Monte dei Paschi di Siena Group

Consolidated Interim Report
as at 30 september 2021

Interim Report on Operations
Monte dei Paschi di Siena Group
30 September 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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Introduction

Following the amendment of the Consolidated Law on Finance (art. 154-ter, Italian Legislative Decree no. 58/1998) and the Issuers' Regulation (art. 82-ter, Consob Resolution no. 11971/1999), in implementation of what is known as Transparency II Directive (Directive 2013/50/EU), the obligation for listed companies to publish interim reports on operations (as at 31 March and as at 30 September) was repealed, allowing issuers to decide on a voluntary basis whether to disclose periodic financial information in addition to the annual and half-yearly reports.

Montepaschi Group has chosen, as its policy on additional periodic financial disclosures, to publish this information on a voluntary basis with reference to 31 March and 30 September of each year, by means of Interim Reports on Operations approved by the Board of Directors of the Parent Company, in essential agreement and continuity with the past.

This Interim Report on Operations, which is not subject to limited audit requirements, provides a description of the most significant activities and results that have determined the operating performance of the Montepaschi Group as at 30 September 2021, both in regard to the Group as a whole and to the different business segments through which consolidated operations are carried out.

Results in brief

The main income statement and balance sheet figures of the Montepaschi Group as at 30 September 2021 are provided below, together 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. Please note 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 09 2021	30 09 2020*	Chg.
Net interest income	898.5	978.7	-8.2%
Net fee and commission income	1,112.8	1,049.7	6.0%
Other income from banking business	280.4	212.3	32.1%
Other operating income and expenses	(25.9)	(40.4)	-35.9%
Total Revenues	2,265.8	2,200.2	3.0%
Operating expenses	(1,586.8)	(1,619.0)	-2.0%
Cost of customer credit	(34.0)	(621.0)	-94.5%
Other value adjustments	2.9	(6.6)	n.m.
Net operating income (loss)	647.9	(46.4)	n.m.
Non-operating items	(292.2)	(1,065.3)	-72.6%
Parent company's net profit (loss) for the period	388.1	(1,532.1)	n.m.
EARNINGS PER SHARE (EUR)	30 09 2021	30 09 2020*	Chg.
Basic earnings per share	0.396	(1.388)	n.m.
Diluted earnings per share	0.396	(1.388)	n.m.
BALANCE SHEET FIGURES AND INDICATORS (EUR mln)	30 09 2021	31 12 2020*	Chg.
Total assets	143,117.9	150,345.0	-4.8%
Loans to customers	81,199.8	82,632.3	-1.7%
Direct funding	92,901.5	103,719.3	-10.4%
Indirect funding	104,758.2	102,067.3	2.6%
of which: assets under management	64,426.6	60,400.3	6.7%
of which: assets under custody	40,331.6	41,667.0	-3.2%
Group net equity	6,250.7	5,771.6	8.3%
OPERATING STRUCTURE	30 09 2021	31 12 2020	Chg.
Total headcount - end of period	21,297	21,432	-135
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 September 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 (pursuant to IAS 40). Furthermore, for the sake of greater comparability, impairments of property for business use (IAS 16) for 30 September 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 09 2021**	**31 12 2020***	**Chg.**
Cost/Income ratio	70.0	74.9	-4.9
ROE (on average equity)	8.6	(24.0)	32.6
ROA	0.4	(1.1)	1.5
ROTE	8.9	(24.6)	33.5
CREDIT QUALITY RATIOS (%)	**30 09 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	3.9	3.4	0.5
Rate of change of non-performing loans to customers	6.3	(64.8)	71.1
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	14.8	18.5	-3.7
Coverage of non-performing loans to customers	46.5	46.2	0.3
Coverage of bad loans to customers	64.9	62.3	2.6
Cost of customers credit/Customers loans (Provisioning)	0.06	0.90	-0.84
Texas Ratio	53.0	53.9	-0.9

** Balance sheet figures as at 31 December 2020 and income statement figures as at 30 September 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 (pursuant to IAS 40). Furthermore, for the sake of greater comparability, impairments of property for business use (IAS 16) for 30 September 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 at the end of period and the shareholders' equity at the end of the previous year.[2]

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 held for sale, and total Gross loans to customers and banks, net of assets held for sale.

Rate of change in 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 Non-performing 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].

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[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 09 2021	31 12 2020	Chg.
Common Equity Tier 1 (CET1) ratio - phase in	12.3	12.1	0.2
Common Equity Tier 1 (CET1) ratio - fully loaded	10.9	9.9	1.0
Total Capital ratio - phase in	15.9	15.8	0.1
Total Capital ratio - fully loaded	14.5	13.5	1.0
FINANCIAL LEVERAGE INDEX (%)	30 09 2021	31 12 2020	Chg.
Leverage ratio - transitional definition	4.6	4.4	0.2
Leverage ratio - fully phased	4.1	3.6	0.5
LIQUIDITY RATIO (%)	30 09 2021	31 12 2020	Chg.
LCR	181.2	196.7	-15.5
NSFR	131.2	123.8	7.4
Encumbered asset ratio	41.8	39.8	2.0
Loan to deposit ratio	87.4	79.7	7.7
Unencumbered Counterbalancing capacity (bn of Eur)	25.6	33.1	-7.5

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 [4] quality capital and total *risk-weighted assets* (RWA)[5] .

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

Financial leverage ratio: indicator calculated as the ratio between Tier 1 [6] capital 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 key income statement and balance sheet figures of the Group as at 30 September 2021 are summarised below; it should be noted that the performance in the first nine months of 2020 was affected by the health emergency resulting from the spreading of the COVID-19 virus, which, as is well known, also concerned the first nine months of 2021.

- **Net Interest Income** amounted to EUR 899 mln, down 8.2% on the same period of 2020. The decline was driven (i) primarily by the lower contribution (about EUR 87 mln) of the non-performing portfolio due mainly 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 the access to the TLTRO III auctions (EUR 203 mln in total), partly offset by the cost of higher deposits at central banks (around EUR 75 mln).

- **Net fee and commission income**, totalling EUR 1,113 mln, was up by 6.0% on the same period of the previous year. The increase was due to higher income from asset management (+19.5%), due both to higher commissions on product placement and to higher continuing commissions, which benefited from an increase in average assets under management and average returns. On the other hand, there was a decrease in commissions on loans (-5.3%), also following the shift of loans to longer-term forms, and commissions on services (-1.9%), due to lower revenues from the administration of current accounts.

- **Other income from banking business** was equal to EUR 280 mln, up by EUR 68 mln on the corresponding period of the previous year, boosted by capital gains on debt securities and UCITS and higher profits from the sale of securities. The contribution of the partnership with AXA in the Bancassurance area was also up on the corresponding period of the previous year.

- **Other operating income and expense** was equal to EUR -26 mln, an improvement compared to the corresponding period of 2020 (EUR -40 mln).

- As a result of the trend in these aggregates, **Total revenues** were equal to EUR 2,266 mln, up 3.0% compared to those recorded in the first nine months of 2020.

- **Operating expenses** were equal to EUR 1,587 mln, down 2.0% on the same period of the previous year. Within this aggregate, **Personnel expenses** were equal to EUR 1,077 mln, up by 1.6% on the same period of the previous year, despite the decline in headcount (mainly due to the 560 terminations relating to the Fondo di Solidarietà (Italian wage guarantee scheme) recorded between 1 November 2020 and 1 January 2021), as a result of contractual increases deriving from the renewal of the national collective labour agreement and the loss of savings as a result of the failure to renew the trade union agreement. **Other administrative expenses** were equal to EUR 378 mln, down by EUR 26 mln on the same period of the previous year, also due to the saving initiatives taken. **Net value adjustments to property, plant and equipment and intangible assets** were equal to EUR 132 mln, down on the same period of the previous year (-15.0%), in part due to the effects of the introduction of the fair value measurement of properties.

- The **Cost of customer credit** is equal to EUR 34 mln, against EUR 621 mln in the corresponding period of the previous year. The figure for the first nine months of 2021 includes a positive effect (approximately EUR 124 mln) from reduced adjustments following the update of the macroeconomic scenarios and a negative impact (EUR -152 mln) from the update of the statistical valuation models and from some methodological fine-tuning (of which EUR -99 mln for the LGD model update). The figure in the first nine months of 2020 included a negative effect (approximately EUR 300 mln) due to the changed macroeconomic scenario resulting from the spread of the COVID-19 pandemic.
  Even excluding these effects, the aggregate was, in any case, down compared to the first nine months of 2020, mainly due to impairment reversals (about EUR 130 mln) on some significant positions, the risk profile of which has improved due to intervening corporate events. Lastly, the cost of credit in the first nine months of 2021 benefited from the elimination of adjustments on the positions of the "Hydra M" portfolio, deconsolidated at the end of December 2020.

The **Provisioning Rate** was equal to **6 bps** (90 bps as at 31 December 2020).[7]

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

- The **Net Operating Income** was equal to EUR 648 mln, against a negative value of EUR 46 mln in the same period of the previous year.
- In addition to the changes in the economic aggregates mentioned above, there were non-operating components equal to EUR -292 mln (EUR -1,065 mln in the first nine months of 2020). Notably, **Net provisions for risks and charges**, negative and equal to EUR 66 mln (EUR -768 mln in the first nine months of 2020), **Other gains (losses) on investments**, equal to EUR 2 mln (EUR 1 mln in the first nine months of 2020), **Restructuring/One-off costs**, equal to EUR -8 mln (EUR -129 mln in the first nine months of 2020), costs associated with **SRF (Single Resolution Fund), DGS (Deposit Guarantee Systems) and similar schemes**, equal to EUR -159 mln (EUR -118 mln recorded in the first nine months of 2020), the **DTA fee** equal to EUR -47 mln (EUR -53 mln as at 30 September 2020), **Net gains (losses) on property, plant and equipment and intangible assets measured at fair value** equal to EUR -28 mln (EUR 1 mln as at 30 September 2020) and **Gains (losses) on disposal of investments**, equal to EUR 14 mln (EUR -0.4 mln in the first nine months of 2020).
- These trends, together with the positive impact on **Taxes** of **EUR 35 mln** (EUR -417 mln as at 30 September 2020) and the net economic effects of the **PPA**, equal to EUR -2.7 mln (EUR -3.0 mln as at 30 September 2020), produced for the Group a **Net Profit equal to EUR 388 mln**, against a EUR -1,532 mln loss in the same period of 2020.
- **Total Funding** volumes as at 30 September 2021 were equal to **EUR 197.7 bn,** down by EUR 1.0 bn compared to 30 June 2021, mainly due to a decrease in Direct Funding (EUR -1.1 bn). More specifically, the decrease in Direct Funding was mainly due to a decrease in current accounts (EUR -3.0 bn), driven by the continuation of the actions taken by the Parent Company to optimize the cost of funding. This was only in part offset by the increase in repurchase agreements (EUR +3.1 bn), related to increased activity by MPS Capital Services. There was also a decrease in time deposits (EUR -0.5 bn), Other forms of funding (EUR -0.5 bn) and bond issues (EUR -0.2 bn). Indirect Funding was up by EUR 0.2 bn on 30 June 2021 as a result of the growth of the Assets under Management component (EUR 0.3 bn), which benefited from positive net flows, partly offset by a negative market effect; the Assets under Custody component was basically unchanged (EUR -0.1 bn).

  Compared to 31 December 2020, Total Funding was down in volume terms by EUR 8.1 bn, due to the decrease in Direct Funding (EUR -10.8 bn), only partly offset by the increase in Indirect Funding (EUR 2.7 bn). Direct Funding was down on all aggregates, in particular, there was a decline in current accounts (EUR -2.8 bn) and term deposits (EUR -1.9 bn), driven by the continuation of actions, implemented by the Parent Company, to optimize the cost of funding. There was also a decrease in repurchase agreements (EUR -2.5 bn), a decrease in other forms of funding (EUR -1.9 bn) and a reduction in the bond segment (EUR -1.7 bn), the latter mainly due to the maturity of a covered bond. On the other hand, with respect to Indirect Funding, there was a EUR 2.7 bn increase on 31 December 2020 due to the Assets under Management component (EUR 4.0 bn), which benefited from positive net flows and a positive market effect. There was instead a decrease in the Assets under Custody component (EUR -1.3 bn), due to changes related to a major customer, partly offset by a positive market effect.
- **Loans to customers** were equal to **EUR 81.2 bn** as at 30 September 2021, slightly down on 30 June 2021 (EUR -0.2 bn), due to a decrease in repurchase agreements (EUR -0.6 bn), partly offset by an increase in Other loans (EUR +0.3 bn). All other types of funding were basically unchanged.

  Compared to the end of December 2020, Customer Loans were down by EUR 1.4 bn, mainly due to a decrease in repurchase agreements (EUR -2.5 bn), in Other loans (EUR -0.7 bn) and in current accounts (EUR -0.2 bn). The mortgage segment instead increased (EUR +1.8 bn), also as a result of the disbursements made under the government decrees issued following the COVID-19 emergency.
- As at 30 September 2021, **the coverage ratio** for non-performing loans stood at 46.5%, slightly down compared to 30 June 2021 (46.9%): this was mainly due to a decrease in the coverage ratio for unlikely to pay exposures (from 36.3% to 34.5%) and non-performing past due loans (from 26.0% to 25.2%), only partly offset by an increase for bad loans (from 64.5% to 64.9%).
  Compared to 31 December 2020, the coverage ratio of non-performing loans was instead up from 46.2% to 46.5% due to the increase in the coverage ratio of bad loans (from 62.3% to 64.9%), only partly offset by the decrease in the coverage ratio of unlikely-to-pay loans (from 36.8% to 34.5%) and non-performing past due loans (from 27.8% to 25.2%).

