the risk of losing the case reflect the decision of the Parent Company itself in March 2013 to initiate liability actions against the Chairman and General Manager at the time and the foreign banks involved, and they also take into account the positions taken on the subject - in addition to those of the Milan Public Prosecutor's Office - by the Supervisory Authorities, the relative decisions to bring civil action and the sanctions imposed by them.

Also for disputes concerning the period 2012-2015, following the ruling of 15 October 2020 concerning the criminal proceedings 955/2016, the positions are assessed as being at risk of "likely" losing and therefore the Parent Company has made provisions for risks and charges in the financial statements. Furthermore, for the civil proceedings relating to the period 2012-2015, the risks associated with what are known as impaired loans, indicated starting from the half-yearly financial statements as at 30 June 2021 as having a "likely" risk of being lost. In this regard, it should be noted that, at the moment, the risks for this kind of disputes largely overlap with those relating to the Alexandria and Santorini transactions.

In reference to the criminal proceedings 29634/14 and 955/2016, no disbursement is anticipated in favour of the parties who entered an appearance since, due to the afore-mentioned rulings of 8 November 2019 and 15 October 2020 which rejected their request for granting a provisional amount immediately enforceable pursuant to article 539 of the Italian Code of Criminal Procedure, the damage compensation in their favour can take place in a separate civil proceeding to be initiated by the civil parties themselves.

Therefore, for civil and criminal disputes concerning the information disclosed solely in the period 2008-2015, the provisions for risks were determined in such a way as to take into account the amount invested by the counterparty in specific periods of time characterised by the disputed information alterations (net of any disinvestments made during these same periods). The damage subject to compensation was then determined on the basis of the "differential damage" criterion, which identifies the damage as the lowest price that the investor would have had to pay if he had had access to complete and correct information. For the purposes of this determination, econometric analysis techniques have been adopted - with the support of qualified experts - suitable to eliminate, among other things, the component inherent in the performance of the equity securities belonging to the banking sector during the reference period. More in detail, the total damage caused by each event potentially capable of generating information alterations was first quantified and then the amount abstractly attributable to the individual Plaintiff/Civil Party was calculated, taking into account the share of capital held from time to time. From a prudential standpoint, along with the differential damage, the different criterion of "full compensation" was also taken into account (of a minor importance in the prevailing law, including the one that is currently taking shape on this specific subject matter), and that is based on the argument that false or incomplete information may have a causal impact on the investment choices of the investors to such an extent that, in the presence of correct information, they would not have made the investment in question; in this case, the damage is therefore commensurate to the invested capital, net of the amounts recovered from the sale of shares by the Plaintiff/Civil Party.

Instead, with reference to out-of-court claims relating to the period 2008-2011 and, from October 2020, also for those referred to the period 2014-2015, in order to take into account the probability of their transformation into real disputes, the provisions were determined by applying an experiential factor, in line with the Parent Company policies for similar cases, to requests made by counterparties. In any case, the Parent Company has exercised the possibility granted by IAS 37 of not providing disclosures on the provisions allocated in the balance sheet if it believes that such information could seriously jeopardise its position in disputes and in potential settlement agreements.

As at 30 June 2021, again with regard to civil disputes, agreements had been reached, settling 25 disputes for a total relief sought equal to approx. EUR 361 mln (including "Marangoni + 123 shareholders and investors", "Coop Centro Italia s.c.p.a." and "Coofin s.r.l."). On 21 July 2021, a preliminary agreement was reached by the Parent Company and Fondazione Monte dei Paschi di Siena, providing for the final settlement of all outstanding disputes as well as the payment by the Parent Company of a consideration equal to EUR 150 mln.

Lastly, measures and transactions are being reviewed to ensure a sharp additional reduction of the Group's legal risks.

Dispute Fondazione MPS, "Alexandria" operation

Fondazione MPS has brought legal proceedings against Mr Mussari, attorney, Mr Vigni and Mr Nomura, based on their alleged liability pursuant to article 2395 of the Italian Civil Code for the direct damage suffered as a result of its subscription of a share capital increase of the Parent Company, resolved on in 2011, at a price different from the one that would have been correctly paid if the "Alexandria" restructuring had been duly represented in the Financial Statements of the Parent Company. Subsequently, it has petitioned for the conviction of the liable parties with order to pay EUR 268.8 mln for a financial loss and EUR 46.4 mln for non-financial damages, subsequently reduced to EUR 230.3 mln.

In this ruling, Mr Vigni was authorised to take action against the Parent Company because of an indemnity obligation (with respect to third parties claims) allegedly undertaken by the Bank towards him within the consensual termination of his executive position; Mr Mussari was authorised to take action against the Parent Company as the liable party, pursuant to article 2049 of the Italian Civil Code, due to some executives allegedly liable for the transaction carried out with Nomura. The Parent Company received later a writ of summons in its capacity as a third party called on by the afore-mentioned defendants independently promoted by Fondazione MPS and has entered an appearance disputing the claims filed against it. In addition, with a subsequent authorised pleading, Nomura broadened its claims against the Parent Company, asking to determine the share of liability attributable to the latter and to be kept harmless from it based on its share of liability exceeding the one attributed thereto. However, the settlement agreement entered into by the Parent Company and Nomura on 23 September 2015 provides, inter alia, that this claim is withdrawn. Mr Vigni has waived the legal actions brought against the Parent Company following a plea of lack of jurisdiction of the Court of Florence, whereas the action under the right of recourse/indemnity from Mr Mussari continued against the Parent Company. Subsequent to the technical expert opinion formally obtained, the case was adjourned to the hearing on 20 September 2021 for the oral arguments.

In this regard, it should be noted that the expert witnesses have recognized only the "damage from unveiling of the truth" and the reputational damage, excluding that the Fondazione is also entitled to "damage from subscription" (and also excluding any compensation for loss of profit). Therefore, the expert witnesses have estimated the "damage from unveiling of the truth" incurred by FMPS at EUR 52.8 mln and the reputational damage at approximately EUR 8 mln, for a total of approximately EUR 60.8 mln, against an initial claim of EUR 320 mln, later reduced, in the concluding arguments, to approximately EUR 230 mln. However, it should be noted that the preliminary agreement reached with the Fondazione on 21 July 2021 provides for the specific waiver of any reciprocal claim for compensation made against the Parent Company.

Banca Monte dei Paschi di Siena S.p.A. vs. FRESH 2008 Bondholders

Some holders of FRESH 2008 securities maturing in 2099, with writ of summons served on 19 December 2017, initiated proceedings against the Parent Company MPS, the company Mitsubishi UFJ Investors Services & Banking Luxembourg SA (which replaced the Parent Company in issuing the bond loan Banca di New York Mellon Luxembourg), the British company JP Morgan Securities PLC and the American company JP Morgan Chase Bank NA (which entered into a swap agreement with the bond loan issuer) before the Court of Luxembourg to request confirmation of the inapplicability of the Burden Sharing Decree to the holders of FRESH 2008 securities and, as a result, to have it affirmed that such bonds cannot be forcibly converted into shares, as well as that such bonds will continue to remain valid and effective in compliance with the issue terms and conditions, in that they are governed by the laws of Luxembourg. Lastly, to ascertain that MPS has no rights, in the absence of the conversion of the FRESH 2008 securities, to obtain the payment of EUR 49.9 mln from JP Morgan in damages for holders of FRESH 2008 securities. The proceedings have reached the final stage.

In view of completeness it is noted that, following the start of the proceedings in question, the Parent Company, on 19 April 2018, tabled a dispute before the Court of Milan against JP Morgan Securities Ltd, JP. Morgan Chase Bank n.a. London Branch, as well as the representative of the Fresh 2008 securities holders and Mitsubishi Investors Services & Banking (Luxembourg) S.A. to ascertain that the Italian Judge is the only one with jurisdiction and competence to decide about the usufruct contract and the company swap agreement signed by the Parent Company with the first two defendants in the context of the operation of the share capital increase in 2008. Consequently the Parent Company asks for: (i) the determination of the ineffectiveness of the usufruct contract and the company swap agreement which anticipate obligations of payment in favour of JP Morgan Securities PLC and JP Morgan Chase Bank Na in relation to the entry into force of Decree 237; (ii) the determination of the intervened ineffectiveness and/or resolution and/or termination of the usufruct contract or, alternatively, (iii) the determination of the intervened resolution of the usufruct contract relating to the capital deficiency event of 30 June 2017. The first hearing was held on 18 December 2018 and the Investigating Judge, considering the prejudicial nature of the issue of jurisdiction raised by the defendants, in view of the fact that a dispute is pending before the Luxembourg Court involving the same demand and the same cause, granted the parties terms to reply only to the procedural objections and adjourned the hearing to 16 April 2019 for assessment of the disputed issue. At the next hearing on 2 July 2019, the decision in the case was deferred to a later date. With order dated 2 December 2019, the Court of Milan has ordered the suspension of the proceedings pending a decision by the afore-mentioned Luxembourg district court. Against this order, the Parent Company has filed a petition with the Supreme Court of Cassation for the referral to a different competent court.

The court has rejected the petition of the Parent Company with ruling dated 31 March 2021.

<u>Other disputes</u>

Banca Monte dei Paschi di Siena S.p.A. vs. Fatrotek

This case, where the Parent Company was sued together with other credit institutions and companies with the summons of 27 June 2007, seeks the assessment of alleged monetary and non-monetary damage suffered by the plaintiff, as a result of an alleged unlawful report filed with the Italian Central Credit Register. The relative claim amount is EUR 157 mln. The plaintiff also asks that the defendant banks be found jointly liable, each proportionately to the seriousness of its behaviour. The Parent Company's defence was based on the fact that the company's extremely severe financial situation fully justified the Parent Company's initiatives.

At the hearing on 31 May 2018, the Judge reserved his decision on the challenges raised by the convened parties. On 5 June 2018, the Company declared bankruptcy. On 25 July 2018, upon lifting of the reservation made during the hearing of 31 May 2018, the case was adjourned to 31 October 2018, for the court-appointed expert to take the oath. In the meantime, the receivership of the Fatrotek S.r.l. bankruptcy again took up the case. The proceedings were adjourned first to the hearing on 4 December 2019 and then to the hearing on 13 February 2020, where a court-appointed expert investigation was ordered and an expert witness was appointed. At the hearing of 25 November 2020 an extension was granted to the expert witness for the filing of the expert opinion and the case was postponed to 5 May 2021.

At this hearing, the Court set a deadline for the expert witness to respond to the objections made by the plaintiff and at the same time scheduled the hearing for the closing arguments for 4 November 2021.

Banca Monte dei Paschi di Siena S.p.A. vs Marcangeli Giunio S.r.l.

With a writ of summons, notified on 28 November 2019, the claimant Marcangeli Giunio S.r.l. asked the Court of Siena to assess, first and foremost, the contractual liability of the Parent Company for not issuing a loan of EUR 24.2 mln - necessary to the purchase of land and the construction of a shopping mall with spaces to be leased or sold – and subsequently the conviction of the Parent Company with order to pay compensation for damages and loss of profit in the amount of EUR 43.3 mln. As an alternative, in view of the facts specified in the writ of summons, a request is made for the Parent Company to be found pre-contractually liable for having interrupted the negotiations with the company without disbursing the agreed loan, and to be ordered to pay compensation in the same amount asked first and foremost.

The proceedings are ongoing; at the end of the first hearing - held on 8 July 2020 - the Judge reserved the decision on the claims of the parties. During the preliminary investigation, witness evidence has been obtained - for the hearing of the last witness a hearing has been scheduled for 11 October - and accounting expert testimony has been admitted and is ongoing. The judge has scheduled a hearing on 10 November for the closing arguments.

Banca Monte dei Paschi di Siena S.p.A. vs. Riscossione Sicilia S.p.A.

On 15 July 2016, Riscossione Sicilia S.p.A. served a writ of summons on the Parent Company before the Court of Palermo, asking the Court to order it to pay a total amount of EUR 106.8 mln.

The claim of Riscossione Sicilia S.p.A. falls within the realm of the complex dealings between the Parent Company and the plaintiff, originated from the disposal to Riscossione Sicilia S.p.A. (pursuant to Decree-Law 203/05, converted into Law 248/05) of the stake held by the Parent Company in Monte Paschi Serit S.p.A. (later Serit Sicilia S.p.A.).

Specifically, Riscossione Sicilia, in relation to the contractual provisions involved in said disposal, now asks that the Parent Company be ordered to pay, under its contractual liability, for alleged contingent liabilities of Monte Paschi Serit S.p.A./Serit Sicilia S.p.A.

The Parent Company duly appeared before the court with a cross-action against Riscossione Sicilia S.p.A. The preliminary investigation was recently completed with the filing and examination of the report of the court-appointed expert witness, the results of which were favourable to the Parent Company. In fact, the expert not only concluded that the Parent Company owes nothing to Riscossione Sicilia S.p.A., but also identified a receivable of the Parent Company of roughly EUR 2.8 mln, equal to the balance of the price for the sale of 60% of Serit Sicilia S.p.A. to Riscossione Sicilia S.p.A. by the Parent Company (dating back to September 2006), a sum that has to date been retained by Riscossione Sicilia S.p.A. by way of escrow account. The expert witness also identified a further receivable of the Parent Company, linked to the obligation of Riscossione Sicilia S.p.A. to collect on notices of default, no higher than around EUR 3.3 mln, the exact quantification of which was referred to the Court. The counterparty's petitions aiming to call the court-appointed expert witness back to provide clarifications and to change his conclusions were rejected, and the case was adjourned for concluding arguments to 8 March 2021. At this hearing, the case was adjourned pending decision and legal terms were set for the filing of written counterarguments.

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On 17 July 2018, the Finance Department of the Sicily Region notified the Parent Company by means of an order of injunction pursuant to art. 2 of Italian Royal Decree no. 639/1910 and of repayment, pursuant to art. 823, paragraph 2 of the Italian Civil Code of the above amount of around EUR 68.6 mln, assigning the Parent Company the term of 30 days to make the payment with the warning that, on the back of the failure to do so, it would proceed with the forced recovery through entry of the action in the list of cases. This following the Parent Company's decision to suspend the credit line granted to Riscossione Sicilia, which, in the period between 18 October and 9 November 2017, would not have paid the total amount of EUR 68.6 mln to the Sicily Region. The Parent Company notified its defence, with the first hearing set for 12 December 2018, against said injunction, drawing up the related application for suspension of the enforceability of said injunction (or execution if launched in the meantime) with the request for a provision without prior hearing of the other side. The Court, which reserved its right to the hearing of 21 August, by order of 24 August rejected the request for suspension, specifying, however, that the injunction may be enforced on the active amounts in the current account of Riscossione Sicilia. The Sicily Region filed an application for the Riscossione Sicilia case, leading to the Court of Palermo's postponement of the first hearing - already scheduled for 12 December 2018 - to 20 March 2019. This first hearing, postponed again to 17 July 2019 due to the unavailability of the Judge, was then rescheduled for 26 September 2019. At the first hearing, upon acknowledging the statements provided by the parties, the Judge set out the terms for filing the pleadings pursuant to art. 183 of the Italian Code of Civil Procedure and adjourned to an evidentiary hearing scheduled for 26 November 2020. On that occasion, the Parent Company asked for the hearing for the statement of the conclusions to be scheduled, requesting the Court to verify the cessation of existence of the dispute, as Riscossione Sicilia during the proceedings has proved that the receivable claimed by the Sicily Region has been fully cancelled. The Judge then postponed the judgement to 29 April 2021 for the hearing for the statement of the conclusions. At the plaintiff's hearing on 29 April 2021, the case was adjourned pending decision and legal terms were set for the filing of written counterarguments.

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For the sake of completeness, it should be noted that the Parent Company has also filed an administrative case before the Regional Administrative Court of Sicily - Palermo office for the declaration of nullity and/or annulment of the injunction order pursuant to art. 2 of Italian Royal Decree no. 639/1910, notified by the Department on 17 July 2018.