  The temporary decline in the coverage of unlikely-to-pay loans, both with respect to 31 December 2020 and with respect to 30 June 2021, is mainly due the recovery in value recorded on a significant position for which the classification from unlikely-to-pay to performing took place on 1 October 2021 (if the reclassification had taken place in September, the coverage of unlikely-to-pay loans would have stood at 38.2% and the overall coverage of non-performing loans would have been 49.2%).

With regard to capital ratios, as at 30 September 2021, the ***Common Equity Tier 1 Ratio*** was **12.3%** (12.1% at the end of 2020 and 30 June 2021) and the ***Total Capital Ratio*** was **15.9%** (15.8% at the end of 2020 and 15.5% as at 30 June 2021). These ratios do not include the profit for the third quarter of 2021; including the profit for the period, the ratios would be 12.8% and 16.4%, respectively.

Reference context

The international scenario

The global economy is trying to find a balance after the new COVID-19 wave at the beginning of 2021: the major economies are in different stages of the business cycle, depending on the trend of infections, the progress of vaccination campaigns, the degree of fiscal and monetary stimulus provided by policy makers and the national production structures. In the middle of the year, economic growth exceeded expectations in the Eurozone and continued at a good pace in the United States, even if lower than expected; in China, growth was in line with expectations, despite a slowdown in the third quarter and imbalances in the real estate sector. Political tensions, supply constraints and issues affecting the international value chains could, to some extent, limit the recovery. The rise in inflation, which is carefully monitored by the Monetary Authorities, weighs on the scenario. The massive vaccination campaigns launched in developed countries in 2021 seem to be able to ensure coexistence with the circulation of the virus at a certain level; a few countries have already started providing a third dose of the vaccine. However, it is crucial to ensure high levels of immunisation at the global level, including less developed countries, where the risk of new variants of the virus emerging is higher.

In the United States, the economic recovery continued, helped by highly expansionary fiscal and monetary policies. However, the impact of the pandemic continues to be felt, with a slowdown in activity in the most exposed sectors and in sectors affected by the scarcity of raw materials. According to analysts' expectations, in the third quarter of the year there could be a slowdown in GDP growth from the annualised +6.7% qoq in the second quarter and the federal administration is introducing measures to push forward the vaccination campaign, which has faltered in the summer months. Following the demand recovery, inflation has increased sharply (CPI +5.4% yoy in September), which has sparked a debate within the Fed on whether to start implementing its exit strategy from the current accommodative stance, although there are still signs of imbalance in the US labour market. Congress continues to discuss the infrastructure and social spending stimulus plans presented by President Biden, while the agreement between Democrats and Republicans on raising the federal debt ceiling expires at the end of the year.

The Eurozone returned to economic growth in the second quarter of 2021, with a decisive rebound due to the relaxation of Covid-related restrictions and the consequent recovery of the added value of services. Despite a slowdown in the latest surveys, business cycle indicators continue to indicate expansionary conditions, after growth of +14.3% yoy in the second quarter. However, industrial activity in the Eurozone is held back by short-term production issues, especially in some countries, like Germany, where the automotive sector is feeling the effect of a shortage of semiconductors and other electronic components. The pressures on production capacity are producing an increase in backorders, which leads to a significant increase in sales prices. In the wake of the current economic recovery, the labour market has been improving; however, employment remains well below pre-pandemic levels, especially among less qualified workers. Inflation in the Eurozone accelerated, reaching 3.4% in September, the highest value since 2008. This rise was mainly due to an increase in energy prices, as well as food prices, in particular unprocessed food, and prices of industrial goods other than energy; the next few months will show whether these upward pressures can continue to be considered temporary.

In terms of fiscal policy, after the ratification of the Next Generation EU (NGEU) program, worth EUR 750 bn (EUR 390 bn in grants plus EUR 360 bn in loans) in support of the recovery, 25 Member States have presented to the EU Commission their National Recovery and Resilience Plans (NRRPs): 18 NRRPs have been approved, which is a condition for receiving pre-financing equal to 13% of the total amount set aside for each country. Between June and the first half of July, the EU Commission carried out the first bond issues aimed at raising funds on the markets to be used for grants and loans; 12 States have already received the first portion of funding, between August and September. The Stability and Growth Pact, which places limits on government debt levels to safeguard the value of the euro, has been suspended until 2023 to give governments room for manoeuvre to address the Covid crisis. In the autumn, the EU will begin discussing changes to the rules underlying the single currency; the new German government, currently being formed after being led for many years by Angela Merkel, will participate in the discussions. Among emerging countries, there remain many obstacles to the dissemination of vaccines, which creates the risk of a longer duration of the pandemic. The increase in commodity prices, in particular food and agricultural products, which typically have a higher weight in the consumer price basket of emerging countries, has put national central banks under pressure to ensure price stability. Brazil and Russia were the first to increase their policy rates. The Chinese economy saw a strong recovery throughout the first half of the year, supported by robust domestic and foreign demand and by domestic stimulus measures, thus returning to pre-crisis levels. In the summer months, however, activity slowed down (+4.9% yoy GDP growth in the third quarter) due to the resurgence of infections in some areas of the country and the consequent introduction of social restrictions limiting private consumption; the recent natural disasters in the central regions of the country have also negatively affected production; troubles in the real estate sector also weigh heavily. The monetary policy of the People's Bank of China

(PBoC) continues to support the economy and the government seems to be more committed to a more equitable distribution of economic resources.

Italy: economic context

In Italy, after the new Covid wave at the beginning of 2021, following the successful domestic vaccination campaign, GDP began growing again: its growth rate, especially strong in the second quarter of the year (+17.2% yoy), is even expected to exceed Germany's on an annual basis. This expectation is based on the strength of consumption, highly supportive fiscal policy, the importance of manufacturing and tourism in the country's economy and the strong contribution of the services and construction sector. The increase in the prices of energy and raw materials, as well as the imbalances generated by the recovery of international demand in a context characterized by supply chain bottlenecks, exerted a strong pressure on prices, pushing HICP inflation to 2.9% yoy in September. The performance of the labour market continues to mirror, rather closely, the performance of economic activity, in a context in which the Government's initiatives have been essential to maintain employment levels. The extent of the Italian recovery depends on the National Recovery and Resilience Plan approved in June by the EU Commission. In August 2021 Italy received a EUR 25 bn advance from the nearly EUR 250 bn (EUR 192 bn from the EU and the remainder from national resources) made available to fund the investments and reforms envisaged in the Plan. Some reform and regulatory objectives agreed with the EU Commission have already been achieved, with the passing of reforms concerning public administration recruitment, the specification of the Plan governance, the initiatives to simplify administrative procedures and the procurement system, and the launch of the reform of the judicial system. A second instalment for a similar amount should be paid out at the beginning of next year: its size will depend on the achievement of the objectives of the investments and reforms agreed. At the end of September, the Update to the Economics and Finance Document was presented, confirming the marked improvement in the medium-term economic scenario and the gradual reduction of the public sector deficit and debt; the Update pays special attention to the reform of the social safety net and the reduction of the tax burden.

Italy: Government initiatives

With regard to the initiatives of the Italian Government, reference should be made to the half-yearly financial report as at 30 June 2021 for the measures implemented in the first half of the year: the main initiatives of the third quarter are described below.

With Law Decree no. 118, 24 August 2021 (Corporate Crisis Law Decree), currently being converted into law, changes were also made to the regulation of corporate crises to deal with the increase in the number of companies in financial difficulties or insolvency and to provide new and effective tools to prevent and address corporate crises.

With regard to the measures concerning the organization of business activities, Law Decree no. 127, 21 September 2021 (Employee Green Pass decree) was issued and is currently being converted into law. The Law Decree, approved by the Council of Ministers on 16 September, requires employees, both in the public and private sector, to show, from 15 October to 31 December 2021 (*current end date for the state of emergency)* a Green Pass before accessing the workplace. The Decree requires employers to verify compliance with the Green Pass obligation by adopting organizational measures. Employees without a Green Pass are considered to be absent without leave (and have no right to remuneration) until they provide the aforementioned certification, even if they are not subject to disciplinary sanctions and have the right to retain their job.

With regard to the Italian recovery and resilience plan (NRRP), adopted with a positive assessment by the European Commission on 22 June 2021, the Ministry of Economy and Finance adopted the ministerial decree (decree of 6 August 2021, published in the Official Gazette no. 229, Friday 24 September) indicating 256 total expense items between investments and sub-investments divided among 23 central administrations.

Among the reforms envisaged by the NRRP, Law no. 134, containing “Delegation to the Government for the efficiency of criminal proceedings as well as restorative justice and provisions for the rapid settlement of judicial proceedings” was published in the Official Gazette on 27 September 2021. The law responds to the need to speed up the criminal justice process, also through decriminalisation ("deflazione") and digitalisation.

Again in the field of justice, the Senate approved at first reading the draft Delegated Law on the reform of civil proceedings, which contains provisions aimed at simplifying first and second instance proceedings, strengthening out-of-court dispute resolution tools and digitising proceedings.

Finally, with reference to European state aid rules, it should be noted that the temporary framework, adopted by the European 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 30 August the Commission approved an Italian EUR 520 mln package aimed at compensating companies operating in the trade fair and congress sector and related service providers. In addition, on 30 September, the European Commission launched a consultation among the Member States on a draft proposal for a limited extension of the existing measures until 30 June 2022 and a series of targeted modifications. The extension aims at ensuring that companies still affected by the crisis will not be suddenly cut off from essential support while laying the ground for a gradual, coordinated removal of this support, also in light of the different pace of the recovery in different sectors and different Member States.

Financial markets and monetary policy

In the major developed economies, share prices rose significantly in the first nine months of the year; however, in the summer months, prices slowed down and volatility increased. Trading was affected by fears over the trend of contagions, the crisis in Afghanistan, following the withdrawal from that country of US troops, and the uncertainty concerning the tapering of very expansionary monetary policies. From the beginning of the year to 30 September, FTSE Mib gained more than 15%, with the S&P 500 index not far behind; the Euro Stoxx was up 14% and the Nikkei more than 7%. The Shenzhen index was the exception, losing more than 6.5% since the beginning of the year: the Chinese index was affected by the regulatory restrictions applied by the Chinese government to contain potential abuses of dominant positions and to ensure the protection of sensitive data and the stability of the financial system; the liquidity crisis of the Chinese real estate fund Evergrande also penalised the market recently.

After the sharp rise in the first quarter of the year, long-term yields on government bonds fell back significantly in the summer months, to rise again in September. The rise in the US Treasury yield reflects the nearing of the tapering by the Fed, while in the Eurozone the upward trend in prices, albeit believed to be temporary, has raised some concern. After pushing beyond 1.7% in April, the ten-year US rate was 1.49% as at 30 September 2021, about 57 basis points above the level at the end of 2020; the German rate was up to -0.20% from -0.57% on 31 December (-0.10% in May 2021). The Italian ten-year rate increased to 0.86% from 0.54% at the end of 2020, after climbing above 1.1% last May. There was no particular pressure on the spread between ten-year BTPs and Bunds, which closed the first nine months of 2021 at 106 basis points from 110 at the end of 2020.

The stance of monetary and fiscal policies remains expansionary, with the objective of supporting the economic recovery. However, the robust recovery in economic activity and the acceleration in prices led the Fed to indicate the possibility of a tapering of its bond purchases on the open market (quantitative easing) by the end of the year[8]. The minutes of the FOMC, the Executive Committee of the FED, show that half of its members expects a first hike in the Fed Funds rate (currently at 0.00-0.25%) by 2022; a clear majority believes that more than one hike is likely in 2023. However, the Fed confirmed that the current level of interest rates will remain unchanged until the economy reaches full employment and inflation stays above the 2% target for an appropriate period of time. In the Eurozone, the Governing Council of the ECB confirmed that it will maintain an accommodating policy stance, as needed to support the economy and ensure price stability in the medium term. At the July meeting, the ECB also adopted a new monetary policy strategy, based on a symmetrical 2% medium-term inflation target. It has therefore abandoned the previous target, of inflation lower than, but close to, 2%, explicitly envisaging that it will take into account other factors relevant to the pursuit of price stability, such as employment, risks to financial stability and climate change. Prolonged deviations from the target, both positive and negative, will be equally unwelcome to the monetary authorities, which will also intervene if inflation turns out to be too low, while allowing transitory periods of inflation somewhat above 2%. At the September meeting, the Governing Council left the policy rates unchanged (the main refinancing operations rate at 0%, the marginal lending facility rate at 0.25% and the deposit facility rate at -0.50%), confirming that these will remain at current level, or even lower, until the ECB believes that the underlying inflation trend is consistent with a level around 2% in the medium term. The monetary authorities will continue to provide ample liquidity, in particular through the third series of targeted longer-term refinancing operations (TLTRO III). With regard to QE, for the moment the ECB has only indicated a limited slowdown in the purchase plan of the Pandemic Emergency Purchase Program (PEPP) in the next quarter, taking into account the improving macroeconomic outlook, without for the moment proposing changes to the Asset Purchase Program (APP). Total PEPP funding was confirmed to be equal to EUR 1,850 bn, with the program set to last at least until the end of March 2022. The monetary authorities also confirmed the APP security purchases, equal to EUR 20 bn per month, and the full reinvestment of the principal repaid on maturing securities for a prolonged period of time and in any case as long as deemed necessary to maintain favourable liquidity conditions and a large degree of monetary accommodation.

[8] The Fed's QE currently envisages monthly purchases of securities issued by the Treasury for USD 80 bn and of agency mortgage-backed securities (securitisation of mortgage loans issued by federal agencies) for USD 40 bn.

COVID-19

Summary of measures to support households and businesses

Performing exposures affected by active moratorium measures were equal to EUR 3.1 bn (EUR 11 bn as at 31 December 2020) - of which EUR 2.2 bn subject to a further extension of the suspension of capital repayments pursuant to the "Sostegni Bis" decree - approximately 4% of the Group's performing loan portfolio. These exposures are mostly attributable to moratoria with a total suspension period exceeding the 9-month trigger set by the EBA Guidelines on General Payment Moratoria; moratoria no longer compliant with the aforementioned guidelines, following the assessment of financial difficulty, were classified as forborne starting from the second quarter of 2021 and they were equal to approximately EUR 0.4 bn.[9]

Around 50% of active moratoria are classified among stage 2 exposures, as they fall within the High-Risk management scope and/or based on the analysis of the significant increase in credit risk.

It should also be noted that, as of 30 September 2021, there are EUR 9.6 bn of performing moratoria for which the grace period has ended ("expired"), of which around EUR 7.8 bn concerned by the resumption of payment plans.

Exposures on non-performing active moratoria were equal to approximately EUR 228 mln as at 30 September 2021, for an overall exposure at customer level of EUR 342 mln.

As at 30 September 2021, income statement item 140 "Modification gains/(losses)" includes a loss related to the COVID-19 suspensions finalised for approximately EUR 4.8 mln.

In terms of the actions taken in application of the "Liquidity Decree", in line with its credit policy guidelines, the Group continued to accelerate the deployment of guaranteed support measures. In the first nine months of 2021, additional loans of approximately EUR 3.5 bn were disbursed: the total loans guaranteed by Fondo Centrale di Garanzia, Ismea or Sace and disbursed since the beginning of the pandemic are equal to around EUR 10 bn. For the same period, further loans are being disbursed for approximately EUR 0.7 bn.

About 20% of the amounts disbursed under guarantee represents exposures classified as stage 2, of which approximately 36% represent disbursements made pursuant to letter E of the Liquidity Decree, the total of which was equal to EUR 3.2 bn as at 30 September 2021. Lastly, it should be noted that the coverage ratio of the guarantees over the total disbursed is approximately 88%, basically unchanged compared to the end of 2020.

Management of workplace safety in the context of the COVID-19 pandemic

The Group continued to work to ensure health and safety on the workplace, to prevent the risk of contagion and to guarantee business continuity, always in compliance with the government provisions in force at the time.

The measures described in the consolidated financial statements as at 31 December 2020 and in the Half-yearly financial report as at 30 June 2021, continue to apply and reference should be made to them for all matters not expressly addressed here.

With regard to the initiatives to ensure **safety in the workplace**, the main change in the third quarter of the current year lies in the control of the possession and presentation of the Green Pass. The organizational measures came in to force on 15 October 2021 were specified and a specific regulatory document was drawn up describing in detail the recipients and methods for the execution of controls, the rules and processes to appoint the persons in charge of executing the controls, the procedures to manage and report violations by the employees of the obligation to hold and present the Green Pass. The characteristics of the different properties were assessed, grouped by cluster, in order to ensure an adequate number of persons in charge of the controls, both internal and external personnel. The communication to the employees was prepared, appointment letters were sent to the persons in charge of the controls together with operating instructions to be followed and the appropriate signs were affixed to make the checkpoints more visible, where not particularly evident. In addition, a dedicated phone number and a dedicated email address were created to ensure the centralised handling of violation reports and to provide support in all doubtful or difficult cases.

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.

Business Continuity Management

There are no significant updates with respect to the information already provided in the 2020 financial statements.

[9] Operating figure referring to loans to banks and loans to corporate and retail customers.

Shareholders

As at 30 September 2021, the share capital of the Parent Company, Banca Monte dei Paschi di Siena, was equal to EUR 9,195,012,196.85, divided into 1,002,405,887 ordinary shares. On 4 October 2021, the Bank completed the sale of all the treasury shares held by the Montepaschi Group (as at 31 December 2020, there were 36,280,748 treasury shares, representing 3.619% of the share capital).

According to the communications received pursuant to the applicable legislation and based on other information available, as well as on information provided by the CONSOB website, the entities that, as at 30 September 2021, directly and/or indirectly held ordinary shares representing holdings in excess of 3% of the share capital of the Issuer and not falling among the cases of exemption set forth in art. 119-bis of the Issuers' Regulations were as follows:

BMPS main shareholders as at 30 September 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

The third quarter of 2021 saw a slowdown in the bullish trend on the international share markets, which are largely back above pre-Covid levels. The factors that have led to the readjustment of the values include the spreading of the Delta variant, statements by Central Banks indicating as increasingly imminent the tapering of their support and, in recent weeks, the crisis concerning raw materials, which has raised concerns about price increases. In the USA, in particular, these elements have led to a retreat after the positive start of the quarter, resulting in a rise over the three months of only +0.2%. In China, the Shanghai index (SHCOMP) lost -0.6%, partly due to the negative effect of the crisis of the real estate giant Evergrande; in Japan, the Nikkei index was up by +4.5%.

In Europe too, due to fear of an imminent normalisation of the ECB's accommodative policies, share prices recorded a partial inversion of trend with respect to recent bullish quarters. Among the main European indices, the DAX in Frankfurt performed the worst, losing -1.7% over the period: this was also due to uncertainty with regard to the outcome of the federal elections, which were held at the end of September. There was little change in the CAC40 index in Paris (+0.2%), the IBEX index in Madrid (-0.3%) and the UKX index in London (+0.7%).

In Italy, the FTSE MIB index closed the quarter up 2.3%, one of the best performances in Europe, which was partly due to the encouraging outcome of the vaccination campaign. The banking sector played a driving role, with the sector index (IT8300 "All Italian Banks") closing the quarter up 8.0%. The factors that supported the increase included the positive assessment by the markets of the quarterly results and the outcome of the stress tests at the end of July, as well as expectations of consolidation in the sector, also following the announcement of the start of talks by UniCredit and the Ministry of Economy and Finance for a possible deal concerning MPS.

The BMPS share closed on 30 September 2021 at EUR 1.08, down 6.3% over the quarter, with an average daily volume traded around 4.7 million.

SHARE PRICE SUMMARY STATISTICS (from 30/06/2021 to 30/09/2021)	
Average	1.12
Minimum	1.06
Maximum	1.19

Rating

The ratings assigned by the rating agencies are provided below:

Rating agency	Short-term debt	Outlook	Long-term debt	Outlook	Last rating action (as at 30/09/21)
Fitch	B	-	B	Rating Watch Negative	07/06/21
DBRS	R-4	Stable	B (High)	Stable	09/08/21
Moody's	(P) NP	-	Caa1	Rating Under Review	16/12/20

In the third quarter of 2021 the main event was the DBRS rating action, limited to the review of the subordinated debt rating.

- *On 9 August 2021, DBRS Morningstar revised the subordinated debt rating* to "CCC" from "B (low)", leaving the outlook unchanged at "stable". 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, changing the long-term outlook from "Developing" to "Rating under Review".

Significant events in the first nine months of 2021

On **11 January 2021**, the Board of Directors of MPS announced that it had appointed Credit Suisse as financial advisor with the task of assisting Mediobanca in the assessment of the strategic alternatives available to the Bank and of verifying market interest by operators of prime standing. This sounding was 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 ECB decision of 28 December 2020 regarding 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.

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 resolves once for 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 would be reduced for an amount of EUR 3.8 bn, 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. Due to these securitisations, the Junior (for the securitisation on specialised 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.

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 capital strengthening for EUR 2.5 bn and - as indicated in the Press Release issued on 30 June 2021 - the Bank sent to 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 and in the Adverse scenario, the CET1 / T1 ratios fall from 9.9% to 9.3% and from 5.0% to -0.1%, respectively, at the end of the three-year horizon, on a fully loaded basis.

Significant events after 30 September 2021

On **5 October 2021,** the Parent Company completed the sale of 36,280,748 treasury shares (equal to approximately 3.62% of the share capital of BMPS) held by the Montepaschi Group, deriving from the capital strengthening measures carried out in 2017 pursuant to Law Decree no. 237/2016, converted with amendments by Law no. 15/2017, and the Decree of the Minister of Economy and Finance published in the Official Gazette no. 175 on 28 July 2017, which provided, among other things, for the conversion into newly issued ordinary shares of class 1 (Additional Tier 1) and class 2 (Tier 2) equity instruments as part of the application of burden sharing measures.
The sale of these treasury shares (of which 21,511,753 held by BMPS directly and 14,768,995 indirectly, through the subsidiary MPS Capital Services S.p.A.), was authorized by the Shareholders' Meeting on 18 May 2020.
The sale, started on 22 February 2021 and ended on 4 October 2021, took place on the Mercato Telematico Azionario of Borsa Italiana S.p.A. through the broker Equita SIM S.p.A., appointed to the purpose. Its total countervalue was around EUR 43 mln, with a positive impact on the 2021 CET1 of BMPS equal to 9 bps.

On **7 October 2021**, the Fondazione Monte dei Paschi di Siena and the Parent Company finalised an agreement - already announced in its essential lines - to settle all outstanding disputes. As a result of the agreement, FMPS obtained, among other things, the payment of EUR 150 mln and commitments in regard to the enhancement of the artistic heritage of the Parent Company and the use of the Rocca Salimbeni building, on which it was granted pre-emption rights.

On **24 October 2021**, UniCredit and the Ministry of Economy and Finance (MEF) announced the suspension of the negotiations for the acquisition of a specified perimeter of Banca Monte dei Paschi di Siena, despite the efforts made by both parties.

2017-2021 Restructuring Plan

The 2017-2021 Restructuring Plan is subject to formal monitoring by the European Commission, through a Monitoring Trustee[10]. 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 September 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 S.A. (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 nine months of 2021 is in line with the objectives of the 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 having been 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. In the last quarter of 2021, the closure of an additional 50 branches was confirmed, thus reaching the target set for the end of 2021.
- Sale of property assets:
  - the commitment calls for the closure of the Perimetro Consortium (concluded in 2019) as well as the disposal over the course of the Plan of owned properties for an equivalent value of EUR 500 mln. From the approval of the Plan (4 July 2017) to 30 September 2021, the Group has sold properties for EUR 322.1 mln, including most of the properties in the scope of sale to Ardian (such as the prestigious offices of Milan, via S. Margherita, and Rome, via del Corso 232). Agreements were also signed for the sale of other properties for a total price of EUR 76.4 mln, against a total book value of EUR 68.4 mln , as at 30 September 2021; these included the last two properties to be sold to Ardian (Rome, via del Corso 518/520 and Padua, via 8 Febbraio).
- Strengthening of the capital position:

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

  - in January 2020, a EUR 400 mln subordinated Tier 2 bond was issued, thereby completing the implementation of 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; the subsequent EUR 300 mln Tier 2 issue carried out in 2020 was functional to the AMCO partial demerger.
- 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. On 29 July, UniCredit announced that it had agreed with MEF the preconditions for a transaction involving the transfer of a selected scope of MPS activities to UniCredit. UniCredit was therefore given access to the virtual data room and was subsequently joined by Mediocredito Centrale with access to a sub-room concerning a selection of bank branches and by AMCO for which a data room focused on aspects concerning non-performing loans and loans classified as Stage 2 was set up. On 24 October, Unicredit and MEF announced that they had suspended the negotiations.

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 submission of the Group's new 2021-2025 Strategic Plan, the Bank was asked to put forward additional compensatory measures for its failure to comply with some of the commitments defined in the 2017-2021 Restructuring Plan; these measures were identified and submitted to the Board of Directors on 5 February 2021 and sent to DG Comp.

The Plan was prepared with the objective of finding a potential structural solution for the Bank, including an M&A transaction with a partner of primary standing. The implementation of a structural solution is in line with 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 reversals 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. While the estimates used in the 2020 financial statements indicated that a shortfall would already occur in the first quarter of 2021, increasing to EUR 1.5 bn as at 1 January 2022, as at 30 September 2021, like in the two previous quarters, no capital shortfall had occurred nor is one expected 12 months after the reference date, i.e. as at 30 September 2022.

It should also be noted that, as at 1 January 2023, taking into account the planned capital reduction due to the IFRS 9 phase-in and assuming the full implementation in the fourth quarter of 2022 of the inflationary effects on the risk-weighted assets related to the changes in the credit risk measurement models as a result of the EBA Guidelines, the shortfall in terms of the Tier 1 capital aggregate could reach EUR 500 mln. This shortfall could be mitigated or eliminated by capital management initiatives available to the Group.

As regards the 2021 EBA stress tests, the results announced to the market on 30 July are consistent with the aforementioned Capital Plan, which envisages capital strengthening for EUR 2.5 bn.

On 4 October 2021, the Parent Company completed the sale of 36,280,748 treasury shares (equal to approximately 3.62% of the share capital of BMPS) held by the Montepaschi Group, resulting from the capital strengthening measures carried out in 2017. The sales transactions produced a positive impact on the 2021 CET1 of BMPS equal to 9 bps. In regard to the main economic and equity targets of the Plan for the current year, the operating performance is expected to exceed expectations: this is mainly due to the cost of credit, lower than forecasts due to lower flows of non-performing loans and impairment reversals due to the improved estimates of the growth of the Gross Domestic Product and some revenue components, especially commissions, which will benefit from improved trends in assets under management, as well as a greater contribution of other income components of a financial nature. The percentage of target achievement as at 30 September 2021 is as follows:

2021-2025 STRATEGIC PLAN TARGET			
MPS GROUP			
INCOME STATEMENT FIGURES (EUR mln)	**30 09 2021**	**FY 2021 Plan**	**% Achievement of annual target**
Total Revenues	2,266	2,895	78%
Operating expenses	(1,587)	(2,156)	74%
Cost of customer credit	(34)	(750)	5%
Net profit (loss)	388	(562)	n.m.
CAPITAL RATIOS (%)	**30 09 2021**	**FY 2021 Plan***	**Chg**
Common Equity Tier 1 (CET1) ratio - phase in	12.3	12.1	0.2
Common Equity Tier 1 (CET1) ratio - fully loaded	10.9	10.9	n.m.