The appeal concerns the challenging of the Order of injunction in the part in which, "alternatively, pursuant to art. 823, paragraph 2 of the Italian Civil Code, it orders the Parent Company Monte dei Paschi di Siena (...) to return to the Sicily Region, within the same period of 30 days from receipt of the present, the amount of 68,573,105.83, plus interest at the rate established by special legislation for late payment in commercial transactions, as provided for in paragraph 4 of art. 1284 of the Italian Civil Code."

Following notification of the appeal on 16 October 2018, the appeal itself was filed by the Parent Company on 12 November 2018. The Department appeared via the *Avvocatura dello Stato* (office of the State Attorney) on 15 November 2018. The decree scheduling the hearing requested by the Parent Company on 28 October 2019 has not yet been issued.

MPS Capital Services Banca per le Imprese S.p.A. vs. Etika Esco S.p.A.

The joint-stock company Etika Esco (hereinafter "Plaintiff" or "Company") sued MPS Capital Services Banca per le Imprese S.p.A. (hereinafter "MPSCS") before the Court of Florence, contesting the illegitimacy of the MPSCS conduct which, upon resolution of a loan of EUR 20.0 mln in favour of a company to be formed (hereinafter "Newco Sviluppo Marina Velca") which should have been wholly-owned by the Plaintiff, did not proceed with the stipulation of the contract and the consequent disbursements.

It should be noted that the transaction, which was the subject of analysis that concluded with the resolution of 7 September 2016, was structured to allow Newco Sviluppo Marina Velca to complete the project for the construction of a real estate complex of about 300 small villas, as well as renovation and expansion of a golf course, in an area owned by Sviluppo Marina Velca S.r.l., located in the municipality of Tarquinia (hereinafter "Real Estate Project").

The Real Estate Project involved an Italian closed-end investment fund which, through a vehicle company incorporated under Luxembourg law, held 100% of the capital of Sviluppo Marina Velca S.r.l.

MPSCS had already intervened in support of this project by granting a loan of EUR 9.4 mln to Sviluppo Marina Velca S.r.l in 2012 (hereinafter the “2012 Loan”), which expired on 31 July 2014. In September 2016, the period of the resolution on the subject loan, approximately EUR 11 mln remained, comprising principal, overdue interest, arrears and accessories.

The Company's takeover of the Real Estate Project assumed the acquisition by Etika Esco of a special purpose vehicle (identified as Rell's Risorse s.r.l.) which should have purchased the shares of Sviluppo Marina Velca S.r.l. and then proceeded with the merger by incorporation. Purchasing the shares of Sviluppo Marina Velca S.r.l. would have required the MPSCS intervention as guaranteed creditor, in order to authorise the transfer of the shares subject to pledge as collateral for the 2012 Loan.

Given the context of the scenario indicated by the Company, the objections raised with regard to MPSCS conduct are briefly illustrated below.

The Plaintiff claims that, upon scheduling an appointment with a Notary Public to transfer the shares of Sviluppo Marina Velca S.r.l., MPS Capital Services notified that it would not be able to participate only the day before said meeting, due to alleged internal delays.

Having missed said appointment, without justification, MPS Capital Services subsequently adopted a closed attitude towards the Plaintiff, no longer responding to the many requests to proceed with the financing transaction until 15 March 2017, date in which MPS Capital Services communicated, with arguments and justifications deemed by the Company to be entirely insufficient, the forfeiture and/or revocation of the resolution of 7 September 2016.

The Plaintiff maintains that the conditions set by MPS Capital Services for the effectiveness of the resolution of 7 September 2016 were all met and, for those not met, should have been considered as having been fulfilled pursuant to art. 1359 of the Italian Civil Code due to the fact and fault of MPS Capital Services.

Failure to complete the acquisition of the shares of Sviluppo Marina Velca s.r.l., and then the loan agreement with consequent failure to pay the sums, caused enormous damage to the Company, quantified at approximately EUR 96.0 mln, of which i) approximately EUR 46.0 mln as loss of profit for not having been able to achieve, as General Contractor, the revenues from implementation of the Real Estate Project and damage from requests for payment of penalties provided for in the contracts signed in view of the above activity and ii) EUR 50.0 mln in additional damage that will accrue in arrears, namely with regard to the sum decided by the court.

MPS Capital Services duly appeared before the court, replying that none of the conditions detailed in the letter of participation in the loan resolution had been satisfied. It was also pointed out that a few days after the resolution of the transaction (17 October 2016) the Company had asked MPS Capital Services for an advance on the first disbursement of EUR 2.6 mln, to be secured by a mortgage issued by the same company to be merged, namely Sviluppo Marina Velca S.r.l. This request indicated a worrying lack of liquidity by the Company, which, however, would have had to inject a significantly higher equity during implementation of the Real Estate Project.

The change in creditworthiness revealed following the aforementioned request for pre-financing not only led MPS Capital Services to reject said new loan, but also to re-examine, in light of the Company evident lack of liquidity, the transaction already approved, leading to the final decision not to confirm and, therefore, to revoke said resolution granting the loan, also given the failure to comply with the conditions for the stipulation of the loan.

Further investigation by MPS Capital Services revealed that a hidden promoter of the transaction was a person with a very unfavourable track record and who had previously been refused financing by MPS Capital Services for the same project.

In concluding, MPS Capital Services filed a counterclaim asking for the conviction of the Plaintiff for vexatious litigation, pursuant to art. 96 of the Italian Code of Civil Procedure.

The parties filed all the pleadings allowed by the Investigating Judge pursuant to art. 183, VI paragraph of the Italian Code of Civil Procedure.

With the pleading referred to in art. 183, para. VI, no. 1 of the Italian Code of Civil Procedure filed by Etika Esco on 21 February 2019, it was specified that the total claim is not EUR 96.0 mln, as the damages suffered as a result of the facts presented in the summons amount to EUR 46.2 mln, “or in any case to an amount not less than EUR 50.0 mln or higher, due to the additional damages that will accrue in the meantime for the plaintiff due to the stated reasons, or, in the alternative, the payment of a different amount, even lower, that will be reached over the course of the litigation and/or which the Judge should determine on an equitable basis, as necessary”.

At the hearing for the examination of the pieces of evidence, pursuant to art. 184 of the Italian Code of Civil Procedure, the Investigating Judge reserved the decision on the claims of the parties. With an order dated 26 January 2020, the Judge stated that the “evidence adduced, based on the allegations, the objections and the documentation presented by the parties, is superfluous for the purpose of a decision. Therefore, a hearing must be scheduled for the presentation of closing arguments."

The judgement was postponed for the clarification of the conclusions first to 16 November 2021 and subsequently, with the provision of July 2020, a postponement was ordered to 22 March 2022 due to the excessive burden of the role of the Investigating Judge.

Banca Monte dei Paschi di Siena S.p.A. vs. Barbero Metalli S.p.A.

The first hearing, scheduled for 5 May 2021, was postponed to 6 July 2021 and adjourned to 23 November 2021, due to obligations pursuant to Article 183 of the Italian Code of Civil Procedure.

The proceedings, with relief sought equal to EUR 37.5 mln, are promoted by Barbero Metalli 124 S.R.L. - transferee of the action due to BARBERO METALLI S.P.A. (operating under bankruptcy laws) by virtue of designation pursuant to art. 1401 of the Italian Civil Code operated by Energetyca S.r.l., acting as assumptor in the insolvency agreement related to the same procedure - against the directors and auditors of the company, as well as the different credit institutions jointly and severally, for having contributed to the insolvency of the company through the illegal granting of credit. In particular, in regard to the Parent Company, the complaint concerns the connivance with the acts of maladministration of the directors for having advanced sums to the company from 2009 onwards (RI.BA.) without underlying invoices, fictitiously indicated on future issues for a total of approximately EUR 8.8 mln.

The plaintiff asks for the directors, auditors and banks to be found jointly and severally liable for approximately EUR 37.4 mln as additional loss incurred by the company, and in the alternative liable for EUR 22.9 mln, as the value of individual detrimental transactions carried out by the company and expressly listed in the summons.

Given the content of the claims, the share of the risk pertaining to the Bank, jointly and severally summoned with the other defendants to pay the entire amount requested in relief, has not been quantified.

Banca Monte dei Paschi di Siena S.p.A. vs. Parrini S.p.A.

The first hearing scheduled for 29 July 2021 at the Court of Rome was postponed to 31 January 2022.

The lawsuit, with relief sought equal to EUR 42.2 mln, is brought against different credit institutions jointly and severally alleged to have contributed to the insolvency of the company through the illegal granting of credit.

Notably, in regard to the position of MPS Capital Services S.p.a., the complaint concerns the connivance with the acts of maladministration of the directors, who made use of credit at a time when the state of crisis of the company was no longer remediable, not in view of a corporate restructuring, but for the sole purpose of continuing the business activity and management, without letting this state of crisis become public, thus delaying the declaration of insolvency, and causing damage to the company and its creditors by granting mortgage loan No. 503259901 on 4/08/2011.

The plaintiff asks for MPS Capital Services S.p.a. (originator of the assigned loan) and the other banks Intesa-UniCredit-B.co Desio to be found liable jointly and severally and to pay damages to the liquidator of the insolvent company, in the amount of approximately EUR 42.3 mln, or in the different amount, greater or lesser, that the Court will deem appropriate, also pursuant to art. 1226 of the Italian Civil Code, as well as interest and revaluation.

Given the content of the claims, the share of the risk pertaining to the Bank, jointly and severally summoned with the other defendants to pay the entire amount requested in relief, has not been quantified.

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Employment law disputes

As at 30 June 2021 employment law disputes were pending for which the relief sought, where quantified, was equal to approximately EUR 82.0 mln. In particular:

- approx. EUR 42.0 mln in claims for which there is a “likely” risk of losing the case, for which provisions of EUR 38.5 mln have been made;
- approx. EUR 30.5 mln in claims for which there is a “possible” risk of losing the case;
- approx. EUR 9.6 mln in other claims, for which there is a “remote” risk of losing the case.

We provide below the summary information on the most significant dispute pending at 30 June 2021.

Banca Monte dei Paschi di Siena S.p.A. vs. Fruendo

With reference to the dispute concerning 452 workers affected by the sale of a business unit, rulings unfavourable to the Parent Company were issued (in first instance by the courts of Siena, Rome, Mantua and Lecce, for 135 workers, in second instance by the Courts of Appeal of Florence, Rome and Brescia, for 317 workers).

Against the unfavourable rulings in the first instance, the Parent Company has already filed an appeal before the competent Courts of Appeal, with hearings currently scheduled between September and November 2021; against the unfavourable rulings in the second instance, the Parent Company filed an appeal to the Court of Cassation, which reviewed the case at a public hearing on 3 February 2021. On 16 March 2021, 16 June 2021, 05 July 2021 and 12 July 2021, the Court of Cassation published its first eight rulings, concerning 181 workers, rejecting the Parent Company's appeal.

The Parent Company fulfilled the re-employment obligation consequent to the rulings with effect from 1 April 2020, with the simultaneous secondment in Fruendo, without withdrawing the appeals filed.

From the fourth quarter of 2020, a conciliation process was started with the aforementioned workers, which, as of 2 July 2021, had produced 234 settlements, of which 94 with workers involved in the “branch transfer” case pending at the Courts of Appeal of Rome and Lecce and 140 with workers involved in the “branch transfer” case pending in the Court of Cassation.

The transfer of a business unit and the simultaneous signing of a contract with Fruendo resulted in an additional legal action promoted by Fruendo S.r.l. workers, other than those who had challenged the transfer of their employment relationship pursuant to art. 2112 of the Italian Civil Code (62 - reduced to 42 as a result of declarations to abandon the actions) who have asked for the continuation of the employment relationship with the Parent Company to be recognised, subject to declaration of the unlawful interposition of labour (so-called unlawful contract). The Court of Siena (Labour Law Section), with its judgement of 25 January 2019, rejected the appeals relating to 32 workers. This judgement was subsequently appealed by only 16 workers before the Court of Appeal of Florence with a hearing for the discussion carried out on 29 June 2021 (the Judge is currently reserving his decision).

There is also an additional legal dispute, again for the so-called illicit contract, recently promoted by 31 workers of Fruendo S.r.l. Of these, 13 appealed to the Court of Padua (Labour Law Section) for the first group of 12 applicants the hearing has been scheduled for 18 January 2022, while for the single case of 1 worker the hearing has been scheduled for 8 March 2022. The remaining 18 workers appealed instead to the Court of Siena (Labour Law Section) with hearing scheduled for 20 October 2021.

As regards the “double remuneration” dispute, as of 30 June 2021, 48 judgements were pending (46 of opposition to injunction decree and 2 of opposition to executive acts) involving 129 workers, and 88 out-of-court claims.

These actions were appealed by the Parent Company before the Courts of Siena, Mantua and Rome, with hearings currently scheduled between September 2021 and February 2022.

With respect to this dispute, it should be noted that on 6 July 2020, the Court of Siena, Labour Law Section, only partially accepted the “double remuneration” claim lodged by 15 workers, ordering the Parent Company to pay to each of them, by way of penalty and therefore without favouring undue double remuneration, 5 months of the most recent de facto global remuneration plus inflation and interest at the legal rate. Against this ruling, the 15 workers filed an appeal before the Court of Appeal of Florence (Labour Law Section), with a hearing scheduled for 30 November 2021.

Recently, the Court of Rome, Labour Law Section (14 April 2021 and 9 June 2021), and the Court of Mantua, Labour Law Section (29 June 2021), ruling on the “double remuneration” claims, filed by 69 workers (some also with double injunctive decree), also issued rulings against the Parent Company, confirming the adverse injunctive decrees. The Court of Rome, Labour Law Section on 22 June 2021, ruling on the "double remuneration" claims, filed by 3 workers (some also with double injunctive decree), issued 3 sentences in favour the Parent Company, upholding the objections to the injunctive decrees.

At any rate, the issue of the ruling by the Court of Siena on 6 July 2020, confirmed by three other, more recent rulings, again by the Court of Siena, made on 14 June 2021 and which involved 23 workers, represents a favourable precondition to start, in the fourth quarter of 2020, the aforementioned conciliation process aimed at settling the entire Fruendo dispute.

Tax disputes

As at 30 June 2021 tax disputes were pending for which the total claim, where quantified, was equal to approximately EUR 80.2 mln. In particular:

- approx. EUR 12.4 mln in claims regarding disputes for which there is a "likely" risk of losing the case, for which provisions of EUR 10.0 mln have been made;
- approx. EUR 31.7 mln in claims attributable to disputes for which there is a "possible" risk of losing the case;
- approximately EUR 36.1 mln in claims attributable to the remaining disputes, for which there is a "remote" risk of losing the case.

Compensation for transactions in diamonds

In 2012, Banca Monte dei Paschi di Siena signed a cooperation agreement with Diamond Private Investment (DPI) to regulate the modalities for the reporting of the offer of diamonds by the company to the customers of Banca MPS. This activity generated total purchase volumes of EUR 344 mln, mainly in 2015 and 2016, with a significant drop already from 2017.

The Antitrust Authority (*Autorità Garante della Concorrenza e del Mercato - AGCM*), with the resolution adopted at the meeting of 20 September 2017, established the existence of behaviours in violation of the provisions relating to unfair trade practices on the part of DPI and of the banks that had signed agreements with them. With regard to the Parent Company, a sanction of EUR 2 mln was imposed.

This measure was challenged before the Lazio Regional Administrative Court which, with sentence of 14 November 2018, rejected the Parent Company appeal. No appeal has been lodged against the judgement and it has therefore become final.

The Parent Company had in any case suspended the reporting activity to DPI of its customers starting from 3 February 2017, as soon as they became aware of the opening (25 January 2017) of the formal AGCM investigation with regard to DPI (later extended to the banks with which it had agreements). On 19 March 2018 the Parent Company terminated the cooperation agreement with DPI (the activity had in practice already been terminated from the date of suspension) and activated a compensation process for its customers who had received recommendations and intended to exit their diamond investment.

The compensation operation, agreed by Board of Directors since January 2018, anticipates the payment to customers a consideration up of an amount equal to the latter had originally paid to DPI for the purchase of stones, with the simultaneous transfer of the same to the Parent Company and the completion of the transaction.

Once the necessary authorisations were obtained, the initial transactions with customers were completed in the second half of 2018.

Following the launch of the initiative for a compensation to the customer process by the Parent Company, AGCM, given also the importance of the measures adopted for the mitigation of the financial impact of the communication of the offer of diamonds to the customers, requested to be kept updated on the progress of this initiative. The most recent report on the progress of the compensation process was sent to AGCM by the Parent Company on 15 July 2020, with an update of the data as at 26 June 2020.

On 19 February 2019, the Parent Company was served a preventive attachment order from the Judge's Office for the Preliminary Investigations of the Court of Milan in relation to this case. The decree was served to several natural persons, two diamond-producing companies (Intermarket Diamond Business S.p.A. and Diamond Private Investment S.p.A.), as well as 5 banks, including the Parent Company, and resulted, for Banca MPS, in the preventive attachment of the profit from the crime of continued aggravated fraud, in the amount of EUR 35.5

mln. In addition, a preventive attachment order was served by equivalence pursuant to art. 53 of Italian Legislative Decree 231/2001, for EUR 0.2 mln for the crime of self-money laundering.

In the attachment order, the Parent Company – as an administrative liable party – is challenged, at point 14), with the administrative unlawful act related to an offence pursuant to art. 5, par. 1, letter b) and 25-octies of Italian Legislative Decree 231/2001 in relation to the money laundering crime provided for by art. 648-ter, par. 1, of the Italian Criminal Code.

The Parent Company, in order to have access to the investigation documentation, is proposing a request for a review against this precautionary measure.

On 28 March 2019, the notice with the scheduled hearing, for re-examination, before the Court for 2 April 2019, was given.

Following acquisition of the documentation of the proceedings, the Parent Company deemed appropriate to waive the appeal for re-examination before the Court and to propose instead, for a later time, a release from attachment pursuant to article 321, paragraph 3 of the Italian Code of Criminal Procedure.

On 15 April 2019, a notice for the request of an extension of the duration of the preliminary investigations was given.

On 28 September 2019, the notice for the completion of the investigations against the investigated parties (and their defenders) deemed liable and co-liable of the alleged theft against diamond investors, was filed.

The provision, containing the information for guaranteeing the right to a defence, involves 87 natural persons and 7 legal persons including the Parent Company.

The representatives of the Parent Company involved are 8, 5 of whom are executives, 4 no longer employed (who are attributed the criminal conduct under article 648 ter 1, 2 and 5 of the Italian Criminal Code) and 3 are Heads of subsidiaries. The Parent Company remains involved in the proceedings pursuant to the alleged administrative offence under art. 25 octies of Italian Legislative Decree 231/01 related to art. 648 ter 1 of the Italian Criminal Code.

On 10 September 2020, a new notice of conclusion of the investigations was issued pursuant to art. 415 bis of the Code of Criminal Procedure by the Public Prosecutor of Milan, as part of a new criminal proceeding removed from the original proceedings.

This would be an additional notice compared to the previous one as it refers to new reports of criminal offences. Together with the 5 managers of the Parent Company mentioned in the previous notice, another 5 employees are being investigated for the offence pursuant to art. 640 first and last par. of the Italian Criminal Code (multiple aggravated and continuous fraud). In the new notice, the Parent Company is not involved as having administrative liability pursuant to Italian Legislative Decree 231/01.

On 11 March 2021, the Public Prosecutor's Office at the Court of Milan issued a new notice of indictment and conclusion of preliminary investigations referred to other criminal proceedings regarding 3 former executives of the Parent Company as well as an executive still employed. The crimes subject to the proceedings are those of aggravated fraud (art. 640, par. 1, par. 2 bis in relation to art. 61 no. 5 of the Italian Criminal Code), self-laundering (art. 648 ter, par. 1, 2 and 5 of the Italian Criminal Code) and obstruction of regulators (art. 2638, par. 2 and 3 of the Italian Civil Code). In these proceedings, the Parent Company is not involved as having administrative liability pursuant to Italian Legislative Decree 231/01.

On 6 April 2021, the request for committal for trial was submitted by the Public Prosecutor's Office at the Court of Milan, against 110 parties, including previous officers and employees of the Parent Company who had received the first two notices of conclusion of investigations in the aforementioned criminal proceedings It was requested that the Parent Company also be called before the court in relation to the administrative offences pursuant to Italian Legislative Decree 231/01. The preliminary hearing, scheduled for 19 July 2021, was regularly held.

On 22 June 2021, the Public Prosecutor's Office at the Court of Milan issued a new notice of indictment and conclusion of preliminary investigations referred to other criminal proceedings regarding executives and representatives of the Parent Company. The new notice of conclusion of the investigations concerned 1 former executive and 1 former representative not included in the previous notice. The offences prosecuted are the same as those referred to in the notice of 11 March 2021.In the new notice too, the Parent Company is not involved as civilly liable party pursuant to Italian Legislative Decree 231/01.

Lastly, it should be noted that, on 4 December 2019 and 2 April 2021, the Parent Company, in reference to the preventive attachment decree issued on 13 February 2019 by the Preliminary Investigations Judge of the Court of Milan in the amount of EUR 35.2 mln, filed with the Public Prosecutor's Office at the Court of Milan 2 petitions for partial restitution, equal to the total amount reimbursed to customers. The Parent Company is waiting for the outcomes of these petitions.

To meet the initiatives taken, the Parent Company has set aside provisions which take into account, among other things, the anticipated number of requests and the current wholesale value of the stones to be collected.

As at 30 June 2021, 12.3 thousand requests had been received for a total value of approximately EUR 314 mln, while the transactions carried out totalled EUR 305 mln (of which EUR 18 mln in the first half of 2021, covered for the equivalent value net of the market value of the stones by the provisions for risks and charges made in previous years) and represent 88% of the total reported volume of diamond offers of the Parent Company. Residual provisions for risks and charges recognised against the compensation initiative amounted to EUR 6.3 mln at the end of June 2021.
As at 30 June 2021 the stones returned were recognised for a total value of EUR 66.9 mln.

Results by Operating Segment

Identification of Operating Segments

In accordance with the provisions of IFRS 8, the operating segments have been identified based on the main business sectors in which the Group operates. As a result, by adopting the "business approach", consolidated income statement and balance sheet data are broken down and re-aggregated based on criteria including: business area concerned, operating structure of reference, relevance and strategic importance of activities carried out, and customer clusters served.

In the organizational structure of the Parent Company, following the reorganization of the General Management carried out in June 2021, a specialized commercial organizational model was introduced on two first level units within the Chief Commercial Officer Department: "Private Business" and "Business Enterprises and Private Banking".

The Private Business is in charge of Retail customers (Value and Premium service models).

The Business Enterprises and Private Banking is in charge of Corporate customers and companies (SMEs, Small Business Entities, Key Clients and Large Groups service models), Private customers and the foreign segment.

Based on the Group's reporting criteria, which also take into account organisation structures, the following operating segments were identified:

- **Retail Banking**, which includes the sales activities of Retail customers (Value and Premium segments) and Banca Widiba S.p.A. (Financial Advisor Network and Self-service channel);
- **Corporate Banking**, which includes the sales activities of Corporate customers (SME, Institutions, Small Business and Key Clients segments), Large Groups Area, Foreign Branches and the subsidiaries MPS Capital Services, MPS Leasing & Factoring and the foreign bank MP Banque;
- **Wealth Management**, which includes the sales activities of Private Banking customers (Private Banking and Family Office segments) and the subsidiary MPS Fiduciaria;
- **Corporate Centre**, which in addition to cancellations of intragroup entries, incorporates the results of the following business centres:
  - service operations supporting the Group's business, dedicated in particular to the management and development of IT systems (Consorzio Operativo Gruppo MPS);
  - companies consolidated at equity and held for sale;
  - operating units, such as proprietary finance, treasury and capital management.

Following the reorganisation described above, for the purposes of the reporting of performance by operating segment, the Small Business service model, which previously was included in "Retail Banking", has been brought back into "Corporate Banking".

The comparative values have been consistently restated: therefore, the comparison involves homogeneous data.

The income statement and balance sheet results for each identified operating segment are shown in the following paragraphs.

Results in brief

The following table shows the main income statement and balance sheet aggregates for the Group's Operating Segments as at 30 June 2021:

SEGMENT REPORTING	Operating Segments									
Primary segment	Retail banking		Wealth Management		Corporate banking		Corporate Center		Total MPS Group	
(EUR mln)	30/06/21	Chg % Y/Y	30/06/21	Chg % Y/Y	30/06/21	Chg % Y/Y	30/06/21	Chg % Y/Y	30/06/21	Chg % Y/Y
PROFIT AND LOSS AGGREGATES										
Total Revenues	665.4	-10.7%	72.6	9.8%	591.4	-8.8%	234.4	n.m.	1,563.9	7.7%
Operating expenses	(658.8)	-1.0%	(52.1)	-1.0%	(333.0)	-0.9%	(29.3)	29.0%	(1,073.3)	-0.3%
Pre Provision operating Profit	6.6	-91.7%	20.4	51.9%	258.4	-17.3%	205.1	n.m.	490.6	30.7%
Cost of customer loans/Net impairment (losses)-reversals on securities and loans to banks	(26.2)	-74.9%	(3.7)	n.m.	(137.5)	-67.2%	3.5	n.m.	(163.8)	-68.8%
Net Operating Income	(19.6)	-19.8%	16.7	33.2%	120.9	n.m.	208.6	n.m.	326.8	n.m.
	30/06/21	Chg. % 31/12	30/06/21	Chg. % 31/12	30/06/21	Chg. % 31/12	30/06/21	Chg. % 31/12	30/06/21	Chg. % 31/12
BALANCE SHEET AGGREGATES										
Gross Interest-bearing loans to customers (*)	31,048	0.7%	516	-2.3%	41,727	2.5%	9,008	-21.6%	82,300	-1.5%
Direct funding	42,530	-0.4%	2,976	-5.7%	26,993	-5.4%	21,537	-26.6%	94,037	-9.3%
Indirect Funding	54,803	5.0%	16,372	5.1%	15,043	-7.4%	18,378	1.8%	104,595	2.5%
Assets under management	*46,127*	*5.8%*	*12,481*	*5.2%*	*2,819*	*23.0%*	*2,699*	*1.8%*	*64,125*	*6.2%*
Assets under custody	*8,675*	*0.6%*	*3,891*	*4.9%*	*12,224*	*-12.3%*	*15,679*	*1.9%*	*40,469*	*-2.9%*

(*) The value shown in the Group as well as that in the operating segments is represented by gross interest-bearing loans to customers, therefore not including loss provisions.

Retail Banking

Business areas

Retail MPS

- Funding and provision of insurance products.
- Lending.
- Financial advisory services.
- Electronic payment services.

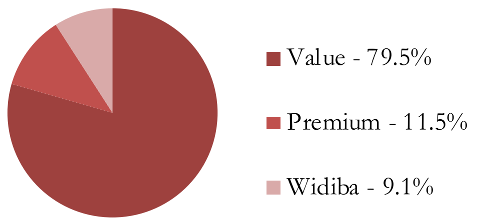
Widiba

- Banking products and services, deposit account, cards and advanced payment systems; customer self-service through the bank's digital channels or in assisted mode with the support of a Financial Advisor.
- Fully customisable online platform that relies on a Network of 527 Financial Advisors present throughout the country.
- Funding and Global advisory services and financial planning through the advanced WISE platform and the skills of the Financial Advisor Network.
- Mortgage loans, credit facilities and personal loans.
- Innovative interaction through computers, smartphones, tablets, watches and TV.

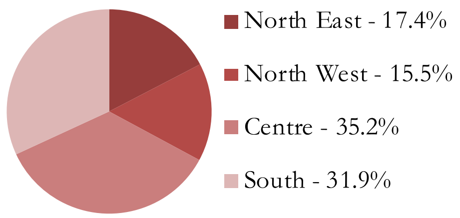
Customers

The number of Retail Banking customers was roughly 3.5 mln and includes around 313,400 Widiba customers, of which around 154,500 in the Financial Advisor Network channel, 88,800 in the Self-service channel and 70,200 customers migrated from the MPS branch network.

Breakdown by type



Breakdown by geography

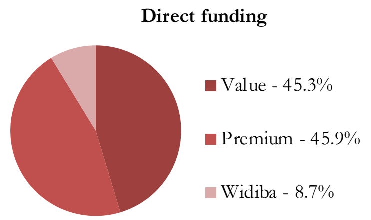


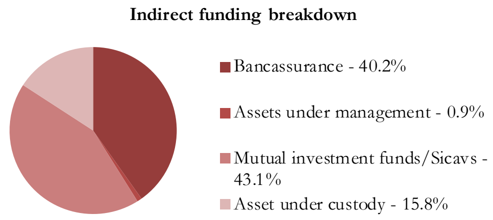
Income statement and balance sheet results

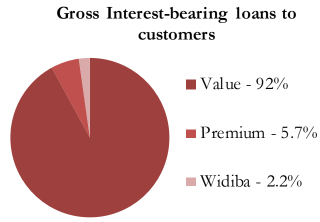
As at 30 June 2021, **Total Funding** for *Retail Banking* amounted to approximately **EUR 97.3 bn**, up by EUR 1.1 bn from March 2021 and by around EUR 2.4 bn compared to the end of 2020. More specifically:

- **Direct Funding** was equal to **EUR 42.5 bn**, down by EUR 0.2 bn compared to 31 March 2021, particularly on the medium/long-term (EUR -0.5 bn), and short-term (EUR -0.1 bn) component while there was an increase in on-demand component (EUR 0.4 bn) forms. Also in comparison with 31 December 2020, there was a decrease equal to approx. EUR 0.2 bn, due to the medium/long-term funding (EUR -1.0 bn) and short-term (EUR -0.3 bn) component, while there was an increase in the on-demand deposits (EUR 1.2 bn).
- **Indirect Funding** was equal to approx. **EUR 54.8 bn**, with an increase compared to March 2021 (EUR 1.3 bn), primarily on the asset management component (EUR 1.3 bn). Also in comparison with 31 December 2020, there was an increase equal to EUR 2.6 bn, entirely due to the asset management component, benefiting from the positive market effect and positive net flows.
- **Gross interest-bearing loans** to Retail Banking customers were **EUR 31.0 bn**, substantially in line with March 2021 and up on December 2020 (EUR 0.2 bn).

RETAIL BANKING - BALANCE SHEET AGGREGATES										
(Eur mln)	30/06/21	31/03/21	31/12/20	30/06/20	Chg Abs Q/Q	Chg % Q/Q	Chg Abs 31/12	Chg % 31/12	Chg Abs Y/Y	Chg % Y/Y
Direct funding	**42,530**	**42,776**	**42,686**	**40,184**	**-246**	**-0.6%**	**-156**	**-0.4%**	**2,346**	**5.8%**
Assets under management	*46,127*	*44,816*	*43,592*	*41,595*	*1,312*	*2.9%*	*2,536*	*5.8%*	*4,532*	*10.9%*
Assets under custody	*8,675*	*8,666*	*8,620*	*8,673*	*9*	*0.1%*	*55*	*0.6%*	*2*	*0.0%*
Indirect Funding	**54,803**	**53,482**	**52,212**	**50,268**	**1,321**	**2.5%**	**2,591**	**5.0%**	**4,535**	**9.0%**
Total Funding	**97,333**	**96,258**	**94,898**	**90,452**	**1,075**	**1.1%**	**2,435**	**2.6%**	**6,881**	**7.6%**
Gross Interest-bearing loans to customers	**31,048**	**30,970**	**30,839**	**30,519**	**79**	**0.3%**	**209**	**0.7%**	**529**	**1.7%**







With regard to profit and loss, as at 30 June 2021, Retail Banking recorded total **Revenues** equal to approx. **EUR 665 mln**, down 10.7% compared to the same period of the previous year. A breakdown of the aggregate shows:

- Net interest income was equal to approx. EUR 173 mln, down by 45.8% compared to the same period of the previous year as a result of the lower contribution from funding deriving mainly from the decline in the internal transfer rate. There was also a decrease in the return on commercial assets;
- Net fees and commissions were equal to approx. EUR 462 mln, with a 14.7% increase on the same period of the previous year, primarily due to higher income from asset management, particularly on product placement.