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

Finally, it should be noted that, following the press release of 24 October 2021 in which UniCredit and the MEF announced the interruption of negotiations regarding the potential acquisition of a selected perimeter of MPS, and having acknowledged the current inability to find a "structural solution", the Parent Company will revise its business plan for the new time horizon 2022-2026. The revision may contain further changes with respect to what already planned for previous discussions whit DG Comp.

* * *

Credit strategies

On 1 March 2021, the Board of Directors of the Parent Company approved the 2021 credit strategies: 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 to the whole 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 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 detect any signs of further deterioration (or recovery), the strategies were made dynamic. The Parent Company has also refocused its interactions with customers, specifying the set of documents and instruments useful for an adequate credit assessment from a forward-looking perspective.
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 the Consumer customer category. 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. 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 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.

Despite the initial forecasts of negative impacts triggered by the COVID 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. Through 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 and strengthen the monitoring of risk, in line with the requests made by the ECB. The crash program was set up to proactively manage customers who might have found themselves in difficulty at the end of the government measures activated to deal with the pandemic. The results showed that deserving companies, able to overcome the crisis, benefited from further support, while counterparties that presented a high risk of deterioration of creditworthiness were classified in default. The Group has identified, within a broader portfolio of customers benefiting from COVID support measures (around EUR 27.6 bn), a perimeter to be prioritized which includes 25.7 thousand customers (EUR 12.8 bn in exposure terms). The conclusion of the crash program showed a rate of classification as non-performing equal to approximately 2% in exposure terms and 3% in customer terms; moreover, 16% of all the exposures considered (16% in customer terms) were identified as in need of additional support through a payment holiday or new liquidity, in some cases together with the consolidation of previous exposures; on the remaining portion of the crash perimeter, in-depth analysis has shown 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. The crash perimeter identified above, as notified to the Supervisory Authority, also involved a limited number of counterparties on which, following an update of the Covid Score during the second quarter, a significant increase in the risk index had been observed, which has suggested the opportunity of their inclusion in the portfolio to be reviewed. In the fourth quarter of the year, a further review of the score is planned to assess the need for further new initiatives.

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.

During the fourth quarter and in continuity with the crash program described above, another extraordinary review of performing credit exposures has been scheduled.

The initiative, aimed at promptly intervening on customers the position of which shows potential signs of deterioration, with a particular focus on counterparties benefiting from support measures, affects a perimeter of approximately EUR 2.8 bn relating to the Parent Company and approximately EUR 0.3 bn relating to the Subsidiaries. The perimeter was identified based on the evolution of the detection parameters, the change in the Covid Score and the remediation actions required by the corporate control functions. Financial difficulty tests will be carried out on the counterparties in scope and the most consistent risk class will be assessed.

Retail & Corporate Banking strategy

The 2021 strategies for renewing the Retail & Corporate Banking strategy, continuing the process started in 2020, seek to refocus the business in the core areas and to 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 and expansion of the offer by Banca Widiba;
- ***integrating ESG strategies,*** both thematic and sectoral, in the process of building the portfolios of the Asset Management lines;
- ***improving the customer experience and continuing the digital transformation,*** through: i) the management of monthly contact initiatives finalised at implementing a commercial proposal based on the potential requirements of each customer according to predictive behavioural models (next best product), as well as the optimisation of the exchange with the customer and the promotion of the knowledge of products/services offered; ii) the continuation of customer journeys aimed at improving commercial offer activities by setting up logical omnichannel contact paths, particularly with reference to new customers or those at risk of abandonment; iii) the search for a superior digital experience for retail customers, with a focus on remote sales, through SPID (Public Digital Identity System) identification and mobile payments, such as Google 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 the new Wealth Management Platform:*** the new Wealth Management Platform ("MPS Athena") was activated in 2020; its migration from "MPS Advice" continues in 2021, following the development of the Basic and Advanced Advisory Service on all financial instruments, with the aim of completing the roll out by 2022. This will allow an "evolved", functional and modern consulting approach, based on innovative technology and digitalised processes, able to guarantee high advisory service levels;
- ***strengthening the advisory service offer*** in a particularly complex market context characterised by an excess of unremunerated liquidity and negative or extremely low returns on traditional bonds, guiding customers towards flexible and dynamic forms of asset management, such as to seize opportunities while ensuring the maximum diversification, taking into account the customers' risk profiles, their needs and requirements;
- ***supporting commercial processes with a view to customer centricity***, by leveraging the innovations and opportunities offered by the release of the new commercial planning tool (Toolbox); this, in addition to introducing an integrated workflow from planning to commercial execution, allows to better guide the activity through a customer-centric system able to simplify and improve the processing of campaigns and the possibility of independently defining a part of the planning, with an active role of the resources in the process of definition and follow-up of the customers to be contacted among those selected by the General Management (choice of "air & ground" customers, expected planning, summary monitoring through KPI map);

- ***optimising the allocation of 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 levels;
- ***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 394 branches in the 2019-2020 period. With regard to branding, 69 branches were completed in 2020 (exterior only) after the 52 completed in 2019. The new "scope 2021" of the project focuses on the creation of exterior fittings and Self Areas (75 already completed). The 2021 target is to "brand" the exterior of 109 branches distributed throughout the Italian territory (of which 39 completed in July). In February 2021, the new "MPS Digital Auto" MTPL 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 policy has already met with significant interest, including on the part of "non-customers", confirming the distinctiveness of the Bank's brand. For the Private segments, there is a strong focus on protection (health, home, term life insurance) and supplementary pension schemes, both in terms of push for an increased market share and of new supports made available to the network, multichannel initiatives, and continuous range innovation. In addition, the product range continues to be developed with the restyling of traditional savings products (launch of "Soluzione Risparmio Protezione" for the retail market and "Private Prestige" for the private market), the release of two new unit-linked tranches of the "Progetto Protetto" range, as well as the rationalisation of the life protection range with the launch of the restyling of "Tutta la vita" which has allowed, among other things, the delisting of two products;
- ***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 business abroad, aimed at supporting the use of products and services to neutralise the typical risks of foreign markets (political, business, exchange rate risk, 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; The Parent Company has released the product updates needed for the implementation of the provisions of the "Sostegni Bis" Decree, including loans backed by SACE "Garanzia Italia Ordinaria" and "MID Cap", as well as products backed by the guarantee provided by the Fondo di Garanzia per le PMI [Italian guarantee fund for SMEs], including the Instrumental Goods Loan;
- ***supporting companies, households and local authorities in the relaunch and modernisation process*** and seizing the opportunities provided by the Next Generation EU (NGEU) transition plan, notably in regard to the package of reforms and investments of the National Recovery and Resilience Plan (NRRP), by launching the first ten 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 emergency. 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. To facilitate business activities, and promptly respond to market needs, a process was finalised to fine-tune the main products for the financing of corporate customers to ensure additional flexibility of use;
- ***the insourcing of the Consumer Finance product factory into Banca MPS.*** In recent years before the pandemic, the consumer credit market recorded strong growth in terms of volumes disbursed (+9% CAGR 2014-2019) mainly driven by personal loans; fast growth in consumer credit is also expected in

the next two years. The insourcing of a part of the production (the agreement with Compass will remain in place until 2024) will allow to optimise the profitability of the business net of the cost of the associated credit, maintaining a direct control on one of the main business levers; it will also allow to shorten the "transmission belt" with the distribution network, to make the lunch of business initiatives more effective, so that personal loans may be used both as a vehicle to increase cross-selling on a captive customer base and as a tool for the acquisition of new customers.

Restyling of another 30 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 business proactivity, with a focus on the Value line. These initiatives act on the following performance drivers: increasing the privacy of workstations, improving the usability of spaces, appearance and brand identity. An ongoing project envisages the mass installation of electronic devices for consultation by customers of Banking Transparency and Currency Exchange, thus completely eliminating the paper notices at the branches. Currently, approximately 40% of the agencies are covered, with the entire Network to be covered by the first quarter of 2022. New Signature Pads will also be provided in all branches shortly. IT initiatives are being finalised that will increase the number of transactions that may be carried out by customers at other banks' ATMs and simplify some time-consuming processes at the branch (authorisation of bank transfers, payment of bills, reimbursement of prepaid cards and closing of current accounts). Lastly, the Parent Company has merged the Private Banking and Corporate markets into a single unit, "Business Enterprises and Private Banking", to increase the synergy between the two businesses. The new unit is a practical response to the evolution of the needs of Private customers, looking for support in their personal and business projects and thus has access to all the know-how of the two markets, which offer dedicated specialised and consulting services in strong synergy. The new integrated advisory service model of the two businesses presents some innovations for Private Banking, such as the ability of responding to certain specific needs of business customers such as the optimisation of corporate liquidity with dedicated investment solutions, in terms of return targets, risk appetite and time horizon. The use of wealth investment tools and solutions that may contribute to the development and support of the real economy of the country and strengthen the instruments already available, such as PIRs [Italian Individual Savings Plans], is also being considered.

Funding strategy and MREL capacity

With regard to funding, the third quarter of 2021 ended with a very strong liquidity position, with LCR/NSFR indicator levels that are well 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 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 at TLTRO III auctions 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.

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.

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 scheduled in the same timeframe will be intended primarily to respect the MREL targets. In detail, funding strategies, laid out at the beginning of 2021, 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 are in any event regularly revised in light of RWA and Leverage Exposure trends, based on which the MREL targets to be achieved are set.

In particular, considering a better than expected trend in RWAs and capital ratios, the estimate of the issues to be carried out in 2021 has been gradually reduced, to almost zero, assuming the expected capital increase is carried out. Considering the potential postponement of the share capital increase to next year (also based on the strategies that the Group will adopt in the coming weeks), in the absence of issues in 2021, a temporary breach of the Combined Buffer requirement (CBR) considered in addition to the MREL requirements based on RWAs and the subordination requirement based on Leverage Exposures, could occur as at 1 January 2022. This breach would then be corrected due to and at the time of the share capital increase.

Lastly, the issue plan considers the execution of a covered bank bond issue (not included in the calculations for MREL purposes) in 2022 for EUR 500 mln for the purpose of maintaining access, albeit for a limited amount, also to this market segment.

Despite fears of a negative impact on the banks' liquidity sources, the health crisis produced by the COVID-19 pandemic has not, so far, affected the expected trend of the Group's regulatory liquidity indicators (LCR – Liquidity Coverage Ratio and NSFR – Net Stable Funding Ratio). In this regard, the Central Bank has authorised banks to temporarily operate below the minimum 100% threshold, with particular reference to the LCR. Considering the solid liquidity position established in previous years and the satisfactory levels of its indicators (as at 30 September 2021, LCR equal to 181.2% and NSFR equal to 131.2%), the Group expects to be able to keep its targets above their regulatory minimum thresholds, maintaining an adequate buffer.

Explanatory Notes

The Interim Report on Operations of Monte dei Paschi di Siena Group as at 30 September 2021, approved by the Board of Directors on 4 November 2021, was prepared in consolidated format by applying the recognition and measurement criteria envisaged in IAS/IFRS international accounting standards issued by the International Accounting Standards Board (IASB) and the related interpretations by the IFRS Interpretations Committee, as endorsed by the European Commission and effective at the time this interim report was prepared, pursuant to EC Regulation no. 1606, 19 July 2002.

The document is not drafted pursuant to the provisions of IAS 34 "Interim financial reporting", since the Monte dei Paschi di Siena Group applies this principle to half-yearly financial reporting but not to quarterly reporting.

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 this Interim Report on Operations have been updated with respect to those adopted for the Consolidated Financial Statements as at 31 December 2020, to which reference is made for more details, due to the voluntary change in the method for valuing property assets owned by the Group. 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 for more details.

The additional IAS/IFRS accounting standards and related SIC/IFRIC interpretations, whose mandatory application took effect on 1 January 2021, but which had no significant impacts on the Group, are listed below:

On 13 January 2021, Regulation (EU) no. 2021/25, 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, was published. 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 initiatives 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 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.

On 31 August 2021, Regulation (EU) 2021/1421 was published, which endorses the document "COVID-19-Related Rent Concessions beyond 30 June 2021 – Amendments to IFRS 16" and extends 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 granted lessees an exemption from having to assess whether the benefits obtained as a result of the economic crisis due to COVID-19 meet the definition of 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.

In preparing this Interim Report on Operations, 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 financial statements, to which reference is made, were also considered.

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.

The Interim Report as at 30 September 2021 is supplemented by the certification of the Financial Reporting Officer, pursuant to art. 154-bis, paragraph 2 of the Consolidated Law on Finance.

Estimates and assumptions when preparing the Interim report on operations

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 more 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 this Interim Report on Operations as at 30 September, 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 a 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, to which reference is made in their entirety for all of the relative details, except for the changes and fine-tuning made by the Group in the first nine months of 2021, as described below.

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 an in-depth review of the content of the regulatory initiatives and the methods of their application by the Group, please refer to the 2020 Consolidated Financial Statements. In the first nine months of 2021, no new initiatives were taken by authorities and standard setters with respect to those already commented upon in the 2020 financial year, comments that continue to apply.

On 9 September 2021, the ECB published the regular update of the macroeconomic forecasts for the Eurozone prepared by its staff (therefore without the contribution of the individual national central banks, as usual) showing an increase of 0.4 percentage points for 2021 compared to the previous June forecasts and a return to pre-pandemic levels by the end of the year. More specifically, the baseline scenario sees the Eurozone GDP falling by only -6.5% in 2020 (against -6.8% forecast in June), followed by a recovery in 2021, currently forecast at +5.0% (+4.6% in June). There have also been minor changes in the alternative scenarios (mild and severe) compared to the June forecasts, mainly consisting in a different distribution of the recovery over the three-year forecast period.