Considering the impact of Operating Expenses, which decreased by 1.0% Y/Y, *Retail Banking* generated **Pre-provision operating profit** equal to approx. **EUR 7 mln** (EUR 80 mln as at 30 June 2020). The cost of credit was equal to **EUR -26 mln** (EUR -104 mln as at 30 June 2020).

The **Net Operating Income** recorded since the beginning of the year was **negative and equal to approx. EUR 20 mln.**

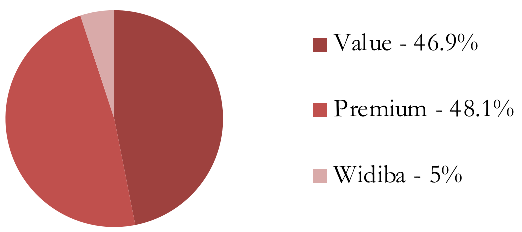
The non-operating components were equal to approx. EUR -25 mln, an increase compared to the same period of the previous year (equal to EUR -20 mln) due mainly to the higher Other net provisions.

Profit (loss) before tax from continuing operations was equal to **EUR -45 mln** (EUR -44 mln as at 30 June 2020).

The ***cost-income ratio*** of the Operating Segment was equal to **99.0%** (89.3% at the end of June 2020).

RETAIL BANKING - PROFIT AND LOSS AGGREGATES				
			Chg. Y/Y	
(EUR mln)	30/06/21	30/06/20	Abs.	%
Net interest income	*172.8*	*318.6*	*-145.8*	*-45.8%*
Net fee and commission income	*462.2*	*403.0*	*59.3*	*14.7%*
Other Revenues from Banking and Insurance Business	*34.7*	*28.4*	*6.4*	*22.4%*
Other operating expenses/income	*(4.3)*	*(4.4)*	*0.1*	*-1.6%*
Total Revenues	**665.4**	**745.5**	**-80.1**	**-10.7%**
Operating expenses	*(658.8)*	*(665.7)*	*6.8*	*-1.0%*
Pre Provision Operating Profit	**6.6**	**79.8**	**-73.2**	**-91.7%**
Cost of customer loans/Net impairment (losses)-reversals on securities and loans to banks	(26.2)	(104.2)	78.1	-74.9%
Net Operating Income	**(19.6)**	**(24.4)**	**4.8**	**-19.8%**
Non-operating components	**(25.4)**	**(20.0)**	**-5.4**	**26.8%**
Profit (loss) before tax from continuing operations	**(44.9)**	**(44.4)**	**-0.5**	**1.2%**

Breakdown of revenues



Results for the subsidiary

Banca Widiba S.p.A.: at 30 June 2021, the **Total Funding** of Banca Widiba was equal to approx. **EUR 9.7 bn**, up by EUR 0.5 bn from the beginning of the year and EUR 0.3 bn compared to 31 March 2021, benefiting from both positive net funding flows of EUR 246 mln during the six-month period, of which EUR 106 in 2Q (mainly in Assets under Management) and favourable financial market trends.

In terms of economic performance, as at 30 June 2021, Banca Widiba reported total **Revenues** equal to approx. **EUR 33.8 mln (of which EUR 17.6 mln in 2Q)**, down by EUR 7.1 million (-17%) compared to 30 June 2020, due to the decrease in net interest income (EUR -10.6 mln) due to the significant decrease in the yields of intragroup financial assets, partly offset by Net fee and commission income, which increased by EUR 3.1 mln driven by Assets under management.

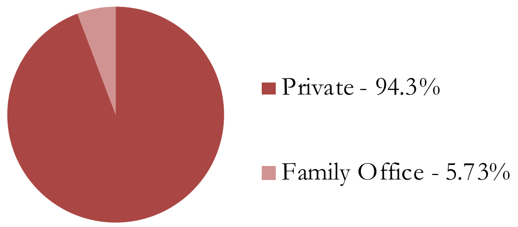
Pre-provisione operating profit benefited from the decrease in **Operating Expenses** (costs down by EUR 2.0 mln, -6%) and reached **EUR 4.2 mln (of which EUR 2.9 mln in 2Q)**, down by EUR -5.1 mln on 30 June 2020. Due to the lower incidence of the Cost of credit, down EUR 0.2 mln compared to 30 June 2020, **Net Operating Income** was equal to **EUR 2.9 mln (of which EUR 2.0 mln in 2Q)**, with a decrease of EUR -4.9 mln on 30 June 2020.

Lastly, as a result of higher non-operating components (EUR 0.5 mln referring to net provisions for risks and charges), **Profit (loss) before taxes from continuing operations** was equal to **EUR 2.2 mln**, down by EUR 5.5 mln on 30 June 2020, a decrease due to intragroup financial assets.

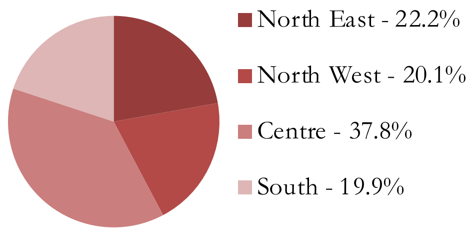
Wealth Management

Business areas	Customers
• Funding, lending, provision of insurance products, financial and non-financial services to private customers. • Services and products for high-standing customers in the areas of wealth management, financial planning, consultancy on not strictly financial services (tax planning, real estate, art & legal advisory). • Fiduciary and trust services (through the subsidiary MPS Fiduciaria).	There are around 36 thousand private customers.

Breakdown by type



Breakdown by geography



Income statement and balance sheet results

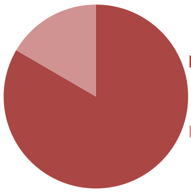
As at 30 June 2021, **Total Funding** for Wealth Management was equal to approx. **EUR 19.3 bn**, up by EUR 0.4 bn compared to 31 March 2021 and EUR 0.6 bn compared to the end of the year. More specifically:

- **Direct Funding** was equal to **EUR 3.0 bn**, in line with the levels at March 2021 and down by EUR 0.2 bn compared to 31 December 2020;
- **Indirect Funding** was equal to about **EUR 16.4 bn**, up both compared to 31 March 2021 (EUR 0.4 bn) and to the end of the previous year (EUR 0.8 bn) due to a positive market effect.
- **Gross interest-bearing loans to customers** of Wealth Management were essentially in line with both 31 March 2021 and December 2020, at approx. **EUR 0.5 bn**.

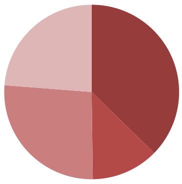
WEALTH MANAGEMENT - BALANCE SHEET AGGREGATES

(EUR mln)	30/06/21	31/03/21	31/12/20	30/06/20	Chg Abs Q/Q	Chg % Q/Q	Chg Abs 31/12	Chg % 31/12	Chg Abs Y/Y	Chg % Y/Y
Direct funding	**2,976**	**2,936**	**3,157**	**3,103**	**40**	**1.4%**	**-181**	**-5.7%**	**-127**	**-4.1%**
Assets under management	*12,481*	*12,191*	*11,865*	*11,359*	*289*	*2.4%*	*616*	*5.2%*	*1,122*	*9.9%*
Assets under custody	*3,891*	*3,773*	*3,708*	*3,656*	*118*	*3.1%*	*183*	*4.9%*	*235*	*6.4%*
Indirect Funding	**16,372**	**15,964**	**15,572**	**15,014**	**407**	**2.6%**	**799**	**5.1%**	**1,357**	**9.0%**
Total Funding	**19,348**	**18,900**	**18,730**	**18,118**	**448**	**2.4%**	**618**	**3.3%**	**1,230**	**6.8%**
Gross Interest-bearing loans to customers	**516**	**520**	**529**	**536**	**-3**	**-0.7%**	**-12**	**-2.3%**	**-20**	**-3.7%**

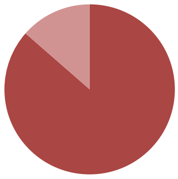
Direct funding



Indirect funding breakdown



Gross Interest-bearing loans to customers



Whit regard to profit and loss as at 30 June 2021, Wealth Management reported total **Revenues** equal to approx. **EUR 73 mln** , up 9.8% compared to the same period of last year. A breakdown of the aggregate shows:

- Net Interest Income was equal to approx. EUR 0.4 mln, down EUR 3 mln compared to the same period of the previous year, affected by the lower contribution of direct funding mainly due to the decrease in the internal transfer rate;
- Net fee and commission income were equal to approximately EUR 62 mln, up by EUR 8 mln compared to 30 June 2020.

Considering the impact of Operating Expenses, which were down by 1.0% Y/Y, *Wealth Management* generated **Pre-provision operating profit** equal to approx. **EUR 20 mln** (EUR 7 mln Y/Y). Including Cost of credit, equal to EUR -4 mln, the **Net Operating Income** was equal to approx. **EUR 17 mln**.

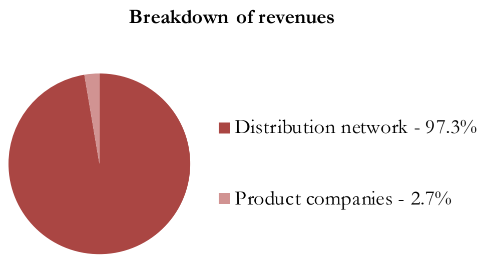
The non-operating components were equal to approx. EUR -1.3 mln, an EUR 0.8 mln deterioration compared to the same period of the previous year.

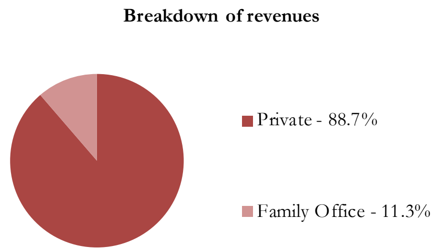
The **Profit (loss) before tax from continuing operations** was equal to **EUR 15 mln** (EUR 12 mln as at 30 June 2020).

The **cost-income ratio** of the Operating Segment was equal to **71.8%** (79.6% at the end of June 2020).

WEALTH MANAGEMENT - PROFIT AND LOSS AGGREGATES

			Chg. Y/Y	
(EUR mln)	30/06/21	30/06/20	Abs.	%
Net interest income	*0.4*	*3.9*	*-3.4*	*-88.9%*
Net fee and commission income	*62.1*	*54.5*	*7.5*	*13.8%*
Other Revenues from Banking and Insurance Business	*10.4*	*8.4*	*2.1*	*24.6%*
Other operating expenses/income	*(0.4)*	*(0.7)*	*0.3*	*-43.8%*
Total Revenues	**72.6**	**66.1**	**6.5**	**9.8%**
Operating expenses	*(52.1)*	*(52.7)*	*0.5*	*-1.0%*
Pre Provision Operating Profit	**20.4**	**13.5**	**7.0**	**51.9%**
Cost of customer loans/Net impairment (losses)-reversals on securities and loans to banks	(3.7)	(0.9)	-2.8	n.m.
Net Operating Income	**16.7**	**12.6**	**4.2**	**33.2%**
Non-operating components	**(1.3)**	**(0.5)**	**-0.9**	**n.m.**
Profit (loss) before tax from continuing operations	**15.4**	**12.1**	**3.3**	**27.1%**





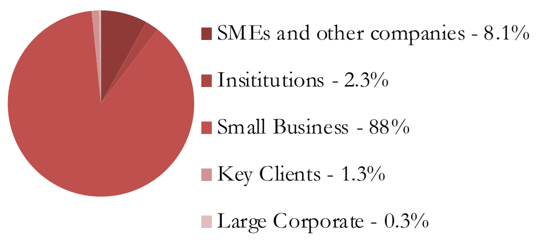
Results for the subsidiary

- **MPS Fiduciaria**: in the first half of 2021 the subsidiary reported a profit for the year equal to EUR 0.1 mln.

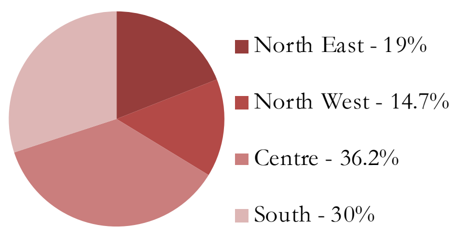
Corporate Banking

Business areas	Customers
• Lending and offering financial products and services to businesses, including through strategic partnerships with trade associations and Confidi (credit guarantee consortia), with Guarantee Institutions (including public) and Institutional Entities, through which funding is acquired at favourable terms. • Offer of integrated leasing and factoring packages for businesses, artisans and professionals (through the subsidiary MPS Leasing & Factoring). • Corporate finance - medium/long-term credit facilities, corporate finance, capital markets and structured finance also through the subsidiary MPS Capital Services. • Custody and deposit services for dairy products on behalf of third parties (through the subsidiary Magazzini Generali Fiduciari di Mantova S.p.A., which is also authorised to issue documents of title to the merchandise, providing for easier access to bank lending).	About 330,500 Corporate and Large Group customers of the Parent Company, directly followed by Corporate Banking.

Breakdown by type



Breakdown by geography



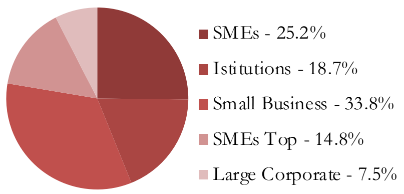
Income statement and balance sheet results

The **Total Funding** of Corporate Banking as at 30 June 2021 was equal to **EUR 42.0 bn**, down by EUR 1.9 bn with respect to 31 March 2021, mainly due to the decrease in Indirect Funding (EUR -1.6 bn), mainly in Assets under custody. There was also a EUR 2.7 bn decrease compared to the end of December 2020, as a result of a decrease in both Indirect Funding (EUR -1.2 bn) recorded mainly on Assets under custody and Direct Funding (EUR -1.5 bn). The decrease in Direct Funding was influenced by the decision taken by the Parent Company to reduce the rates paid to customers. With regard to Indirect Funding, instead, the decline recorded in the Assets under custody sector in the second quarter was mainly due to the changes related to a major customer.
With regard to lending, as at 30 June 2021, **Gross interest-bearing loans to customers** of Corporate Banking were equal to approx. **EUR 41.7 bn** (up EUR 0.1 bn compared to 31 March 2021 and EUR 1.0 bn compared to 31 December 2020).

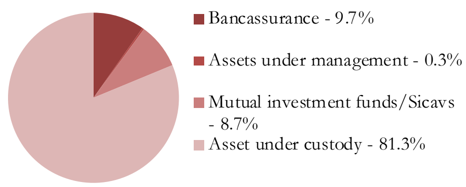
CORPORATE BANKING - BALANCE SHEET AGGREGATES

(EUR mln)	30/06/21	31/03/21	31/12/20	30/06/20	Chg Abs Q/Q	Chg % Q/Q	Chg Abs 31/12	Chg % 31/12	Chg Abs Y/Y	Chg % Y/Y
Direct funding	**26,993**	**27,299**	**28,534**	**25,462**	**-306**	**-1.1%**	**-1,541**	**-5.4%**	**1,531**	**6.0%**
Assets under management	*2,819*	*2,317*	*2,292*	*2,243*	*501*	*21.6%*	*526*	*23.0%*	*575*	*25.6%*
Assets under custody	*12,224*	*14,288*	*13,946*	*14,357*	*-2,064*	*-14.4%*	*-1,722*	*-12.3%*	*-2,133*	*-14.9%*
Indirect Funding	**15,043**	**16,605**	**16,238**	**16,601**	**-1,563**	**-9.4%**	**-1,195**	**-7.4%**	**-1,558**	**-9.4%**
Total Funding	**42,036**	**43,904**	**44,772**	**42,063**	**-1,868**	**-4.3%**	**-2,736**	**-6.1%**	**-27**	**-0.1%**
Gross Interest-bearing loans to customers	**41,727**	**41,609**	**40,722**	**42,042**	**118**	**0.3%**	**1,005**	**2.5%**	**-315**	**-0.7%**

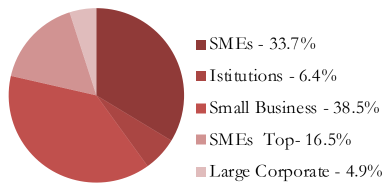
Direct funding



Indirect funding breakdown



Gross Interest-bearing loans to customers



In terms of economic performance, as at 31 March 2021 *Corporate Banking* reported **Revenues** equal to approx. **EUR 591 mln** (-8.8% Y/Y). A breakdown of the aggregate shows:

- Net Interest Income was equal to approx. EUR 291 mln, down 16.0% Y/Y due to the decrease in returns on commercial assets and the lower contribution of direct funding;
- Net Fee and Commission income was equal to approx. EUR 272 mln, down 1.3% compared to the same period of the previous year;
- Other Revenues from Banking and Insurance Business were equal to approx. EUR 37 mln compared to EUR 34 mln in the first half of 2020.

Considering the impact of Operating Expenses, down by 0.9% compared to 30 June 2020, **Pre-provision operating profit** was equal to approx. **EUR 258 mln** (-17.3%Y/Y).

Net Operating Income was equal to **EUR 121 mln** (EUR -106 mln in the same period of the previous year), taking into account a Cost of credit equal to EUR -137 mln.
The non-operating components were equal to approx. EUR -73 mln, an improvement compared to EUR -164 mln in the same period of the previous year due to lower Other net provisions.

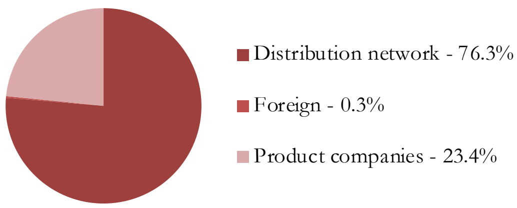
The **Profit (loss) before tax from continuing operations** was equal to **EUR 48 mln** (EUR -270 mln as at 30 June 2020).

The **cost-income ratio** of Corporate Banking was equal to **56.3%** (51.8% as at 30 June 2020).

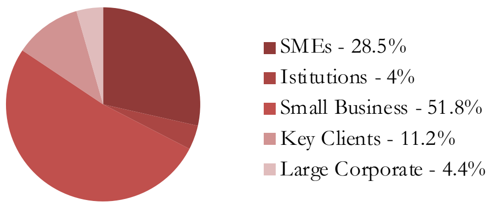
CORPORATE BANKING - PROFIT AND LOSS AGGREGATES

			Chg. Y/Y	
(EUR mln)	30/06/21	30/06/20	Abs.	%
Net interest income	*291.0*	*346.4*	*-55.4*	*-16.0%*
Net fee and commission income	*272.3*	*275.9*	*-3.6*	*-1.3%*
Other Revenues from Banking and Insurance Business	*36.9*	*33.6*	*3.3*	*9.8%*
Other operating expenses/income	*(8.8)*	*(7.3)*	*-1.5*	*21.1%*
Total Revenues	**591.4**	**648.6**	**-57.2**	**-8.8%**
Operating expenses	*(333.0)*	*(336.0)*	*3.0*	*-0.9%*
Pre Provision Operating Profit	**258.4**	**312.6**	**-54.2**	**-17.3%**
Cost of customer loans/Net impairment (losses)-reversals on securities and loans to banks	(137.5)	(418.8)	281.4	-67.2%
Net Operating Income	**120.9**	**(106.2)**	**227.2**	**n.m.**
Non-operating components	**(72.6)**	**(163.8)**	**91.3**	**-55.7%**
Profit (loss) before tax from continuing operations	**48.4**	**(270.1)**	**318.4**	**n.m.**

Breakdown of revenues



Breakdown of revenues



Results of the main subsidiaries

- **MPS Capital Services**: net income before tax equal to EUR 76 mln, up by EUR 68 mln compared to 30 June 2020, due to the increase in Other revenues from banking business and the decrease in the Cost of Credit (penalised in 2020 by additional adjustments due to the COVID-19 emergency) and the provisions for risks and charges. The profit for the period was equal to EUR 95 mln, up compared to a loss of EUR 23 mln as at 30 June 2020 due to the trends described above.
- **MPS Leasing & Factoring**: net income before tax equal to EUR -1.9 mln, up by EUR 31 mln compared to 30 June 2020, especially due to the trend in the Cost of Credit, penalised last year by additional adjustments due to the COVID-19 emergency. The profit for the period was equal to EUR 0.1 mln, compared to a loss for the period of EUR 42 mln as at 30 June 2020 due to the trends described above.
- **MP Banque[15]:** loss for the period equal to EUR 1.9 mln compared to a loss for the period of EUR 2.0 mln in the same period of the previous year.

Corporate Centre

The Corporate Centre includes:

- head office units, particularly with regard to governance and support functions, proprietary finance, the "asset centre" of divisionalised entities, which comprises in particular: proprietary finance activities, treasury and capital management;
- business service and support units, particularly with regard to the development and management of information systems (Consorzio Operativo di Gruppo).

Furthermore, the Corporate Centre includes the cancellations of intragroup entries and the results of the companies consolidated under the equity method and those held for sale.

As regards Finance activities, in the first half of 2021, securities from the Parent Company's portfolio were sold, particularly roughly EUR 850 mln classified at amortised cost, which contributed a total profit of roughly EUR 124 mln, up by around EUR 55 mln compared to the same period of the previous year when disposals from the securities portfolio were carried out for a total of around EUR 525 mln. Partially offsetting these sales, to support net interest income in the course of the six-month period around EUR 820 mln in securities, also classified at amortised cost, were repurchased.

[15] The profit is that determined on an operational basis. Please recall that in 2018 the Parent Company approved the run-off of MP Banque

Prospects and outlook on operations

Vaccination campaigns and supportive economic policies have resulted in an improvement in global economic prospects: world GDP is expected to grow by more than 6%[16] in 2021, with a recovery, albeit at a different pace, in all major world economies led by United States and China. However, the global frictions generated by the sharp acceleration in the growth of demand, which supply has struggled to match, have increased inflationary risks in several countries. In the US, higher expected inflation and the exceptional fiscal stimulus promoted by President Biden, with its repercussions on level of federal debt, contributed to an upward trend in long-term government yields and placed monetary policy in the spotlight. Although the Fed believes the increase in the price level to be temporary and maintains an accommodative stance, in the medium term, it could opt for an early exit from the monetary stimulus, which would have spillover effects on other advanced economies and influence the strength of the global recovery. In the short term, the main downside risk to growth continues to come from the spread of variants of the COVID-19 virus and the new restrictions which would be introduced to contain them and which would affect the expansionary cycle underway.

In Italy, as the vaccination campaign proceeds, the current recovery may gain further momentum during the summer, with household spending shifting again to services, those more related to leisure time, and investments and exports beginning to benefit from the boost given by the projects financed by the EU Next Generation funds: the expected pre-financing, equal to 13% of the funds allocated to Italy, is equal to approx. EUR 25 bn and could become available in the next few weeks. According to the most recent forecasts, growth in Italy could even exceed 5% in 2021 (+5.1% according to Bank of Italy estimates[17]). This growth forecasts depend on favourable developments on the epidemic front: even if the virus continues to circulate, the protection offered by vaccines should be able to prevent the most serious forms of the disease, allowing a normalisation of economic and social activities. The strength of the Italian recovery will also depend on the way the exit from emergency policies is managed (redundancies, moratoria) and the ability to implement projects and structural reforms financed with European funds.

The Italian banking system will continue to play its role in supporting the economy and will continue its transformation to recover profitability, also speeding up the adaptation of its business to the needs of the ecological transition. The push to integrate ESG (Environmental, Social and Governance) factors in all areas of bank operations, from planning to risk management, from governance to IT systems, comes from all stakeholders, not least the supervisory authorities. This revolution, together with the technological one, requires that the sector acquires new skills and resources but will offer new business opportunities, also in view of the important role that green investments have in the National Recovery and Resilience Plan.

The expiration of moratoria and guarantees, scheduled for the end of the year, and the normalization of monetary policies that will follow the exit from the health crisis, could produce, in the medium term, slower growth in the credit volumes disbursed. Business credit will be supported by the need to anticipate incoming NGEU loans to operators directly involved in the projects and to provide finding to the chain of suppliers/related companies; companies will in any case continue to make use of the significant stock of liquidity held at banks. With disposable income increasing and the propensity to consume recovering, the demand for loans by households will increase also in the consumer credit component; the demand for house mortgages will benefit from the improved prospects of the real estate market. Credit supply policies will remain favourable in the medium term, due to the economic recovery and a monetary policy that will continue to provide high liquidity to the banking system at a low cost.

The stance of the ECB should remain accommodative and no changes are expected in the rate offered on the deposits held with the Monetary Authority over the 2021-2023 period; assuming rates start to increase at the beginning of 2024, the 3-month swap rate should remain substantially stable until early 2023, and then anticipate the rise in monetary policy in the second part of the year. The upward trend of the market rate in the medium term could result in a slightly lower increase in interest rates on loans, a lower increase in the average deposit rate and a more marked increase in the rate on bond issues, in line with the rise in yield on Italian government bonds.

In the next few months, the deposits of households are expected to continue on the current upward trend, as a result of the uncertainty created by the health crisis. With a gradual reduction in the propensity to save and a rebalancing of the portfolio towards more profitable forms of investment, a switch is expected from current account deposits to term deposits, with an increase in other forms of indirect funding, already underway. The amounts deposited by companies will also be reduced to finance investments and working capital. The end of the TLTRO-III auction program (the last auction being scheduled for December 2021) and the reduction in deposits may increase banks' need to find medium- and long-term funding, resulting in an increase in bond issues in the medium term.

[16] Prometeia, Forecast Report - July 2021
[17] Economic Bulletin, Bank of Italy, July 2021

For the current year, a modest recovery is expected in net interest income, due to the benefit obtained on the ECB medium- and long-term funds, which will begin to gradually decrease from next year with the end of the TLTRO-III auctions; the contribution of the banking spread is still limited and expected to increase slightly only in the medium term. Revenues from indirect funding are increasing due to the recovery in economic activity and the accumulation of liquidity during the crisis, which will increasingly be channelled towards asset management products. There will also be an increase in the contribution of fees and commissions from the distribution of protection insurance products, which will find a pool of customers more sensitive to work-related and personal risks. With the easing of the restrictions adopted to contain the pandemic and increased activity by households and businesses, revenues from liquidity management services will also rise; however, this latter profit source is exposed to a greater competitive pressure from non-traditional operators, which, especially in the payment system area, are acquiring bank customers with innovative services.

The extension of moratoria and loan guarantees to the whole of 2021 and the improved macroeconomic prospects will help mitigating risk in the current year, but once the support measures expire, impaired loans are likely to increase, affecting the banks' balance sheets in the new year. However, due to the extent of the support measures and the rebalancing of the loan portfolio of banks to acquire borrowers with better credit standing, the cost of risk will be lower than in previous crises, despite the one-off adjustments related to the loan sales that are scheduled to continue in 2022.

With the gradual reopening of the economy and the progress made in the vaccination campaign, the economic recovery could have positive effects on Group performance. It is realistic to believe that, with the continuation of economic support measures, the emergence of new non-performing loans will be delayed; therefore, for the current year the cost of credit is expected to be lower than forecast. Revenues are also expected to be higher than initially estimated, mainly due to the fee and commission income component, which will benefit from better trends in assets under management and other financial components. Due to these trends and due to operating costs in line with expectations, the net income from ordinary operations in 2021 is expected to be above its estimated values.

In terms of non-operating components, in July 2021, the Parent Company reached a preliminary agreement with the Fondazione Monte dei Paschi di Siena on out-of-court claims, mostly referring to the acquisition of Banca Antonveneta, the 2011 capital increase and the 2014-2015 capital increases. The preliminary agreement allows the Parent Company to substantially reduce the relief sought, providing for the settlement of the EUR 3.8 bn claims for damages made by the Fondazione against a consideration equal to EUR 150 mln that the Bank undertakes to pay.

The actual figures for the first half of 2021 confirm the particularly robust liquidity position of the Group, with indicator levels (LCR/NSFR) that are significantly higher than regulatory and operational limits as well as their targets. The institutional maturities planned for the second half of 2021 do not appear to be especially significant, mostly consisting of EUR 1.3 bn in bilateral funding. The Parent Company will in any event need to meet the MREL targets which, as of 1 January 2022, will become "binding" for the banking system. To meet these MREL targets, besides the capital strengthening of EUR 2.5 bn, unsecured senior public bond will be issued for a total of EUR 2 bn. This amount may be revised during the year in light of RWA trends, based on which the MREL targets are set.

Compared to estimates obtained in previous months, underlying the Strategic Plan and the Capital Plan and showing a shortfall already in the first quarter of 2021, which would reach EUR 1.5 bn at 1 January 2022, it should be noted that, at 31 March 2021 and 30 June 2021, no capital shortfall had been recorded and that 12 months after the reference date, i.e. as at 30 June 2022, the shortfall is expected to be less than EUR 0.5 bn, including the effect of the update of the EBA Guidelines on internal models. The decrease in the expected shortfall derives from the effects of already implemented capital management actions and from the evolution of capital and risk-weighted assets. Moreover, the capital shortfall, concerns Tier 1 and Total Capital, and is contained within the limits of the Capital Conservation Buffer; no shortfall is expected on Common Equity Tier 1. The shortfall is estimated taking into account the results of the first half of the year and the expected performance for 2021, assuming confirmation of the current business model and excluding the capital strengthening transaction, other extraordinary capital contributions and subordinated issues.

With reference to the EBA 2021 Stress test, the results communicated to the market on 30 July 2021 are consistent with the aforementioned Capital Plan, which includes a capital strengthening of EUR 2.5 bn.

On 23 July 2021, the Montepaschi Group completed two synthetic securitisation transactions concerning, respectively, a portfolio of loans disbursed by Banca Monte dei Paschi di Siena S.p.A. (BMPS) to Italian corporate customers/SMEs, mainly classified in Stage 2, and a portfolio of specialized loans disbursed by MPS Capital Services Banca per le Imprese S.p.A., for a total amount equal to approx. EUR 1.4 bn. Due to these securitisations, the Junior (for the securitisation on specialized loans) and Mezzanine (for both transactions) risk of the two portfolios will be transferred to a third party (Christofferson Robb & Company Fund - "CRC"), through a guarantee contract. The transactions, notification of which was sent to the Supervisory Authority for evaluation, will help implementing the plan to boost the Group's capital strength indicators in 2021 and will free up resources to then provide new credit to the economic and productive sector.

Finally, the Parent Company set up the virtual data room for the due diligence activities of potential investor and partners. In this regard, the Apollo Fund sent to the Parent Company a non -binding expression of interest, and since March it has had access to the virtual data room. Moreover, it should be noted that on 29 July UniCredit issued a specific press release through which it announced that it had agreed with the MEF on the prerequisite terms for a potential transaction involving the transfer of a defined perimeter of MPS to UniCredit. UniCredit and MEF will enter into exclusive discussions to verify the feasibility of the transaction. To this end, Banca Monte dei Paschi di Siena and UniCredit have signed a confidentiality agreement, necessary to initiate the exchange of information through a data room, to which UniCredit has had access since Tuesday 3 August 2021.