As regards Italian GDP growth, the latest estimates provided by the Bank of Italy as part of the coordinated Eurosystem forecasting exercise of June 2021 show in the baseline scenario an 8.9% contraction in 2020 followed by a rebound of 4.4% in 2021 (3.5% forecast in January), 4.5% in 2022 (3.8% in January) and 2.3% in 2023 (unchanged from January). These projections 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. Lastly, it should be noted that in the October Economic Bulletin, the 2021 growth forecasts were revised upwards, in particular the increase in GDP should be around 6%, a value significantly higher than that provided in the July Economic Bulletin.

In July 2021, the Parent Company approved an update of the baseline scenario of December 2020: in the updated scenario, developed in the same month by a primary external supplier, the Italian GDP forecast would be better than previously forecasted for 2020 and unchanged in 2021, with pre-pandemic levels reached by the end of 2022. The table below provides details on the update of the baseline scenario and the alternative scenarios carried out by the Group on the GDP indicator together with a comparison with the baseline scenario published by the Bank of Italy in July 2021.

	Dec-20			Jul-21	Jul-21			
	GMPS	GMPS	GMPS	Bankit	GMPS	GMPS	GMPS	GMPS
	Best	Baseline	Severe but plausible	Baseline	Best	Baseline	Severe but plausible	Absolute worst
2020	-9.4%	-10.0%	-10.1%	-8.9%	-8.9%	-8.9%	-8.9%	-8.9%
2021	7.6%	5.3%	4.0%	5.1%	5.9%	5.3%	4.6%	4.1%
2022	2.8%	2.7%	2.9%	4.4%	6.5%	4.1%	2.3%	0.9%
2023	1.7%	1.8%	1.8%	2.3%	2.7%	2.6%	2.3%	0.8%
2024	1.3%	1.3%	1.4%	N.A.	1.8%	1.8%	2.0%	0.6%
AVG 20-22	**0.4%**	**-0.7%**	**-1.1%**	**0.2%**	**1.2%**	**0.1%**	**-0.7%**	**-1.3%**
Σ 20-22	**1.1%**	**-2.0%**	**-3.2%**	**0.6%**	**3.5%**	**0.4%**	**-2.0%**	**-3.9%**
AVG 21-23	**4.0%**	**3.3%**	**2.9%**	**3.9%**	**5.1%**	**4.0%**	**3.1%**	**1.9%**
Σ 21-23	**12.1%**	**9.8%**	**8.6%**	**11.8%**	**15.2%**	**11.9%**	**9.2%**	**5.8%**
AVG 22-24	**1.9%**	**1.9%**	**2.0%**	**N.A.**	**3.7%**	**2.8%**	**2.2%**	**0.8%**
Σ 22-24	**5.8%**	**5.8%**	**6.1%**	**N.A.**	**11.0%**	**8.5%**	**6.6%**	**2.3%**

It should be noted that, in the third quarter of 2021, the Group updated the forward-looking estimates of the staging and expected loss calculation for the performing and non-performing loan portfolios, using the most recent forecast data as a reference. However, given the persistence of uncertainty regarding the evolution of the pandemic and the extent of its repercussions on the economic system, the Group considered it appropriate, also from a conservative and prudential perspective, to use the updated baseline, severe but plausible and absolute worst scenarios, with the same 33.3% weight, in place of the probability of occurrence of the baseline, best and severe but plausible scenarios used for valuation purposes in the financial statements as at 31 December 2020 equal to 42.6%, 36.1% and 21.3%, respectively.

The update of the macroeconomic scenarios had a positive impact on the Group's income statement for the first nine months of 2021, equal to EUR 124 mln.

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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 these 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 nine months 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 Cerved sector forecasts for corporate counterparties on the basis of the forecast scenario provided by the supplier in July;
- update of the estimate of multi-period PD curves based on the new definition of default and the quantitative thresholds used for staging allocation;

- updating of the LGD grids based on the new models developed as part of the 2021 Model Change with some fine-tuning to improve the point in time component of the LGD models;
- 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.

The set of changes described above had a negative impact on the Group's income statement for the first nine months of 2021 equal to EUR 152 mln (of which EUR 99 mln related to the update of the LGD grids).

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.

With particular reference to taxable income for future years, it should be noted that the estimate was made using the same income projections used for the 2021 Consolidated Half-Yearly Report.

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.

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 "Investment property".

Please note 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 above-mentioned 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 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 (pursuant to 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 above-mentioned assets, as a result of the prospective application of the change in valuation approach, the difference between the restated value and the net carrying amount was recognised on the same date with an offsetting entry in:

- 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, note that the unit of measurement used to determine the above-mentioned impacts is represented by the individual property, considering the land component 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 (pursuant to 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 buyer and a seller both willing, and not linked by a special relationship, 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);
- 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 as properties, 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” in the negative amount of 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 this impact, the application of the fair value approach means that depreciation is no longer recognised for investment property which, for the first three quarters of 2021, would have amounted to EUR 4.7 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 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 assets measured at amortised cost" corresponding to the present value of payments due for the lease. The discount rate used is the implicit interest rate, if it can be determined; otherwise, the lessee's marginal borrowing rate is used.

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

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

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

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

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

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

c) measurement criteria and revenue recognition criteria

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 revaluation, the increase is recognised with an offsetting entry in liability item "120 - Valuation reserves", with the exception of impairment 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 above-mentioned impairment;
- if the carrying amount of an asset has decreased following a revaluation, 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 investment property 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 investment property, and those that are leased, a comparison is made between the book value of the asset and the asset's recoverable value, i.e. the higher of the fair value, less any costs to sell, and the relevant value in use, which is the present value of the future cash flows generated by the asset.

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 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 corresponding 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

This Interim Report on Operations as at 30 September 2021 was 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. Contrary to what was noted in previous quarters, the expected capital shortfall with respect to overall capital requirements appears beyond the valuation horizon. With regard to liquidity, the position remains strong due to the significant measures implemented by the ECB.

While the estimates used in the 2020 financial statements indicated that a shortfall would already occur in the first quarter of 2021, increasing to EUR 1.5 bn as at 1 January 2022, as at 30 September 2021, like in the two previous quarters, no capital shortfall had occurred nor is one expected 12 months after the reference date, i.e. as at 30 September 2022. The elimination of the shortfall expected at 12 months derives from the effects of the capital management initiatives already carried out, from the performance in terms of capital and risk weighted assets and from the assumption that the update of the internal models to the EBA Guidelines will take place beyond the valuation horizon. The capital position is estimated taking into account the results of the first nine months of the year and the expected performance in 2021 assuming confirmation of the current business / operating model and excluding capital strengthening, or other extraordinary capital contributions, or subordinated issues.

It should also be noted that, as at 1 January 2023, taking into account the planned capital reduction due to the IFRS 9 phase-in and assuming the full implementation in the fourth quarter of 2022 of the inflationary effects on the risk-weighted assets related to the changes in the credit risk measurement models as a result of the EBA Guidelines, the shortfall in terms of the Tier 1 capital aggregate could reach EUR 500 mln. This shortfall could be mitigated or eliminated by capital management initiatives available to the Group.

As regards the 2021 EBA stress tests, the results announced to the market on 30 July are consistent with the Capital Plan approved in January, which envisages capital strengthening for EUR 2.5 bn.

The need to strengthen the capital position remains therefore significant, resulting in uncertainty on the use of the going concern assumption. This uncertainty is mitigated by the full support of the controlling shareholder and by the potential "structural solution" scenario.

With reference to the first mitigating factor, i.e. the role of the controlling shareholder, the MEF expressed the intent 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.

In regard to the second mitigating factor ("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, that 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.

The Parent Company has set up dedicated virtual data rooms for the due diligence activities of potential investors and partners required by the "structural solution". Access to virtual data rooms was granted to the Apollo fund, UniCredit, Mediocredito Centrale and AMCO. As regards the discussions between UniCredit and the MEF, started at the end of July, concerning the potential acquisition of a selected MPS perimeter, on 24 October the parties announced that negotiations had been suspended. Currently, only AMCO has access to the dedicated virtual data room.

Following the press release and having acknowledged the current inability to find a "structural solution", a preliminary dialogue was initiated with the reference shareholder who, in confirming its support for the Bank's activities, informed the management of talks already held with DG Comp to extend the MEF's participation in the BMPS' shareholding and determine the necessary measures that the Bank will have to take in terms of capital.

Given the above, the Bank will revise its business plan for the new time horizon 2022-2026. The revision could contain further elements of discontinuity with respect to the hypothesis made in the previous discussions with DG Comp.

This measure is in preparation for a capital increase at market conditions to be carried out in 2022, which, on the basis of the ongoing dialogues, is expected to be supported by the reference shareholder.

Even if the "structural solution" has not materialised at the moment, it remains a possible scenario.

In this context, DG Comp and ECB are expected to assess, to the extent of their respective competences, the Italian government's intervention based on the Parent Company's standalone viability in the light of the indications provided in the new business plan. It cannot be excluded that, as part of this assessment, unforeseeable elements might arise that could affect the Parent Company's capital strengthening process and the structure and feasibility of a capital increase at market conditions. Therefore, the assessment of DG Comp is the source, in principle, of significant uncertainty.

To facilitate any solution, after the incisive initiatives on credit risk carried out since 2018, which have reduced the incidence of non-performing exposures to the lowest levels among major Italian banks, the Parent Company continues to work to reduce business risk, actively engaging in initiatives aimed at reducing legal risks. In October, the agreement with Fondazione MPS was finalised - already announced in its essential lines - which settles all outstanding disputes between the parties. The agreement with the Fondazione MPS settles the EUR 3.8 bn claims for damages made by the Fondazione against a consideration equal to EUR 150 mln paid by the Bank. The reduction by almost 40% of the amount claimed through legal proceedings will be a significantly positive element for any transaction aimed at improving the capital position.

In light of these elements, taking into account the significant progress made by the Group in 2021 in terms of capital position and the expected improvement in terms of risk reduction, we believe that the capital shortfall can be met through capital strengthening on a standalone basis, subject to DG Comp's approval of the 2022 - 2026 business plan, currently under preparation. The implementation of the business plan could be updated in light of future economic environment, and, in any event, be subject to amendments – including significant ones – should the preconditions for a potential "structural solution" that provides for the implementation of a business combination project – as envisaged by the Prime Minister Decree of 16 October 2020 – occur again.

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, after having considered the significant uncertainty concerning how the Parent Company's capital strengthening will be executed - which may give rise to significant doubts on the Group's ability to continue to operate as a going concern, consider that, taking into account the status of the actions put in place, the set of these evaluations supports 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 this Interim Report on Operations.

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 investment property 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 nine months 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**" is shown net of the negative contribution of the Purchase Price Allocation (PPA), equal to EUR -3.3 mln, referring to past business combinations, which was reclassified in a special item.
- The item "**Net fees and commissions**" shows the balance of items 40 "Fee and commission income" and 50 "Fee and commission expense".
- Item "**Dividends, similar income and gains (losses) on investments**" includes item 70 "Dividends and similar income" and the relevant portion of profits from investments in AXA, consolidated using the equity method, equal to EUR 66.8 mln, recognised in item 250 "Gains (losses) on investments". The aggregate is shown net of the dividends earned on equity securities other than equity investments (EUR 3.6 mln), reclassified in item "Net profit from trading, 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 from trading", item 100 "Gains (losses) on disposal/repurchase", cleared of the contribution from loans to customers (EUR -0.4 mln) reclassified in the item "Cost of customer credit", and item 110 "Net profit from other financial assets and liabilities measured at fair value through profit or loss", cleared of the contribution from loans to customers (EUR -6.0 mln) reclassified in the item "Cost of customer credit". In addition, the aggregate incorporates dividends earned on equity securities other than equity investments (EUR 3.6 mln).
- Item "**Net profit from hedging**" includes financial statement item 90 "Net profit 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 176.5 mln) and net of other expenses recovered, which are posted to "Net value adjustments to property, plant and equipment" (EUR 15.6 mln).

- Item "**Personnel expenses**" includes the balance of item 190a "Personnel expenses" from which costs equal to EUR 6.2 mln have been excluded, related to the transactions carried out in 2021 to conclude the consensual resolutions reached 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 159.0 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 47.4 mln (posted to the reclassified item "DTA fee");
  - charges of EUR 1.9 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 176.5 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 -0.7 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 15.6 mln) that was recorded under item 230 "Other operating expenses/income".
- Item "**Cost of customer credit**" includes the income statement components relating to loans to customers of item 100a "Gains (losses) on disposal/repurchase of financial assets measured at amortised cost" (EUR -0.4 mln), item 110b "Net profit from financial assets and liabilities measured at fair value as per mandatory requirements" (EUR -6.0 mln), item 130a "Net impairment (losses)/reversals on financial assets measured at amortised cost" (EUR -50.7 mln), item 140 "Modification gains/(losses)" (EUR -6.8 mln) and item 200a "Net provisions for risks and charges - commitments and guarantees given" (EUR +29.9 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 (EUR +1.1 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 +1.6 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 the component relative to loans to customers of item 200a "commitments and guarantees given" (EUR +29.9 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 66.8 mln, reclassified under item "Dividends, similar income and gains (losses) on equity investments".
- Item "**Restructuring costs/One-off costs**" includes the following amounts:
  - expenses recognised in provisions for early retirement/solidarity fund equal to EUR 6.2 mln, recognised in the financial statements under item 190a "Personnel expenses";
  - charges of EUR 1.9 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), equal to EUR 159.0 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, 3 May 2016, converted into Law no. 119, 30 June 2016, recognised in the financial statements under item 190b "Other administrative expenses", for EUR 47.4 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” excluding the theoretical tax component related to the Purchase Price Allocation (PPA), which was reclassified to a specific item for an amount of EUR 1.3 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 -3.3 mln and “Net value adjustments to property, plant and equipment and intangible assets” for EUR -0.7 mln, net of a theoretical tax burden of EUR +1.3 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 and 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 and loss”, 40 “Financial assets measured at amortised cost” and 120 “Non-current assets held for sale and discontinued operations”;
- asset item “**Securities assets**” includes the portion relating to securities of item 20 “Financial assets measured at fair value through profit and loss”, item 30 “Financial assets measured at fair value through other comprehensive income”, item 40 “Financial assets measured at amortised cost” and item 120 “Non-current assets held for sale and discontinued operations”;
- asset item “**Derivative assets**” includes the portion relating to derivatives of item 20 “Financial assets measured at fair value through profit and loss” and item 50 “Hedging derivatives”;
- asset item “**Equity investments**” includes item 70 “Equity Investments” and the portion related to investments in item 120 “Non-current assets held for sale and discontinued operations”;
- 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 discontinued operations”;
- 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 discontinued operations" and item 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 nine months of 2020 had been affected by the health emergency created by the spread of the COVID-19 virus, starting from the end of February.

Reclassified Consolidated Income Statement

MPS GROUP	30 09 2021	30 09 2020*	Change	
			Abs.	%
Net interest income	898.5	978.7	(80.2)	-8.2%
Net fee and commission income	1,112.8	1,049.7	63.1	6.0%
Income from banking activities	**2,011.3**	**2,028.4**	**(17.1)**	**-0.8%**
Dividends, similar income and gains (losses) on investments	75.7	57.5	18.2	31.6%
Net profit (loss) from trading, the fair value measurement of assets/liabilities and Net gains (losses) on disposals/repurchases	197.0	153.8	43.2	28.1%
Net profit (loss) from hedging	7.7	1.0	6.7	n.m.
Other operating income (expenses)	(25.9)	(40.4)	14.5	-35.9%
Total Revenues	**2,265.8**	**2,200.2**	**65.6**	**3.0%**
Administrative expenses:	(1,454.8)	(1,463.8)	9.0	-0.6%
a) personnel expenses	(1,076.9)	(1,059.9)	(16.9)	1.6%
b) other administrative expenses	(377.9)	(403.8)	25.9	-6.4%
Net value adjustments to property, plant and equipment and intangible assets	(132.0)	(155.2)	23.2	-15.0%
Operating expenses	**(1,586.8)**	**(1,619.0)**	**32.2**	**-2.0%**
Pre-Provision Operating Profit	**679.0**	**581.2**	**97.8**	**16.8%**
Cost of customer credit	**(34.0)**	**(621.0)**	**587.0**	**-94.5%**
Net impairment (losses)/reversals on securities and loans to banks	**2.9**	**(6.6)**	**9.5**	**n.m.**
Net operating income	**647.9**	**(46.4)**	**694.3**	**n.m.**
Net provisions for risks and charges	(66.1)	(767.8)	701.7	-91.4%
Other gains (losses) on equity investments	2.2	1.1	1.1	95.0%
Restructuring costs / One-off costs	(8.1)	(128.6)	120.4	-93.7%
Risks and charges associated to the SRF, DGS and similar schemes	(159.0)	(117.7)	(41.3)	35.1%
DTA Fee	(47.4)	(53.3)	5.9	-11.0%
Net gains (losses) on property, plant and equipment and intangible assets measured at fair value	(28.2)	1.3	(29.5)	n.m.
Gains (losses) on disposal of investments	14.4	(0.4)	14.8	n.m.
Profit (Loss) for the period before tax	**355.7**	**(1,111.7)**	**1,467.4**	**n.m.**
Tax (expense)/recovery on income from continuing operations	35.0	(417.4)	452.4	n.m.
Profit (Loss) after tax	**390.7**	**(1,529.1)**	**1,919.8**	**n.m.**
Net profit (loss) for the period including non-controlling interests	**390.7**	**(1,529.1)**	**1,919.8**	**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	**390.8**	**(1,529.0)**	**1,919.8**	**n.m.**
PPA (Purchase Price Allocation)	(2.7)	(3.0)	0.4	-12.1%
Parent company's net profit (loss) for the period	**388.1**	**(1,532.1)**	**1,920.2**	**n.m.**

** The Income statement figures as at 30 September 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 (pursuant to IAS 40). Furthermore, for the sake of greater comparability, impairments of property for business use (IAS 16) for 30 September 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

MPS GROUP	2021			2020*			
	3°Q 2021	2°Q 2021	1°Q 2021	4°Q 2020	3°Q 2020	2°Q 2020	1°Q 2020
Net interest income	313.3	305.6	279.6	311.9	331.8	319.8	327.1
Net fee and commission income	358.3	382.5	372.0	380.4	355.4	324.4	369.9
Income from banking activities	**671.6**	**688.1**	**651.6**	**692.3**	**687.3**	**644.1**	**697.0**
Dividends, similar income and gains (losses) on investments	20.3	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	17.6	19.6	159.8	(10.2)	61.7	62.2	29.9
Net profit (loss) from hedging	5.8	0.3	1.6	1.6	0.5	3.3	(2.8)
Other operating income (expenses)	(13.4)	(1.8)	(10.7)	(10.1)	(12.9)	(21.0)	(6.5)
Total Revenues	**701.9**	**740.4**	**823.5**	**717.1**	**747.7**	**723.1**	**729.4**
Administrative expenses:	(470.0)	(492.0)	(492.9)	(514.7)	(490.6)	(480.2)	(493.0)
a) personnel expenses	(358.1)	(358.7)	(360.1)	(355.2)	(352.0)	(351.2)	(356.7)
b) other administrative expenses	(111.9)	(133.3)	(132.7)	(159.5)	(138.5)	(129.0)	(136.3)
Net value adjustments to property, plant and equipment and intangible assets	(43.5)	(41.0)	(47.5)	(51.0)	(51.3)	(52.9)	(51.0)
Operating expenses	**(513.5)**	**(533.0)**	**(540.4)**	**(565.6)**	**(541.9)**	**(533.1)**	**(544.0)**
Pre-Provision Operating Profit	**188.4**	**207.4**	**283.1**	**151.4**	**205.8**	**190.0**	**185.4**
Cost of customer credit	**131.5**	**(88.8)**	**(76.7)**	**(126.6)**	**(101.7)**	**(204.8)**	**(314.5)**
Net impairment (losses)/reversals on securities and loans to banks	**1.2**	**5.4**	**(3.7)**	**1.2**	**(1.1)**	**(4.4)**	**(1.1)**
Net operating income	**321.1**	**124.0**	**202.7**	**26.0**	**103.0**	**(19.2)**	**(130.2)**
Net provisions for risks and charges	(23.8)	(50.8)	8.5	(216.2)	(410.7)	(317.0)	(40.1)
Other gains (losses) on equity investments	2.4	2.6	(2.8)	1.7	0.4	0.5	0.2
Restructuring costs / One-off costs	(3.9)	(4.0)	(0.1)	(25.1)	(100.7)	(30.4)	2.6
Risks and charges associated to the SRF, DGS and similar schemes	(69.4)	(21.8)	(67.8)	(22.7)	(41.0)	(18.4)	(58.3)
DTA Fee	(15.8)	(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	**210.6**	**31.1**	**114.0**	**(229.0)**	**(469.6)**	**(402.7)**	**(239.4)**
Tax (expense)/recovery on income from continuing operations	(23.7)	52.6	6.1	75.8	20.0	(439.0)	1.6
Profit (Loss) after tax	**186.9**	**83.7**	**120.1**	**(153.2)**	**(449.6)**	**(841.7)**	**(237.8)**
Net profit (loss) for the period including non-controlling interests	**186.9**	**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	**186.9**	**83.7**	**120.2**	**(153.2)**	**(449.6)**	**(841.6)**	**(237.8)**
PPA (Purchase Price Allocation)	(0.9)	(0.9)	(0.9)	(1.3)	(1.1)	(0.9)	(1.1)
Parent company's net profit (loss) for the period	**186.0**	**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, impairments of property for business use (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 September 2021, the Group reported total **Revenues** equal to **EUR 2,266 mln**, up 3.0% compared to the same period of the previous year.

This result is above all due to the increase in net commissions, in turn mainly the result of the increase in income from asset management and, in particular, from the placement of products, and in other revenue from banking and insurance. There was instead a decrease in net interest income, mainly due to the lower contribution (about EUR 87 mln) of the non-performing portfolio, notably 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 decrease in the on demand and short-term components and an increase in the medium/long-term component. On the other hand, Net Interest Income benefited from the lower cost of commercial funding as well as the positive effects linked to access to the TLTRO III auctions, although these were partly offset by the cost of increased deposits at central banks.

Revenues in the third quarter of 2021 were down by 5.2% compared to the previous quarter. More in detail, there was a 2.5% increase in net interest income, which benefited from the continuation of the initiatives to optimize the cost of funding, and a reduction in net commissions, mainly due to the decline, typical of the third quarter of year, in placement flows and related income. Other revenues from financial activities were down compared to the previous quarter, when they had benefited from the recognition of the dividend paid by the Bank of Italy: these revenues were affected by the worsening of the trading / hedging performance and the lower contribution from the partnership with AXA in the Bancassurance sector.

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

SEGMENT REPORTING	Operating Segments						Corporate Center		Total MPS Group	
Primary segment	Retail banking		Wealth Management		Corporate banking					
(EUR mln)	30/09/21	Chg % Y/Y	30/09/21	Chg % Y/Y	30/09/21	Chg % Y/Y	30/09/21	Chg % Y/Y	30/09/21	Chg % Y/Y
PROFIT AND LOSS AGGREGATES										
Net interest income	255.7	-47.6%	0.9	-85.3%	434.1	-15.5%	207.7	n.m.	898.5	-8.2%
Net fee and commission income, of which	685.7	12.9%	92.9	13.2%	397.9	-2.9%	(63.7)	28.7%	1,112.8	6.0%
Fee and commission income	*743.4*	13.3%	*93.6*	13.2%	*439.2*	-1.6%	*(12.0)*	n.m.	*1,264.2*	*6.9%*
Fee and commission expense	*(57.7)*	19.0%	*(0.7)*	4.5%	*(41.3)*	13.5%	*(51.7)*	9.1%	*(151.4)*	*13.9%*
Other Revenues from Banking and Insurance Business	50.0	35.6%	14.9	37.0%	40.2	-9.8%	175.2	46.2%	280.4	32.1%
Other operating expenses/income	(6.7)	0.6%	(0.7)	1.5%	(14.6)	-1.2%	(3.8)	-79.0%	(25.9)	-35.9%
Total Revenue	984.7	-12.5%	108.1	9.5%	857.6	-10.0%	315.4	n.m.	2,265.8	3.0%

Note: Following the organizational restructuring of the Head Offices, implemented in June 2021, the performance of the “Small Business” service model is now included in “Corporate Banking” and no longer in “Retail Banking”. The values of the previous year have been restated accordingly, therefore the comparison is made between homogeneous data.

Net Interest Income as at 30 September 2021 was equal to **EUR 899 mln**, down 8.2% compared to the same period of 2020. The decrease was driven mainly by (i) the lower contribution (EUR 87 mln) 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 as a result of the sales started in 2020 and continued in 2021, (iv) the negative contribution of hedging derivatives and (v) the decrease in asset returns due to interest rate trends and the shift of exposures with a reduction in the on-demand and short-term components and an increase 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 the access to the TLTRO III auctions (EUR 203 mln in total), partly offset by the cost of higher deposits at central banks (around EUR 75 mln).

Net Interest Income for the third quarter of 2021 was up compared to the previous quarter (+2.5%), mainly due to the continuation of the initiatives taken by the Parent Company to optimise the cost of customer funding and to the greater benefit on TLTRO III, deriving from the access to the auction in June.

Items	30 09 2021	30 09 2020	Chg. Y/Y		3°Q 2021	2°Q 2021	Chg. Q/Q	
			Abs.	%			Abs.	%
Loans to customers measured at amortised cost	928.6	1,037.2	(108.6)	-10.5%	314.7	313.0	1.7	0.5%
Loans to Banks measured at amortised cost	115.0	30.2	84.8	n.m.	47.4	38.5	8.9	23.1%
Government securities and other non-bank issuers at amortised cost	94.5	113.8	(19.3)	-17.0%	31.5	31.9	(0.4)	-1.3%
Securiries issued	(256.1)	(249.3)	(6.8)	2.7%	(82.8)	(84.1)	1.3	-1.5%
Hedging derivatives	(46.0)	(19.4)	(26.6)	n.m.	(16.8)	(16.1)	(0.7)	4.3%
Trading portfolios	23.9	29.0	(5.1)	-17.6%	7.1	10.8	(3.7)	-34.3%
Portfolios measured at fair value	3.7	5.6	(1.9)	-33.9%	1.3	1.3	-	0.0%
Financial assets measured at fair value through other comprehensive income	29.9	24.8	5.1	20.6%	8.2	9.2	(1.0)	-10.9%
Other financial assets and liabilities	5.0	6.8	(1.8)	-26.5%	2.7	1.1	1.6	n.m.
Net interest income	**898.5**	**978.7**	**(80.2)**	**-8.2%**	**313.3**	**305.6**	**7.7**	**2.5%**
of which: interest income on impaired financial assets	*40.8*	*127.8*	*(87.0)*	*-68.1%*	*12.7*	*13.7*	*(1.0)*	*-7.3%*

Net fee and commission income in the first nine months of 2021 was equal to **EUR 1,113 mln,** up with respect to the amount recorded in the same period of the previous year (+6.0%). The increase was due to higher income from asset management (+19.5%), due both to higher commissions on product placement and to higher continuing commissions, which benefited from an increase in average assets under management and average returns. On the other hand, there was a decrease in commissions on loans (-5.3%), partly due to the shift of loans to longer-term forms, and commissions from services (-1.9%), due to lower revenues from the administration of current accounts.