Related-party transactions

Compensation of key management personnel

Items/Amounts	Total 30 06 2021	Total 30 06 2020
Short-term benefits	3.5	3.7
Total	**3.5**	**3.7**

In compliance with the instructions provided by accounting standard IAS 24 and in light of the current organisational structure, the Group has opted for the disclosure scope to include not only the Directors, Statutory Auditors, the General Manager and the Deputy General Managers, but also other Key Management Personnel.

The information regarding remuneration policies is contained in the 'Remuneration Report pursuant to art. 123 ter of the Consolidated Law on Finance', available on the Parent Company's internet site, which contains the following data:

- a detailed breakdown of compensation paid to the Administration and Control Bodies, General Managers and, in aggregate form, to Key Management Personnel;
- quantitative information on the remuneration of "Key employees";
- monetary incentive plans in favour of members of the Administration and Control Body, the General Managers, the Deputy General Managers and other Key Management Personnel;
- information on the equity investments of members of the Administration and Control Bodies, the General Managers and other Key Management Personnel.

In the first half of 2021, there were 2 terminations of employment contracts of key management personnel.

Related-party transactions

In compliance with the provisions of Consob Resolution no. 17221, 12 March 2010, last updated with the amendments made by Consob resolution no. 21624, 10 December 2020, which came into force on 1 July 2021, as well as art. 53 Consolidated Banking Law and its implementing provisions (Bank of Italy Circular 263/06 Title V, Chapter 5, now replaced by Bank of Italy Circular 285/2013, Part Three, Chapter 11 "Risk assets and conflicts of interest with respect to associated parties"), the "Committee for Related-party Transactions" was established, composed of between three and five independent directors, carrying out the functions envisaged by the Articles of Association and the current legislative and regulatory provisions on transactions with related and associated parties.

Following the coming into force of the aforementioned Consob resolution no. 21624, 10 December 2020 (the "Consob Regulation"), the Board of Directors of the Parent Company in the meeting held on 6 July 2021, with the preliminary favourable opinions of the Committee for Transactions with Related Parties and the Board of Statutory Auditors, resolved to adopt a new updated version of the "*Group Directive concerning Management of regulatory obligations on related parties, associated parties and obligations of bank representatives*", accompanied by a "Group Regulation concerning Management of regulatory obligations on related parties, associated parties and obligations of bank representatives", which include all the obligations envisaged by the regulations applicable to the Bank since 1 July 2021. These internal provisions and procedures have been revised to implement the new provisions of the Consob Regulation in force since 1 July 2021, which introduce, among other things, a new definition of a Consob related party and the need to define thresholds of small amounts, differentiated at least according to the nature of the counterparty. For the preparation of the Interim Report on Operations as at 30 June 2021, reference continues to be made *ratione temporis* to the previous version of the *"Group Directive concerning Management of regulatory obligations on related parties, associated parties and obligations of bank representatives"*, (the "Group Directive").

The Group Directive in force at 30 June 2021 defines the organisational model adopted by the MPS Group (principles and responsibilities) for the management of the provisions concerning related parties, associated parties and obligations of the bank representatives; in particular, it governs, at the MPS Group level, the principles and rules for the control of risks arising from situations of possible conflicts of interest with some subjects close to the decision making centres of the Parent Company.

Within the Group Directive, the following is also defined:

- the formulation of the responsibilities assigned within the MPS Group (tasks and responsibilities of the top management bodies and corporate functions of the Parent Company and Subsidiaries);
- the scope of the related parties, associated parties ("Group Scope") and other subjects in a potential conflict of interest;
- the criteria for the identification of transactions, level of relevance of the transactions;
- the decision-making procedures and exemption cases;
- the internal policies in the area of control.

For the purpose of the Group Directive, significance is attributed to the transactions carried out with the subjects operating within the Group Scope which involve the performance of risk activities, the transfer of resources, services and obligations, regardless of the requirement of a consideration.

As regards the types of transactions, they are classified by the Directive as follows:

- "most significant transactions": transactions where at least one of the following indicators, applicable according to the specific transaction, exceeds the 5% threshold:

  · countervalue significance indicator: the ratio of the countervalue of the transaction to the total of the own funds resulting from the most recent published consolidated balance sheet;
  · asset significance indicator: the ratio of the total assets of the entity to which the transaction refers, to the total assets of Banca MPS;
  · liability significance indicator: the ratio of the total liabilities of the acquired entity to the total assets of Banca MPS.

- "less significant transactions": transactions of an amount above the negligible amount and up to the significance threshold; among less significant transactions, the following are considered of a "significant amount":

  · when the amount exceeds EUR 100.0 mln and up to the significance threshold (countervalue significance indicator);
  · or, in the case of acquisition transactions, mergers and demergers of an amount equal to or less than EUR 100.0 mln, the relevance index of the assets and/or liabilities is equal to or exceeding the ratio of EUR 100.0 mln to the consolidated regulatory capital.

- "transactions of a negligible amount": transactions of an amount equal to or less than EUR 250.0 thousand, which represents the negligible threshold pursuant to the Group Directive.

The provisions and procedures concerning transactions with related parties, in the versions in force at the time, are published on the website www.gruppomps.it section "Corporate governance – Related party transactions"

From 2016, the Parent Company's Board of Directors formally resolved to approve inclusion of the Ministry of Economy and Finance (MEF) and of the relevant directly and indirectly controlled companies within the scope of related parties on a discretionary basis pursuant to the provisions of the Group Directive, excluding the prudential regulation.

Following completion of the Parent Company's precautionary recapitalisation procedure, after which the MEF became the controlling shareholder from August 2017, the Parent Company received notification on 18 December 2017 from the Supervisory Authorities with regard to the methods for the resulting application of limits to risk assets laid out in prudential regulations, pursuant to art. 53 of the Consolidated Law on Banking (TUB) and its implementing provisions (Bank of Italy Circ. 263/06 Title V, Section 5), through application to the Parent Company of the "silo" approach for calculation of the reference limits.

With reference to the MEF scope, the Parent Company has availed itself of the exemption provided by paragraph 25 of IAS 24 on the disclosure of transactions and balances of existing transactions with government-related entities. The main transactions carried out with the MEF and with its subsidiaries, in addition to financing transactions, include Italian government securities recorded in the portfolios "Financial assets measured at fair value through other comprehensive income" for a nominal amount of EUR 4,211.0 mln and "Financial assets measured at fair value through profit or loss" for a nominal amount of EUR 2,750.0 mln as well as "Financial assets measured at amortised cost" for a nominal amount of EUR 5,176.3 mln.

Information is provided below regarding the most significant transactions, in terms of amount, carried out by the Parent Company with related parties in the first half of 2021.

MEF related-party transactions

On 5 January 2021, the Information Document was published, drawn up pursuant to art. 5 of Consob Regulation no. 17221/2010, to which reference should be made for more details, concerning a significant transaction with SACE S.p.A., approved on 17 December 2020 by the Board of Directors, after favourable opinion of the Committee for Transactions with Related Parties. The transaction, which has already been described in the Bank's financial statements at 31 December 2020, concerns the issue by SACE S.p.A. of a first demand guarantee on a portfolio of performing loans, for a maximum amount of approximately EUR 670 mln already included in the financial statements of Banca MPS and its subsidiary MPSCS, respectively for the amounts of approx. EUR 380 mln and EUR 290 mln. This significant transaction falls within the scope of application of Consob Regulation no. 17221/2020, since SACE S.p.A. is a wholly-owned subsidiary of Cassa Depositi Prestiti S.p.A. ("CDP S.p.A."), in which the MEF has a controlling interest.

On 9 February 2021, the Board of Directors, subject to the favourable opinion of the Committee for Transactions with Related Parties, resolved to renew the "SACE/2019 framework resolution" (in force 29.11.2019 - 28.11.2020), already commented on in Part H on the Bank's financial statements at 31 December 2019, approving the new "SACE/2021 framework resolution", up to the maximum amount of EUR 380 mln, in force until 9 February 2022. Like its predecessor, the "SACE/2021 framework resolution" is aimed at the execution of homogeneous and adequately specified transactions, attributable to the acquisition by SACE S.p.A. of insurance policies and financial guarantees, according to formats standardized at the Italian Banking Association ("ABI") level, against credit lines for loans or endorsement credits granted to customers of the Bank or its subsidiaries MPSCS and MPSL&F. Compared to its predecessor, the "SACE/2021 framework resolution" in addition to reducing the amount of the ceiling from EUR 400 mln to EUR 380 mln, provides for an increase in the exemption threshold from EUR 30 mln to EUR 70 mln only for buyer's credit transactions, as well as the inclusion among the transactions covered by the framework resolution also of the addenda to documentary credit policies and the addenda to buyer credit policies within the terms specified. Like its predecessor, also the "SACE/2021 framework resolution" includes a master risk participation agreement with SACE S.p.A., which provides for the option of sharing risks on certain transactions ("risk-sharing"), through the transfer to SACE S.p.A. of portions of the overall risk previously agreed. The non-significant transaction for a significant amount falls within the scope of application of Consob Regulation no. 17221/2020, as SACE S.p.A. is a wholly-owned subsidiary of Cassa Depositi Prestiti S.p.A., in which the MEF has a controlling interest.

On 25 February 2021, the Board of Directors resolved to approve in favour of ENEL S.p.A.: (i) subject to the favourable opinion of the Committee for Transactions with Related Parties, the review with confirmation of the multiple and mixed credit line of EUR 200 mln (valid until February 2022), which can be used up to the full amount for the opening of a current account credit facility; forward drawing transactions with a maximum duration of 6 months and provision of a clean-down mechanism at least every 6 months, for a minimum of 5 working days; foreign currency loans; issuance of sureties with duration that may exceed 60 months; granting of letters of credit. The credit line can be used in multiple form by the companies included in the consolidation perimeter of ENEL S.p.A., after issue of a mandate letter providing for the joint and several liability of the delegating/beneficiary party; (ii) the granting of a Revolving Credit Facility equal to EUR 100 mln, with a duration of 5 years, representing the Bank's stake in a pooled loan equal to a total of EUR 10 bn, aimed at providing financial support for current operations; (iii) the cancellation of a credit line equal to EUR 100 mln, to ensure the overall risk on ENEL S.p.A. does not exceed the limit of EUR 300 mln. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, since the MEF has a controlling interest in ENEL S.p.A.

In February 2021, in execution of the aforementioned "SACE/2021 framework resolution", two risk-sharing transactions, for 70% and 50%, were concluded with SACE S.p.A. in favour of the Bank's customers, in execution of master risk participation agreements, for the confirmation of documentary credit issued by a foreign correspondent bank for the respective amounts of two credit lines of EUR 13.4 mln each, with reference to the aforementioned 70% share, and EUR 11.3 mln, with reference to the aforementioned 50% share, against SACE S.p.A. The transaction falls within the scope of Consob Regulation no. 17221/2010 as SACE S.p.A. is a wholly owned subsidiary of CDP S.p.A., in which the MEF has a controlling interest.

On 22 June 2021, the Information Document was published, drawn up pursuant to art. 5 of Consob Regulation no. 17221/2010, to which reference should be made for more details, concerning a significant transaction with CDP S.p.A., approved on 15 June 2021 by the Board of Directors, after favourable opinion of the Committee for Transactions with Related Parties. The transaction concerns the approval of the "CDP/2021 framework resolution", aimed at finalising, among other things, loan agreements, credit transfer agreements, supplementary loan agreements and the related requests for use ("drawdowns"), on the maximum amounts provided for by the agreements in force, concluded by CDP S.p.A. and ABI, and which the Bank has taken part in, up to a cumulative amount of EUR 700 mln, valid from 15 June 2021 to 14 June 2022. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, since the MEF has a controlling interest in CDP S.p.A.

In the first half of 2021, the "Postal Services 2021" agreement with POSTE ITALIANE S.p.A. was formalised, for a total annual amount of EUR 12.3 mln (including VAT), for the 2021/2022 period, in execution of a framework agreement. The services provided are necessary to guarantee the regular delivery to customers of the mandatory paper communications provided for by Legislative Decree no. 385/1993 (Consolidated Banking Law). The agreement is valid for one year with automatic renewal at the same terms and conditions for another year, unless cancelled before the expiration date. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, since the MEF has a controlling interest in POSTE ITALIANE S.p.A.

Transactions with other related parties

On 23 March 2021 the Credit Committee resolved in favour of FIDI TOSCANA S.p.A. a new framework resolution concerning the operations of all the banks and companies of the MPS Group, for the amount of EUR 30 mln, as the total maximum value of the guarantees issued by FIDI TOSCANA S.p.A. against loans to be finalised in the next 12 months (calendar year starting from the aforementioned resolution date). The guarantees may be considered in execution of the framework resolution for loans falling within the ordinary operations of the Bank, towards retail, small business and corporate customers, not falling within the perimeter of related/associated parties as well as within the scope of art. 136 Consolidated Banking Law. At the same meeting, the Credit Committee also resolved in favour of FIDI TOSCANA S.p.A. the renewal with decrease of the ceiling granted from EUR 430 mln to EUR 170 mln at MPS Group level, as the maximum operating limit, relevant exclusively for internal purposes and equal to the total amount of the loans that can be taken out, including the transactions already in place and the flows expected for 2021. The transaction falls within the scope of application of CONSOB Regulation no. 17221/2010, as FIDI TOSCANA S.p.A. is subject to significant influence by the Bank, which holds a 27.46% interest in this.

The following tables summarise the relationships and economic effects of transactions carried out in the first half of 2021 with associates, key management personnel and other related parties.

[18]The "MEF Scope" column highlights the balances of the balance sheet and income statement items as at 30 June 2021 relating to the transactions carried out with the MEF and the companies controlled by the MEF, namely companies controlled directly or indirectly by the MEF and their associates.

[18] The criteria to fill out the two tables are different from those of the European Securities and Markets Authority (ESMA) used for the table "Exposure to sovereign debt risk".

Related-party transactions: balance sheet items

	Value as at 30 06 2021						
	joint venture	Associated companies	key management personnel	Other related parties	MEF Scope	Total	“% on FS item
Financial assets held for trading	-	-	-	24.3	6,392.6	**6,416.9**	63.52%
Other financial assets mandatorily measured at fair value	-	2.5	-	-	33.6	**36.1**	7.53%
Financial assets measured at fair value through other comprehensive income	-	-	-	-	4,336.6	**4,336.6**	81.62%
Loans to customers measured at amortised cost	76.2	62.6	3.2	3.6	7,099.5	**7,245.1**	8.00%
Other assets	-	-	-	0.1	83.7	**83.8**	4.57%
Total assets	**76.2**	**65.1**	**3.2**	**28.0**	**17,946.0**	**18,118.5**	**-**
Financial liabilities measured at amortised cost	4.0	271.5	3.1	70.1	2,834.9	**3,183.6**	2.51%
Financial liabilities held for trading	-	-	-	3.9	1117.6	**1,121.5**	21.96%
Other liabilities	1.3	1.3	-	1.8	10.3	**14.7**	0.38%
Total liabilities	**5.3**	**272.8**	**3.1**	**75.8**	**3,962.8**	**4,319.8**	**-**
Guaranties issued and Commitments	26.1	27.6	0.2	0.1	1,843.7	**1,897.7**	n.a.

Related-party transactions: income statement items

	Value as at 30 06 2021						
	joint venture	Associated companies	key management personnel	Other related parties	MEF Scope	Total	% on FS item
Interest income and similar revenues	0.8	0.1	-	-	73.6	**74.5**	7.92%
Interest costs and similar charges	-	-	-	-	(13.0)	**(13.0)**	3.63%
Fee and commission income	0.1	103.2	-	1.1	115.5	**219.9**	25.82%
Fee and commission expense	-	(0.2)	-	-	(0.4)	**(0.6)**	0.62%
Net profit (loss) from other assets and liabilities measured at fair value through profit or loss	-	(0.1)	-	-	2.0	**1.9**	-16.81%
Net adjustments/impaiments	(1.1)	-	-	-	(0.5)	**(1.6)**	-0.99%
Dividends	-	-	-	1.3	0.2	**1.5**	0.93%
Operating costs	-	(16.6)	(3.5)	0.5	(9.8)	**(29.4)**	-2.36%

Certification of the condensed consolidated half-yearly financial statements pursuant to Article 81-ter of Consob Regulation no. 11971 of 14 May 1999, as subsequently amended and supplemented

1. The undersigned, Guido Bastianini, as Chief Executive Officer, and Nicola Massimo Clarelli, as Financial Reporting Officer, of Banca Monte dei Paschi di Siena S.p.A., having regard to article 154-bis, paragraphs 3 and 4 of Italian Legislative Decree no. 58 of 24 February 1998, do hereby certify the:
   - appropriateness with respect to the company's profile, and
   - factual application of administrative and accounting procedures for preparation of the condensed consolidated half-yearly financial statements, in the first half of 2021.