The contribution of the third quarter of 2021 was down compared to the previous quarter (-6.3%) as a result of the reduction, typical of the third quarter of the year, of all components: (i) commissions on asset management, EUR -14.1 mln, (ii) commissions from traditional banking services, EUR -1.0 mln, (iii) other net commissions, EUR - 9.1 mln.

Services/value	30 09 2021	30 09 2020	Change Y/Y		3°Q 2021	2°Q 2021	Change Q/Q	
			abs.	%			abs.	%
Assets under management fee	**560.8**	**469.4**	**91.4**	**19.5%**	**179.3**	**193.5**	**(14.1)**	**-7.3%**
Product placement	201.0	146.0	55.0	37.6%	60.1	70.8	(10.7)	-15.2%
Continuing fees	295.1	257.7	37.4	14.5%	102.9	98.0	4.9	5.0%
Placement of securities	29.4	32.4	(2.9)	-9.1%	7.6	11.2	(3.6)	-32.1%
Sales of Protection	35.3	33.3	2.0	6.0%	8.8	13.5	(4.7)	-34.7%
Fee and commisions from traditional activities	**625.0**	**643.7**	**(18.6)**	**-2.9%**	**208.4**	**209.4**	**(1.0)**	**-0.5%**
Credit fees	275.0	290.4	(15.5)	-5.3%	88.2	93.2	(5.0)	-5.4%
Fees from foreign service	37.5	34.7	2.8	8.1%	12.8	12.7	0.1	1.1%
Other services	312.6	318.6	(6.0)	-1.9%	107.4	103.5	3.9	3.7%
Other fee and commission income	**(73.1)**	**(63.4)**	**(9.7)**	**15.3%**	**(29.5)**	**(20.4)**	**(9.1)**	**44.4%**
Net fees and commission income	**1,112.8**	**1,049.7**	**63.1**	**6.0%**	**358.3**	**382.5**	**(24.2)**	**-6.3%**

SEGMENT REPORTING	Operating Segments			Corporate Center	Total Montepaschi Group
Primary segment	Retail banking	Wealth Management	Corporate banking		
	30/09/21	30/09/21	30/09/21	30/09/21	30/09/21
Assets under management fee	**460.6**	**84.5**	**18.0**	-	**563.0**
Product placement	187.6	8.9	4.5	-	201.1
Continuing fees	218.7	70.4	6.2	-	295.4
Placement of securities	25.1	5.0	1.2	-	31.2
Sales of Protection	29.2	0.2	6.0		35.3
Fee and commisions from traditional activities	**271.0**	**4.7**	**386.0**	**-**	**661.7**
Credit fees	59.8	1.4	230.9		292.1
Fees from foreign service	3.3	0.1	36.9	-	40.4
Other services	207.9	3.1	118.2		329.2
Other fee and commission income	11.8	4.5	35.2	(12.0)	39.5
Net fees and commission income	**743.4**	**93.6**	**439.2**	**(12.0)**	**1,264.2**

Note: Following the organizational restructuring of the Head Offices, implemented in June 2021, the performance of the "Small Business" service model is now included in "Corporate Banking" and no longer in "Retail Banking". The values of the previous year have been restated accordingly, therefore the comparison is made between homogeneous data.

Dividends, similar income and gains (losses) on equity investments were equal to EUR 76 mln, up compared to 30 September 2020 (EUR +18 mln), due to the increased contribution of the partnership with AXA[11] in the Bancassurance sector. The contribution in the third quarter of 2021 was smaller than in the previous quarter due to the recognition in the second quarter of the dividend paid by the Bank of Italy, as well as to the smaller contribution from the partnership with AXA in the Bancassurance sector.

Net profit from trading, the fair value measurement of assets/liabilities and Net gains (losses) on disposals/repurchases as at 30 September 2021 was equal to **EUR 197** mln, up on the value recorded in the same period of the previous year (EUR +43 mln), although the contribution in the third quarter of 2021 was down compared to the second quarter (EUR -2 mln). The analysis of the main aggregates shows the following:

- **Net profit from trading was positive and equal to EUR 37 mln**, up compared to the same period of the previous year, when it had been penalised by tensions in the financial markets related to the COVID-19 emergency.
  The contribution in the third quarter of 2021 was down by EUR 14 mln compared to the previous quarter, due to the smaller contribution of MPS Capital Services.
- **Net profit from other financial assets/liabilities measured at fair value through profit or loss was positive and equal to EUR 20 mln**, an improvement compared to the negative contribution of EUR 4 mln in the same period of the previous year due to capital gains on debt securities and UCITSs. The contribution of the third quarter of 2021, equal to EUR **+4 mln**, improved compared to the negative contribution of **EUR 3 mln in** the second quarter, due in particular to the capital gains recorded on UCITS.
- **Net gains (losses) on disposal/repurchase** (excluding loans to customers at amortised cost) **were positive for EUR 140 mln**, up 9.1% compared to the same period of the previous year, due to higher gains on sales of securities. The contribution of the third quarter of 2021 increased compared to the previous quarter by EUR 5 mln due to higher profits on the sale of securities.

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

Items	30 09 2021	30 09 2020	Chg. Y/Y		3°Q 2021	2°Q 2021	Chg. Q/Q	
			Abs.	%			Abs.	%
Financial assets held for trading	(45.2)	1.2	(46.4)	n.m.	(12.0)	(23.9)	11.9	-49.8%
Financial liabilities held for trading	93.8	(22.9)	116.7	n.m.	26.2	26.5	(0.3)	-1.1%
Exchange rate effects	7.7	11.7	(4.0)	-34.2%	2.8	3.6	(0.8)	-22.2%
Derivatives	(19.1)	39.6	(58.7)	n.m.	(12.2)	12.3	(24.5)	n.m.
Trading results	**37.2**	**29.6**	**7.6**	**25.8%**	**4.8**	**18.5**	**(13.7)**	**-74.1%**
Net profit (loss) from other financial assets and liabilities measured at fair value through profit or loss	20.1	(3.8)	23.9	n.m.	3.9	(2.8)	6.7	n.m.
Disposal / repurchase (excluding loans to customers measured at amortised cost)	139.7	128.0	11.7	9.1%	8.9	3.9	5.0	n.m.
Net profit (loss) from trading, the fair value measurement of assets/liabilities and Net gains (losses) on disposals/repurchases	**197.0**	**153.8**	**43.2**	**28.1%**	**17.6**	**19.6**	**(2.0)**	**-10.2%**

The following items are also included in Revenues:

- **Net profit from hedging equal to EUR +8 mln,** an increase compared to 30 September 2020 (EUR +1 mln), with a larger contribution of the third quarter of 2021 than in the previous quarter;
- **Other negative operating income/expenses equal to EUR 26 mln**, an improvement on the first nine months of 2020 (EUR -40 mln), with a contribution in the third quarter of 2021 (EUR -13 mln) worse than the one that had been recorded in the previous quarter (EUR -2 mln).

Operating expenses

As at 30 September 2021, **Operating expenses** were equal to **EUR 1,587 mln**, down on 30 September 2020 (-2.0%), with a smaller contribution in the third quarter of 2021 than in the previous quarter (-3.7%). A closer look at the individual aggregates reveals the following:

- **Administrative expenses** were equal to **EUR 1,455 mln**, down by 0.6% on the same period of the previous year, with a smaller contribution in the third quarter of 2021 than that recorded in the previous quarter. A breakdown of the aggregate shows:
  - **Personnel expenses** were equal to **EUR 1,077 mln**, up by 1.6% on the same period of the previous year, despite the decline in headcount (mainly due 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 the failure to renew the trade union agreement. The contribution of the third quarter of 2021 was substantially in line with that of the second quarter (-0.2%).
  - **Other administrative expenses** amounted to **EUR 378 mln**, down by 6.4% compared to the same period of the previous year, partly due to saving actions put into place. The contribution of the third quarter of 2021 was also substantially reduced compared to that recorded in the previous quarter (-16.0%).

- **Net value adjustments to property, plant and equipment and intangible assets** as at 30 September 2021 were equal to **EUR 132 mln**, down on the same period of the previous year (-15.0%) also due to the adoption of fair value measurement for properties. The contribution of the third quarter was up (+6.1%) compared to the previous quarter.

Type of transaction	30 09 2021	30 09 2020*	Chg Y/Y		3°Q 2021	2°Q 2021	Chg Q/Q	
			Abs.	%			Abs.	%
Wages and salaries	(780.1)	(767.1)	(13.0)	1.7%	(259.3)	(259.7)	0.4	-0.2%
Social-welfare charges	(213.1)	(208.8)	(4.3)	2.1%	(70.9)	(70.9)	-	0.0%
Other personnel expenses	(83.7)	(84.0)	0.4	-0.4%	(27.9)	(28.1)	0.2	-0.9%
Personnel expenses	**(1,076.9)**	**(1,059.9)**	**(16.9)**	**1.6%**	**(358.1)**	**(358.7)**	**0.6**	**-0.2%**
Taxes	(166.7)	(172.9)	6.2	-3.6%	(55.4)	(54.7)	(0.7)	1.3%
Furnishing, real estate and security expenses	(63.7)	(57.6)	(6.1)	10.6%	(20.8)	(24.1)	3.3	-13.7%
General operating expenses	(130.0)	(153.9)	23.9	-15.5%	(33.1)	(43.6)	10.5	-24.1%
Information technology expenses	(98.8)	(94.0)	(4.8)	5.1%	(31.3)	(36.2)	4.9	-13.5%
Legal and professional expenses	(52.2)	(77.1)	24.9	-32.3%	(17.9)	(18.9)	1.0	-5.3%
Indirect personnel costs	(3.7)	(4.1)	0.4	-9.8%	(1.2)	(1.7)	0.5	-29.4%
Insurance	(32.7)	(32.6)	(0.1)	0.3%	(8.8)	(12.8)	4.0	-31.3%
Advertising, sponsorship and promotions	(2.3)	(3.4)	1.1	-32.4%	(0.6)	(0.9)	0.3	-33.3%
Other	124.8	(4.2)	129.0	n.m.	41.4	86.6	(45.2)	-52.2%
Expenses recovery	47.4	196.0	(148.6)	-75.8%	15.8	(27.0)	42.8	n.m.
Other administrative expenses	**(377.9)**	**(403.8)**	**25.9**	**-6.4%**	**(111.9)**	**(133.3)**	**21.4**	**-16.0%**
Property, plant and equipment	(82.8)	(99.2)	16.4	-16.5%	(27.7)	(24.3)	(3.4)	14.0%
Intangible assets	(49.2)	(56.0)	6.8	-12.2%	(15.8)	(16.7)	0.9	-5.4%
Net value adjustments to property, plant and equipment and intangible assets	**(132.0)**	**(155.2)**	**23.2**	**-15.0%**	**(43.5)**	**(41.0)**	**(2.5)**	**6.1%**
Operating expenses	**(1,586.8)**	**(1,619.0)**	**32.2**	**-2.0%**	**(513.5)**	**(533.0)**	**19.5**	**-3.7%**

** 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, impairments of property for business use (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 **Gross Operating Income** was equal to **EUR 679 mln** (EUR 581 mln as at 30 September 2020), with a contribution of the third quarter of 2021 down EUR 19 mln on the previous quarter.

Cost of customer credit

As at 30 September 2021, the Group recognised a **Cost of customer credit** equal to **EUR -34 mln**, against EUR -621 mln in the corresponding period of the previous year. The figure for the first nine months of 2021 includes a positive effect (approximately EUR 124 mln) from reduced adjustments following the update of the macroeconomic scenarios and a negative effect (EUR -152 mln) from the update of the statistical valuation models and from some methodological fine-tuning (of which EUR -99 mln for the LGD model update). The figure in the first nine months of 2020 included a negative effect (approximately EUR 300 mln) due to the changed macroeconomic scenario resulting from the spread of the COVID-19 pandemic.

Even excluding these effects, the aggregate was, in any case, down compared to the first nine months of 2020, mainly due to impairment reversals (about EUR 130 mln) on some significant positions, the risk profile of which has improved due to intervening corporate events. Lastly, the cost of credit in the first nine months of 2021 benefited from the elimination of adjustments on the positions of the "Hydra M" portfolio, deconsolidated at the end of December 2020.

The cost of customer loans in the third quarter of 2021 was a positive EUR 131.5 mln, down by EUR 220 mln compared to the previous quarter due to the afore-mentioned effects of the reduction in adjustments following the update of macroeconomic scenarios and the impairment reversals on some significant positions, partly offset by the afore-mentioned negative effects of the update of statistical valuation models and some methodological fine-tuning.

The ratio between the annualised Cost of customer credit and Loans to customers as at 30 September 2021 reflects a **Provisioning Rate** of **6 bps** (90 bps as at 31 December 2020).