2. The verification of the adequacy and effective application of administrative and accounting procedures for the preparation of the condensed consolidated half-yearly financial statements as at 30 June 2021 was based on methods defined by the MPS Group in line with the COSO models and, for the IT component, COBIT, which constitute the reference framework for the internal control system generally accepted internationally.

3. It is also certified that:
   3.1 the condensed consolidated half-yearly financial statements as at 30 June 2021:
      - were prepared in accordance with the international accounting standards recognised by the European Union pursuant to European Parliament and Council Regulation No. 1606/2002 of 19 July 2002;
      - are consistent with the underlying documentary evidence and accounting records;
      - are suitable to provide a true and fair representation of the capital, economic and financial situation of the issuer and group of companies included within the scope of consolidation.

   3.2 the half-yearly report on operations includes a reliable analysis of the significant events in the first six months of the financial year and their impact on the condensed consolidated half-yearly financial statements, as well as a description of major risks and uncertainties for the remaining six months of the year. The half-yearly report on operations includes a reliable analysis of information regarding related-party transactions of major relevance.

Siena, 05/08/2021

Signed by

On behalf of the Board of Directors

The Chief Executive Officer

Guido Bastianini

Signed by

The Financial Reporting

Officer

Nicola Massimo Clarelli

INDEPENDENT AUDITORS' REPORT

REVIEW REPORT ON CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

To the shareholders of Banca Monte dei Paschi di Siena SpA

Foreword

We have reviewed the accompanying condensed consolidated interim financial statements of Banca Monte dei Paschi di Siena SpA and its subsidiaries (the Monte dei Paschi di Siena Group or the Group) as of 30 June 2021, comprising the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, cash flow statement and related notes. The directors of the Monte dei Paschi di Siena Group are responsible for the preparation of the condensed consolidated interim financial statements in accordance with International Accounting Standard 34 applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of Review

We conducted our work in accordance with the criteria for a review recommended by Consob in Resolution No. 10867 of 31 July 1997. A review of condensed consolidated interim financial statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than a full-scope audit conducted in accordance with International Standards on Auditing (ISA Italia) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the condensed consolidated interim financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements of the Monte dei Paschi di Siena Group as of 30 June 2021 are not prepared, in all material respects, in accordance with International Accounting Standard 34 applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Material uncertainty over going concern

We draw attention to what reported in paragraph "Going concern" of the explanatory notes to the condensed consolidated interim financial statements, where the directors report the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. The directors, taking into account the state of actions put in place and having considered the material uncertainty with regard to the capital strengthening of Banca Monte dei Paschi di Siena SpA, believe that the Group has the reasonable expectation to continue as a going concern in the foreseeable future; accordingly, they prepared these financial statements under the going concern assumption.

Our conclusion is not qualified with regard to this matter.

Florence, 10 August 2021

PricewaterhouseCoopers SpA

Signed by

Lorenzo Pini Prato
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers.

ANNEXES

Reconciliation between the reclassified income statement and balance sheet and the related statutory accounts

Reconciliation between the reclassified income statement as at 30 June 2021 and related statutory accounts

Item	Income Statement accounts	30/06/21	Economic effects from allocation of BAV acquisition costs to BMPS (PPA)	Reclassification of dividends on treasury stock transactions	Reclassification of the portion of profits from equity investments	Reclassification provision to BRRD and DGSD funds	Recovery of stamp duty and customers' expenses	DTA Fee	Restructuring costs (Personnel expenses for early retirement)	Securitization, Recapitalization and Commitment Costs	Cost of credit	30/06/21	Reclassified Income Statement accounts
			2.3	-	-	-	-	-	-	-	-	**585.2**	**Net interest income**
10	Interest income and similar revenues	941.0	2.3	-	-	-	-	-	-	-	-	943.3	
	of which interest income calculated applying the effective interest rate method	790.6	-	-	-	-	-	-	-	-			
20	Interest expense and similar charges	(358.1)	-	-	-	-	-	-	-	-	-	(358.1)	
			-	-	-	-	-	-	-	-	-	**754.5**	**Net fee and commision income**
40	Fee and commission income	851.7	-	-	-	-	-	-	-	-	-	851.7	
50	Fee and commission expense	(97.2)	-	-	-	-	-	-	-	-	-	(97.2)	
70	Dividends and similar income	12.0	-	(3.1)	46.5	-	-	-	-	-	-	**55.4**	**Dividends, similar income and gains (losses) on equity investments**
			-	3.1	-	-	-	-	-	-	**5.1**	**179.4**	**Net profit (loss) from trading, from financial assets/liabilities measuerd at fair value and Net profit (loss) on disposals/repurchases**
80	Net profit (loss) from trading	29.3	-	3.1	-	-	-	-	-	-	-	32.4	
100	Gains/(losses) on disposal/repurchase of:	130.6	-	-	-	-	-	-	-	-	0.2	**130.8**	
	a) financial assets measured at amortised cost	121.5	-	-	-	-	-	-	-	-	0.2	121.7	
	b) Financial assets measured at fair value through other comprehensive income	4.0	-	-	-	-	-	-	-	-	-	4.0	
	c) financial liabilities	5.1	-	-	-	-	-	-	-	-	-	5.1	
110	Net profit (loss) from other financial assets and liabilities measured at fair value through profit or loss	11.3	-	-	-	-	-	-	-	-	4.9	**16.2**	
	a) financial assets and liabilities designated at fair value	3.1	-	-	-	-	-	-	-	-	-	3.1	
	b) other financial assets mandatorily measured at fair value	8.2	-	-	-	-	-	-	-	-	4.9	13.1	
90	Net profit (loss) from hedging	1.9	-	-	-	-	-	-	-	-	-	**1.9**	**Net profit (loss) from hedging**
230	Other operating expenses/income	119.6	-	-	-	-	(132.1)	-	-	-	-	**(12.5)**	**Other operating income (expenses)**
190	Administrative expenses:	(1,231.4)	-	-	-	89.6	121.2	31.6	3.2	1.0	-	**(984.8)**	**Administrative expenses**
	a) personnel expenses	(722.0)	-	-	-	-	-	-	3.2	-	-	(718.8)	a) personnel expenses
	b) other administrative expenses	(509.4)	-	-	-	89.6	121.2	31.6	-	1.0	-	(266.0)	b) other administrative expenses
			0.4	-	-	-	10.9	-	-	-	-	**(88.5)**	Net value adjustments to property, plant and equipment and intangible assets
210	Net adjustments to/recoveries on property, plant and equipment	(66.0)	-	-	-	-	10.9	-	-	-	-	(55.1)	
220	Net adjustments to/recoveries on intangible assets	(33.8)	0.4	-	-	-	-	-	-	-	-	(33.4)	
130	Net impairment (losses)/reversals on	(161.1)	-	-	-	-	-	-	-	-	**0.9**	**(165.5)**	**Cost of customers credit**
	a) financial assets measured at amortised cost	(162.0)	-	-	-	-	-	-	-	-	(0.8)	(162.8)	*130a) financial assets measured at amortised cost - customers*
	b) financial assets measured at fair value through other comprehensive income	0.9	-	-	-	-	-	-	-	-	(0.9)		
			-	-	-	-	-	-	-	-	(0.2)	(0.2)	*100a) Loans to customers measured at amortised cost*
			-	-	-	-	-	-	-	-	(4.9)	(4.9)	*110b) Loans*
			-	-	-	-	-	-	-	-	7.7	7.7	*200 a) Net provision for risks and charges related to financial guarantess and other commitments*
140	Modification gains/(losses)	(5.3)	-	-	-	-	-	-	-	-	-	(5.3)	*140 Modification gains (losses)*
			-	-	-	-	-	-	-	-	1.7	**1.7**	**Net impairment (losses)/reversals on securities and loans to banks**
160	Net insurance premiums		-	-	-	-	-	-	-	-	-		
170	Other net insurance income (expense)		-	-	-	-	-	-	-	-	-		
200	Net provision for risks and charges:	(34.6)	-	-	-	-	-	-	-	-	(7.7)	**(42.3)**	**Net provisions for risks and charges**
	a) commitments and guarantees issued	7.7	-	-	-	-	-	-	-	-	(7.7)		
	b) other net provisions	(42.3)	-	-	-	-	-	-	-	-	-	(42.3)	
250	Gains (losses) on investments	46.3	-	-	(46.5)	-	-	-	-	-	-	**(0.2)**	**Gains (losses) on investments**
			-	-	-	-	-	-	(3.2)	(1.0)	-	**(4.2)**	Restructuring costs /One-0ff costs
			-	-	-	(89.6)	-	-	-	-	-	**(89.6)**	Risks and charges related to the SRF, DGS and similar schemes
			-	-	-	-	-	(31.6)	-	-	-	**(31.6)**	DTA Fee
260	Net gain (losses) on property, plant and equipment and intangible assets measured at fair value	(28.2)	-	-	-	-	-	-	-	-	-	**(28.2)**	Net gain (losses) on property, plant and equipment and intangible assets measured at fair value
280	Gains (losses) on disposal of investments	14.4	-	-	-	-	-	-	-	-	-	**14.4**	Gains (losses) on disposal of investments
290	Profit (loss) before tax from continuing operations	142.4	2.7	-	-	-	0.0	-	-	-	-	**145.1**	Profit (loss) for the period before tax
300	Tax (expense)/recovery on income from continuing operations	59.6	(0.9)	-	-	-	-	-	-	-	-	**58.7**	Tax (expense)/recovery on income from continuing operations
310	Profit (loss) after tax from continuing operations	202.0	1.8	-	-	-	0.0	-	-	-	-	**203.8**	Profit (loss) after tax
320	Profit (loss) after tax from groups of assets held for sale and discontinued operations	-	-	-	-	-	-	-	-	-	-	**-**	
330	Profit (loss) for the period	202.0	1.8	-	-	-	0.0	-	-	-	-	**203.8**	Net profit (loss) for the period
340	Profit (loss) attributable to non-controlling interests	(0.1)	-	-	-	-	-	-	-	-	-	**(0.1)**	Net profit (loss) attributable to non-controlling interests
			(1.8)	-	-	-	-	-	-	-	-	**(1.8)**	PPA (Purchase Price Allocation)
	Parent company's net profit (loss)	**202.1**	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**202.1**	**Parent company's net profit (loss) for the period**

Reconciliation between the reclassified income statement as at 30 June 2020 and related statutory accounts

Item	Income Statement accounts	30 06 2020*	Economic effects from allocation of BAV acquisition costs to BMPS (PPA)	Reclassification of dividends on treasury stock transactions	Reclassification of the portion of profits from equity investments	Reclassification provision to BRRD and DGSD funds	Recovery of stamp duty and customers' expenses	DTA Fee	Restructuring costs (Personnel expenses for early retirement)	Securitization, Recapitalization and Commitment Costs	Cost of credit	FV of properties -IAS16	30 06 2020*	Reclassified Income Statement accounts
			2.6	-	-	-	-	-	-	-	-	-	**646.9**	**Net interest income**
10	Interest income and similar revenues	964.8	2.6	-	-	-	-	-	-	-	-	-	967.4	
	of which interest income calculated applying the effective interest rate method	*908.9*	-	-	-	-	-	-	-	-	-	-		
20	Interest expense and similar charges	(320.5)	-	-	-	-	-	-	-	-	-	-	(320.5)	
			-	-	-	-	-	-	-	24.5	-	-	**694.3**	**Net fee and commission income**
40	Fee and commission income	790.1	-	-	-	-	-	-	-	-	-	-	790.1	
50	Fee and commission expense	(120.3)	-	-	-	-	-	-	-	24.5	-	-	(95.8)	
70	Dividends and similar income	9.7	-	(1.1)	37.7	-	-	-	-	-	-	-	**46.3**	**Dividends, similar income and gains (losses) on equity investments**
			-	1.1	-	-	-	-	-	-	**(6.4)**	-	**92.1**	**Net profit (loss) from trading, from financial assets/liabilities measuerd at fair value and Net profit (loss) on disposals/repurchases**
80	Net profit (loss) from trading	21.1	-	1.1	-	-	-	-	-	-	-	-	**22.2**	
100	Gains/(losses) on disposal/repurchase of:	76.7	-	-	-	-	-	-	-	-	(0.8)	-	**75.9**	
	a) financial assets measured at amortised cost	70.5	-	-	-	-	-	-	-	-	(0.8)	-	69.7	
	b) Financial assets measured at fair value through other comprehensive income	1.3	-	-	-	-	-	-	-	-	-	-	1.3	
	c) financial liabilities	4.9	-	-	-	-	-	-	-	-	-	-	4.9	
110	Net profit (loss) from other financial assets and liabilities measured at fair value through profit or loss	(0.4)	-	-	-	-	-	-	-	-	(5.6)	-	**(6.0)**	
	a) financial assets and liabilities measured at fair value	(0.7)	-	-	-	-	-	-	-	-	-	-	(0.7)	
	b) other financial assets mandatorily measured at fair value	0.3	-	-	-	-	-	-	-	-	(5.6)	-	(5.3)	
90	Net profit (loss) from hedging	0.5	-	-	-	-	-	-	-	-	-	-	**0.5**	**Net profit (loss) from hedging**
230	Other operating expenses/income	111.1	-	-	-	-	(138.6)	-	-	-	-	-	**(27.5)**	**Other operating income (expenses)**
190	Administrative expenses:	(1,219.2)	-	-	-	76.7	128.4	35.5	(0.4)	5.8	-	-	**(973.2)**	**Administrative expenses**
	a) personnel expenses	(707.5)	-	-	-	-	-	-	(0.4)	-	-	-	(707.9)	a) personnel expenses
	b) other administrative expenses	(511.7)	-	-	-	76.7	128.4	35.5	-	5.8	-	-	(265.3)	b) other administrative expenses
			0.4	-	-	-	10.2	-	-	-	-	2.4	**(103.9)**	Net value adjustments to property, plant and equipment and intangible assets
210	Net adjustments to/recoveries on property, plant and equipment	(79.2)	-	-	-	-	10.2	-	-	-	-	2.4	(66.6)	
220	Net adjustments to/recoveries on intangible assets	(37.7)	0.4	-	-	-	-	-	-	-	-	-	(37.3)	
130	Net impairment (losses)/reversals on	(534.6)	-	-	-	-	-	-	-	-	**18.1**	-	**(519.3)**	**Cost of customers loans**
	a) financial assets measured at amortised cost	(532.0)	-	-	-	-	-	-	-	-	2.9	-	(529.1)	*130a) financial assets measured at amortised cost - customers*
	b) financial assets measured at fair value through other comprehensive income	(2.6)	-	-	-	-	-	-	-	-	2.6	-		
			-	-	-	-	-	-	-	-	0.8	-	0.8	*100a) Loans to customers measured at amortised cost*
			-	-	-	-	-	-	-	-	5.6	-	5.6	*110b) Loans*
			-	-	-	-	-	-	-	-	6.2	-	**6.2**	*200 a) Net provision for risks and charges related to financial guarantess and other commitments*
140	Modification gains/(losses)	(2.8)	-	-	-	-	-	-	-	-	-	-	(2.8)	*140 Modification gains (losses)*
			-	-	-	-	-	-	-	-	(5.5)	-	**(5.5)**	**Net impairment (losses)/reversals on securities and loans to banks**
160	Net insurance premiums	-	-	-	-	-	-	-	-	-	-	-		
170	Other net insurance income (expense)	-	-	-	-	-	-	-	-	-	-	-		
200	Net provision for risks and charges:	(350.9)	-	-	-	-	-	-	-	-	(6.2)	-	**(357.1)**	**Net provisions for risks and charges**
	a) commitments and guarantees issued	6.2	-	-	-	-	-	-	-	-	(6.2)	-		
	b) other net provisions	(357.1)	-	-	-	-	-	-	-	-	-	-	(357.1)	
250	Gains (losses) on investments	38.4	-	-	(37.7)	-	-	-	-	-	-	-	**0.7**	**Gains (losses) on investments**
			-	-	-	-	-	-	0.4	(28.3)	-	-	**(27.9)**	Restructuring costs /One-0ff costs
			-	-	-	(76.7)	-	-	-	-	-	-	**(76.7)**	Risks and charges related to the SRF, DGS and similar schemes
			-	-	-	-	-	(35.5)	-	-	-	-	**(35.5)**	DTA Fee
260	Net gain (losses) on property, plant and equipment and intangible assets measured at fair value	6.8	-	-	-	-	-	-	-	-	-	(2.4)	**4.4**	Net gain (losses) on property, plant and equipment and intangible assets measured at fair value
280	Gains (losses) on disposal of investments	1.3	-	-	-	-	-	-	-	(2.0)	-	-	**(0.7)**	Gains (losses) on disposal of investments
290	Profit (loss) before tax from continuing operations	(645.1)	3.0	-	-	-	0.0	-	-	-	(0.0)	-	**(642.1)**	Profit (loss) for the period before tax
300	Tax (expense)/recovery on income from continuing operations	(436.4)	(1.0)	-	-	-	-	-	-	-	-	-	**(437.4)**	Tax (expense)/recovery on income from continuing operations
310	Profit (loss) after tax from continuing operations	(1,081.5)	2.0	-	-	-	0.0	-	-	-	(0.0)	-	**(1,079.5)**	Profit (loss) after tax
320	Profit (loss) after tax from groups of assets held for sale and discontinued operations	-	-	-	-	-	-	-	-	-	-	-		
330	Profit (loss) for the period	(1,081.5)	2.0	-	-	-	0.0	-	-	-	(0.0)	-	**(1,079.5)**	Net profit (loss) for the period
340	Profit (loss) attributable to non-controlling interests	(0.1)	-	-	-	-	-	-	-	-	-	-	**(0.1)**	Net profit (loss) attributable to non-controlling interests
		-	(2.0)	-	-	-	-	-	-	-	-	-	**(2.0)**	PPA (Purchase Price Allocation)
	Parent company's net profit (loss)	**(1,081.4)**	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**(1,081.4)**	**Parent company's net profit (loss) for the period**

** The figures as at 30 June 2020 have been restated compared to those published in the half-yearly report as at 30 June 2020, following the retrospective application of the change in valuation criteria for investment properties (IAS 40).*

Reconciliation between the reclassified balance sheet and related statutory accounts as at June 2021

Item	Balance-sheet Items - Assets	30/06/21	Other financial assets @ FVTPLM - Loans to banks	Loans to customers	Trading derivatives	Securities	Loans to Banks @ AC - Loans to Central Banks	Non-current assets held for sale and disposal groups - Property, plant and equipement	Non-current assets held for sale and disposal groups - Others	Change in value of macro-hedged financial assets	30/06/21	Reclassified Balance-sheet Items - Assets
10	Cash and cash equivalents	**587.1**									**587.1**	**Cash and cash equivalents**
20	Financial assets measured at fair value through profit or loss	**10,582.1**									**23,121.9**	**Securities assets**
						15,346.8					15,346.7	
	a) financial assets held for trading	10,102.9			(2,660.7)						7,442.2	
	b) financial assets designated at fair value	-										
	c) other financial assets mandatorily measured at fair value	479.2		(146.2)							333.0	
30	Financial assets measured at fair value through other comprehensive income	**5,313.0**				(5,313.0)						
40	Financial assets measured at amortised cost	**121,102.9**										
							25,570.5				**25,570.5**	**Loans to central banks**
	a) Loans to banks	30,589.7				(727.1)	(25,570.5)				**4,292.1**	**Loans to banks**
	b) Loans to customers	90,513.2		149.3		(9,306.7)					**81,355.8**	**Loans to customers**
50	Hedging derivatives	**28.8**			2,660.7						**2,689.5**	**Derivatives**
60	Change in value of macro-hedged financial assets (+/-)	**709.2**								(709.2)	-	
70	Equity investments	**1,027.7**									**1,027.7**	**Equity investments**
80	Reinsurers' share of techincal reserve	**-**									**-**	
90	Property, plant and equipment	**2,506.6**						71.2			**2,577.8**	**Property, plant and equipment**
100	Intangible assets	**182.2**									**182.2**	**Intangible assets**
	- of which goodwill	*7.9*									*7.9*	*-of which goodwill*
110	Tax assets	**1,800.4**									**1,800.4**	**Tax assets**
	a) current	751.0									751.0	a) current
	b) deferred	1,049.4		-							1,049.4	b) deferred
											2,544.7	**Other assets**
120	Non-current assets held for sale and disposal groups	74.3		(3.1)				(71.2)	-		-	120 Non-current assets held for sale and disposal groups
130	Other assets	1,835.4		-					-	709.2	2,544.7	130 Other assets
	Total Assets	**145,749.7**	-	-	-	-	-	-	-	-	**145,749.7**	**Total Assets**

Items	Balance-sheet Items - Liabilities	30/06/21	Due to central banks	Due to banks	Debt securities issued - customers	Trading derivatives	Financial liabilities designated at fair value	Provision for staff severance indemnities	Change in value of macro-hedged financial liabilities (+/-)	Liabilities associated with non-current assets held for sale and disposal group	Group Net Equity	30/06/21	Reclassified balance-sheet items - Liabilities
10	Financial liabilities measured at amortised cost	**127,080.3**										**94,036.5**	**Direct funding**
	a) due to banks	33,159.9	(29,305.6)	(3,854.3)								-	
	b) due to customers	82,972.5			342.8							83,315.3	a) due to customers
	c) debts securities issued	10,947.9			(342.8)		116.1					10,721.2	b) Securities issued
			29,305.6									**29,305.6**	**Due to central banks**
				3,854.3								**3,854.3**	**Due to banks**
20	Financial liabilities held for trading	**5,106.8**				(1,287.5)						**3,819.3**	**On-balance-sheet financial liabilities held for trading**
30	Financial liabilities designated at fair value	**116.1**					(116.1)					**-**	
												2,730.1	**Derivatives**
40	Hedging derivatives	**1,442.6**										1,442.6	Hedging derivatives
						1,287.5						1,287.5	Trading derivatives
50	Change in value of macro-hedged financial liabilities (+/-)	**30.7**							(30.7)			**-**	
60	Tax liabilities	**8.0**										**8.0**	**Tax liabilities**
	a) current	0.2										*0.2*	*a) current*
	b) deferred	7.8										*7.8*	*b) deferred*
70	Liabilities associated with non-current assets held for sale and disposal groups	**-**								-		**-**	
												3,912.3	**Other liabilities**
									30.7			30.7	Change in value of macro-hedged financial liabilities (+/-)
										-		-	Liabilities associated with non-current assets held for sale and disposal group
80	Other liabilities	**3,881.6**										3,881.6	Other liabilities
90	Provisions for employees severance pay	**163.3**						(163.3)				**-**	
100	Provisions for risks and charges:	**1,853.6**										**2,016.9**	**Provisions for specific use**
								163.3				163.3	a) Provision for staff severance indemnities
	a) financial guarantees and other commitments	144.6										144.6	b) Provision related to guarantees and other commitments given
	b) post-employment benefits	31.4										31.4	c) Pension and other post-retirement benefit obligations
	c) other provisions	1,677.6										1,677.6	d) Other provisions
120	Valuation reserves	**324.7**									(324.7)	**-**	
150	Reserves	**(3,521.0)**									3521	**-**	
												6,065.3	**Group net equity**
											324.7	324.7	a) Valuation reserves
												-	b) Redeemable shares
												-	c) Equity Instruments
											(3,521.0)	(3,521.0)	d) Reserves
												-	e) Share premium reserve
170	Share capital	**9,195.0**										9,195.0	f) Share capital
											(135.5)	(135.5)	g) Treasury shares (-)
											202.1	202.1	h) Net profit (loss) for the period
180	Treasury shares (-)	**(135.5)**									135.5	**-**	
190	Non-controlling interests (+/-)	**1.4**										**1.4**	Non-controlling interests
200	Profit (loss) for the period (+/-)	**202.1**									(202.1)	**-**	
	Total Liabilities and Shareholders' Equity	**145,749.7**	-	-	-	-	-	-	-	-	-	**145,749.7**	**Total Liabilities and Shareholders' Equity**

Reconciliation between the reclassified balance sheet and related statutory accounts as at December 2020

Item	Balance-sheet Items - Assets	31 12 2020*	Other financial assets @ FVTPLM - Loans to banks	Loans to customers	Trading derivatives	Securities	Loans to Banks @ AC - Loans to Central Banks	Non-current assets held for sale and disposal groups - Property, plant and equipements	Non-current assets held for sale and disposal groups - Others	Change in value of macro-hedged financial assets	31 12 2020*	Reclassified Balance-sheet Items - Assets
10	Cash and cash equivalents	**763.8**	-	-	-	-	-	-	-	-	**763.8**	**Cash and cash equivalents**
20	Financial assets measured at fair value through profit or loss	**8,675.9**	-	-	-	-	-	-	-	-	**21,623.3**	**Securities assets**
		-	-	-	-	16,058.4	-	-	-	-	16,058.4	
	a) financial assets held for trading	8,214.9	-	-	(2,967.8)	-	-	-	-	-	5,247.1	
	b) financial assets designated at fair value	-	-	-	-	-	-	-	-	-	-	
	c) other financial assets mandatorily measured at fair value	461.0	-	(143.2)	-	-	-	-	-	-	317.8	
30	Financial assets measured at fair value through other comprehensive income	**5,777.9**	-	-	-	(5,777.9)	-	-	-	-	**-**	
40	Financial assets measured at amortised cost	**126,739.7**	-	-	-	-	-	-	-	-		
		-	-	-	-	-	28,526.2	-	-	-	**28,526.2**	**Loans to central banks**
	a) Loans to banks	34,737.9	-	-	-	(759.4)	(28,526.2)	-	-	-	**5,452.3**	**Loans to banks**
	b) Loans to customers	92,001.8	-	151.0	-	(9,520.5)	-	-	-	-	**82,632.3**	**Loans to customers**
50	Hedging derivatives	**50.8**	-	-	2,967.8	-	-	-	-	-	**3,018.6**	**Derivatives**
60	Change in value of macro-hedged financial assets (+/-)	**1,032.5**	-	-	-	-	-	-	-	(1,032.5)	**-**	
70	Equity investments	**1,107.5**	-	-	-	-	-	-	-	-	**1,107.5**	**Equity investments**
80	Technical insurance reserves reassured with third parties	**-**	-	-	-	-	-	-	-	-	**-**	
90	Property, plant and equipment	**2,335.8**	-	-	-	-	-	-	-	-	**2,335.8**	**Property, plant and equipment**
100	Intangible assets	**183.9**	-	-	-	-	-	-	-	-	**183.9**	**Intangible assets**
	- of wich goodwill	*7.9*	-	-	-	-	-	-	-	-	*7.9*	*-of which goodwill*
110	Tax assets	**1,991.6**	-	-	-	-	-	-	-	-	**1,991.6**	**Tax assets**
	a) current	807.9	-	-	-	-	-	-	-	-	807.9	a) current
	b) deferred	1,183.7	-	-	-	-	-	-	-	-	1,183.7	b) deferred
		-	-	-	-	-	-	-	-	-	**2,709.7**	**Other assets**
120	Non-current assets and groups of assets held for sale and disposal groups	**89.4**	-	(7.8)	-	(0.6)	-	-	(81.0)	-	**-**	Non-current assets and groups of assets held for sale and disposal groups
130	Other assets	**1,596.2**	-	-	-	-	-	-	81.0	1,032.5	2,709.7	Other assets
	Total Assets	**150,345.0**	-	-	-	-	-	-	-	-	**150,345.0**	**Total Assets**

Items	Balance-sheet Items - Liabilities	31 12 2020*	Due to central banks	Due to banks	Debt securities issued - customers	Trading derivatives	Financial liabilities designated at fair value	Provision for staff severance indemnities	Change in value of macro-hedged financial liabilities (+/-)	Liabilities associated with non-current assets held for sale and disposal group	Group Net Equity	31 12 2020*	Reclassified balance-sheet items - Liabilities
10	Financial liabilities measured at amortised cost	**131,944.1**										**103,719.3**	**Direct funding**
	a) due to banks	28,418.1	(23,933.6)	(4,484.5)								-	
	b) due to customers	90,683.7			823.2							91,506.9	a) due to customers
	c) debts securities issued	12,842.3			(823.2)		193.3					12,212.4	b) Securities issued
			23,933.6									**23,933.6**	**Due to central banks**
				4,484.5								**4,484.5**	**Due to banks**
20	Financial liabilities held for trading	**6,002.0**				(1,456.5)						**4,545.5**	**On-balance-sheet financial liabilities held for trading**
30	Financial liabilities designated at fair value	**193.3**					(193.3)					**-**	
												3,253.5	**Derivatives**
40	Hedging derivatives	**1,797.0**										1,797.0	Hedging derivatives
						1,456.5						1,456.5	Trading derivatives
50	Change in value of macro-hedged financial liabilities (+/-)	**45.4**							(45.4)			**-**	
60	Tax liabilities	**4.1**										**4.1**	**Tax liabilities**
	a) current	**-**										-	*a) current*
	b) deferred	**4.1**										*4.1*	*b) deferred*
70	Liabilities associated with non-current assets held for sale and disposal groups	**-**								-		**-**	
												2,572.4	**Other liabilities**
									45.4			45.4	Change in value of macro-hedged financial liabilities (+/-)
										-		-	Liabilities associated with non-current assets held for sale and disposal groups
80	Other liabilities	**2,527.0**										2,527.0	Other liabilities
90	Provisions for employees severance pay	**166.6**						(166.6)				**-**	
100	Provisions for risks and charges:	**1,892.6**										**2,059.2**	**Provisions for specific use**
								166.6				166.6	a) Provision for staff severance indemnities
	a) financial guarantees and other commitments	154.1										154.1	b) Provision related to guarantees and other commitments given
	b) post-employment benefits	33.0										33.0	c) Pension and other post-retirement benefit obligations
	c) other provisions	1,705.5										1,705.5	d) Other provisions
120	Valuation reserves	**260.9**									(260.9)	**-**	
150	Reserves	**(1,684.0)**									1684.0	**-**	
												5,771.6	**Group net equity**
											260.9	260.9	a) Valuation reserves
												-	b) Redeemable shares
												-	c) Equity Instruments
											(1,684.0)	(1,684.0)	d) Reserves
												-	e) Share premium reserve
170	Share capital	**9,195.0**										9,195.0	f) Share capital
											(313.7)	(313.7)	g) Treasury shares (-)
											(1,686.5)	(1,686.5)	h) Net profit (loss) for the period
180	Treasury shares (-)	**(313.7)**									313.7	**-**	
190	Non-controlling interests (+/-)	**1.3**										**1.3**	**Non-controlling interests**
200	Profit (loss) for the period (+/-)	**(1,686.5)**									1,686.5	**-**	
	Total Liabilities and Shareholders' Equity	**150,345.0**	-	-	-	-	-	-	-	-	-	**150,345.0**	**Total Liabilities and Shareholders' Equity**

** Balance sheet figures as at 31 December 2020 have been restated compared to those published in the 2020 Financial Statements following the retrospective application of the change in valuation criteria for investment properties (IAS 40).*