Items	30 09 2021	30 09 2020	Chg. Y/Y		3°Q 2021	2°Q 2021	Chg. Q/Q	
			Abs.	%			Abs.	%
Loans to customers measured at amortised cost	(50.7)	(628.8)	578.1	-91.9%	112.1	(89.3)	201.4	n.m.
Modification gains/(losses)	(6.8)	(4.5)	(2.3)	51.1%	(1.5)	(0.9)	(0.6)	66.7%
Gains/(losses) on disposal/repurchase of loans to customers measured at amortised cost	(0.4)	1.9	(2.3)	n.m.	(0.2)	(0.1)	(0.1)	100.0%
Net change of Loans to customers mandatorily measured at fair value	(6.0)	4.6	(10.6)	n.m.	(1.1)	(0.1)	(1.0)	n.m.
Net provisions for risks and charges on commitments and guarantees issued	29.9	5.8	24.1	n.m.	22.2	1.6	20.6	n.m.
Cost of customer credit	**(34.0)**	**(621.0)**	**587.0**	**-94.5%**	**131.5**	**(88.8)**	**220.3**	**n.m.**

The Group's **Net Operating Income** as at 30 September 2021 was **positive and equal to EUR 648 mln**, against a negative value of EUR 46 mln in the same period of the previous year. The contribution of the third quarter of 2021 was equal to EUR 321 mln, an improvement on the previous quarter, when it had recorded a positive value around EUR 124 mln.

Non-operating income, taxes and profit (loss) for the period

The **profit (loss) for the period** included the following items:

- **Net provisions for risks and charges,** negative and equal to EUR -66 mln**,** an improvement compared to the same period of the previous year (EUR -768 mln) due to lower provisions for legal risks. The contribution of the third quarter of 2021 improved compared to that recorded in the second quarter due to lower provisions for legal risks and guarantees connected to sales of loans.
- **Other gains (losses) on equity investments** equal to **EUR +2 mln**, against EUR 1 mln in the same period of the previous year, with a contribution of EUR +2 mln in the third quarter of 2021.
- **Restructuring/One-off costs** were equal to **EUR -8 mln**, an improvement compared to EUR -129 mln recorded in the same period of the previous year, figure that included expenses (interest, commissions and other administrative expenses) related to the "Hydra M" transaction. The contribution of the third quarter of 2021 (EUR -4 mln) was in line with that of the second quarter.
- **Risks and charges associated with SRF, DGS and similar schemes**, with a balance equal to **EUR -159 mln**, consisting of the amount due by the Group to the Single Resolution Fund (SRF) recognised in the first quarter of 2021 (EUR 67 mln), the additional portion due to the National Resolution Fund (FRN) recognised in the second quarter of 2021 (EUR 22 mln), and the estimated amount due to FITD (DGS) recognised in the third quarter of 2021 (EUR 70 million), an increase 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 -47 mln.** This amount, calculated according to the criteria set forth in Law Decree 59/2016, converted into Law no. 119, 30 June 2016, represents the fee as at 30 September 2021 due on DTA (Deferred Tax Assets) that may 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,** , which includes the impairment of properties held 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 September 2020, the aggregate was negative for EUR 0.4 mln.

Due to the trends discussed above, the Group's **Profit for the period before tax** was equal to **EUR 356 mln**, against a loss of EUR 1,112 mln as at 30 September 2020.

Tax expense (recovery) on income from continuing operations recorded a positive contribution of **EUR 35 mln** (EUR -417 mln as at 30 September 2020) mainly due to the valuation of DTAs.

With reference to taxable income for future years, it should be noted that the valuation was made using the same income projections used for the 2021 Consolidated Half-Yearly Report. The income projections included 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 competent authorities.

Including the net effects of the PPA (EUR -2.7 mln), **the Parent company's net profit (loss) for the period was equal to EUR 388 mln**, against a loss of EUR -1,532 mln in the same period of 2020. The contribution of the third quarter of 2021, equal to EUR 186 mln, was an improvement compared to the previous quarter (EUR 83 mln).

Reclassified balance sheet

Please note that starting from February 2020, the financial statement data are influenced by the effects of the ongoing health crisis.

Reclassified Balance Sheet

Assets	30 09 2021	31 12 2020*	Chg abs.	Chg %
Cash and cash equivalents	610.4	763.8	(153.4)	-20.1%
Loans to central banks	20,940.8	28,526.2	(7,585.4)	-26.6%
Loans to banks	4,855.2	5,452.3	(597.1)	-11.0%
Loans to customers	81,199.8	82,632.3	(1,432.5)	-1.7%
Securities assets	24,961.0	21,623.3	3,337.7	15.4%
Derivatives	2,591.8	3,018.6	(426.8)	-14.1%
Equity investments	1,041.8	1,107.5	(65.7)	-5.9%
Property, plant and equipment/Intangible assets	2,757.9	2,614.2	143.7	5.5%
of which:				
a) goodwill	*7.9*	*7.9*	-	0.0%
Tax assets	1,758.7	1,991.6	(232.9)	-11.7%
Other assets	2,400.5	2,615.2	(214.7)	-8.2%
Total assets	**143,117.9**	**150,345.0**	**(7,227.1)**	**-4.8%**

Liabilities	30 09 2021	31 12 2020*	Chg abs.	Chg %
Direct funding	92,901.5	103,719.3	(10,817.8)	*-10.4%*
a) Due to customers	82,389.2	91,506.9	(9,117.7)	-10.0%
b) Securities issued	10,512.3	12,212.4	(1,700.1)	*-13.9%*
Due to central banks	29,230.2	23,933.6	5,296.6	22.1%
Due to banks	3,019.5	4,484.5	(1,465.0)	-32.7%
On-balance-sheet financial liabilities held for trading	3,325.0	4,545.5	(1,220.5)	-26.9%
Derivatives	2,819.1	3,253.5	(434.4)	*-13.4%*
Provisions for specific use	1,969.0	2,059.2	(90.2)	-4.4%
a) Provision for staff severance indemnities	162.2	166.6	(4.4)	-2.6%
b) Provision related to guarantees and other commitments given	121.5	154.1	(32.6)	-21.2%
c) Pension and other post-retirement benefit obligations	30.7	33.0	(2.3)	-7.0%
d) Other provisions	1,654.6	1,705.5	(50.9)	-3.0%
Tax liabilities	8.0	4.1	3.9	95.1%
Other liabilities	3,593.5	2,572.4	1,021.1	39.7%
Group net equity	6,250.7	5,771.6	479.1	8.3%
a) Valuation reserves	302.3	260.9	41.4	15.9%
d) Reserves	(3,630.7)	(1,684.0)	(1,946.7)	n.m.
f) Share capital	9,195.0	9,195.0	-	-
g) Treasury shares (-)	(4.0)	(313.7)	309.7	-98.7%
h) Net profit (loss) for the period	388.1	(1,686.5)	2,074.6	n.m.
Non-controlling interests	1.4	1.3	0.1	7.7%
Total Liabilities and Shareholders' Equity	**143,117.9**	**150,345.0**	**(7,227.1)**	**-4.8%**

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

Reclassified Balance Sheet - Quarterly Trend							
Assets	**30 09 2021**	**30 06 2021**	**31 03 2021**	**31 12 2020***	**30 09 2020***	**30 06 2020***	**31 03 2020***
Cash and cash equivalents	610.4	587.1	550.3	763.8	662.4	679.9	611.2
Loans to central banks	20,940.8	25,570.5	26,116.8	28,526.2	18,679.7	15,037.8	8,109.5
Loans to banks	4,855.2	4,292.1	4,278.4	5,452.3	4,934.9	5,757.3	4,938.8
Loans to customers	81,199.8	81,355.8	82,259.0	82,632.3	87,098.7	82,510.6	82,206.1
Securities assets	24,961.0	23,121.9	22,562.0	21,623.3	23,041.0	25,569.4	26,006.3
Derivatives	2,591.8	2,689.5	2,757.5	3,018.6	3,023.0	3,129.1	3,233.8
Equity investments	1,041.8	1,027.7	1,069.2	1,107.5	991.8	953.9	892.0
Property, plant and equipment/Intangible assets	2,757.9	2,760.0	2,784.5	2,614.2	2,823.0	2,849.9	2,850.0
of which:							
a) goodwill	*7.9*	*7.9*	*7.9*	*7.9*	*7.9*	*7.9*	*7.9*
Tax assets	1,758.7	1,800.4	1,919.8	1,991.6	2,114.1	2,196.1	2,768.0
Other assets	2,400.5	2,544.7	2,361.3	2,615.2	2,906.0	2,965.8	2,644.0
Total assets	**143,117.9**	**145,749.7**	**146,658.8**	**150,345.0**	**146,274.6**	**141,649.9**	**134,259.7**
Liabilities	**30 09 2021**	**30 06 2021**	**31 03 2021**	**31 12 2020***	**30 09 2020***	**30 06 2020***	**31 03 2020***
Direct funding	92,901.5	94,036.5	99,053.6	103,719.3	98,418.1	97,585.2	95,367.2
a) Due to customers	*82,389.2*	83,315.3	87,124.1	91,506.9	86,827.3	86,139.8	83,680.4
b) Securities issued	10,512.3	10,721.2	11,929.5	12,212.4	11,590.8	11,445.4	11,686.8
Due to central banks	29,230.2	29,305.6	26,373.1	23,933.6	23,994.9	21,330.6	15,997.9
Due to banks	3,019.5	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	3,325.0	3,819.3	3,179.5	4,545.5	3,122.2	2,192.1	2,407.1
Derivatives	2,819.1	2,730.1	2,759.0	3,253.5	3,293.9	3,419.2	3,174.4
Provisions for specific use	1,969.0	2,016.9	2,011.3	2,059.2	1,942.4	1,570.9	1,310.3
a) Provision for staff severance indemnities	162.2	163.3	164.2	166.6	182.1	180.3	166.4
b) Provision related to guarantees and other commitments given	121.5	144.6	147.1	154.1	153.0	152.6	155.3
c) Pension and other post-retirement benefit	30.7	31.4	32.3	33.0	33.1	34.0	35.2
d) Other provisions	1,654.6	1,677.6	1,667.7	1,705.5	1,574.2	1,204.0	953.4
Tax liabilities	8.0	8.0	8.1	4.1	3.0	3.0	3.3
Other liabilities	3,593.5	3,912.3	3,451.0	2,572.4	4,001.0	3,541.4	3,327.7
Group net equity	6,250.7	6,065.3	6,005.4	5,771.6	6,764.2	7,152.2	7,918.0
a) Valuation reserves	302.3	324.7	367.6	260.9	153.5	35.2	(41.5)
d) Reserves	(3,630.7)	(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	9,195.0	10,328.6	10,328.6	10,328.6
g) Treasury shares (-)	(4.0)	(135.5)	(260.7)	(313.7)	(313.7)	(313.7)	(313.7)
h) Net profit (loss) for the period	388.1	202.1	119.3	(1,686.5)	(1,532.1)	(1,081.4)	(239.0)
Non-controlling interests	1.4	1.4	1.4	1.3	1.3	1.4	1.7
Total Liabilities and Shareholders' Equity	**143,117.9**	**145,749.7**	**146,658.8**	**150,345.0**	**146,274.6**	**141,649.9**	**134,259.7**

** Balance sheet figures relating to the quarters of 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 (pursuant to IAS 40).*

Customer funding

As at 30 September 2021 the Group's **Total Funding** was equal to **EUR 197.7 bn**, with a decrease in volumes of EUR 1.0 bn compared to 30 June 2021, due to the decrease in Direct Funding (EUR -1.1 bn). Total Funding was also down on 31 December 2020 (EUR -8.1 bn) due to the decrease in Direct Funding (EUR -10.8 bn) only partly offset by the increase in Indirect Funding (EUR +2.7 bn).

Background

The economic recovery has strengthened mainly due to a further loosening of restrictions on movements and social interaction following the improvement in the health situation. However, prudent spending behaviours still prevail, while savings investment decisions show a marked polarisation between liquidity and insurance products and assets under management, although the accumulation of the former is slowing down following the recovery in consumption and a greater propensity to hold financial assets with better return potential.

The rate of growth of bank deposits held by the private sector continues its recent significant slowdown, falling below 9% per year in August (from 12% at the beginning of the year), a level, however, still well above pre-pandemic levels (+5% at the end of 2019). For consumer households, the increase remained above 6% yoy, in line with the last quarter of last year, with the percentage of precautionary savings remaining high and the opportunity cost low. On the other hand, the growth in deposits in the production sector (non-financial companies and producer households) is slowing down, although there does not seem to be a strong use of liquidity to finance the recovery of investments; annual growth went from above 20% at the end of 2020 to less than +15%. Overall the increase in current accounts was close to EUR 65 bn from the end of last year (against EUR 166 bn in 2020 as a whole): the slowdown was also due to the recovery in spending on products and services, made available again; the decrease in time deposits accelerated (-13% yoy), while the gradual increase in repayable with advance notice continued (+1.5%), supported by postal deposits.

The ample availability of liquidity ensured by the ECB allows banks to reduce foreign funding (-9% per year in deposits from residents abroad) and bond issues (-6% yoy for the stock issued). In the first half of the year, however, some significant placements (around EUR 4 bn) of securities eligible for the purposes of the MREL subordination requirement were made by major banks; in addition, green bond issues (debt securities issued to support sustainable projects) are increasing to almost EUR 3 bn since the start of the year.

Interest rates on deposits of non-financial companies and households decreased further, having fallen to 0.31% in August (-2 bps compared to December 2020); there was a decrease in the interest rate on current accounts (0.02%, an all-time low) and on time deposits, back below 1%. The rate on the stock of bonds also continued to fall and is now below 1.80% (-15 bps compared to the end of last year).

The net inflows of savings to mutual funds exceeded EUR 50 bn in the first eight months of the year, a threshold previously crossed in 2017. Investors have mainly prioritised equity and balanced funds (78% of total net inflows), which are the funds offering the greatest potential for significant returns. Assets under management exceeded EUR 1,200 bn, with an increase of almost 10% compared to the end of 2020, also due to a positive market effect estimated to be around 7%. In the same period, net flows of individual retail portfolio management exceeded EUR 7 bn, with total funds rising above EUR 153 bn (+11% on December 2020). The new production of savings policies by bancassurance (bank and post office branches) also increased significantly although, in the first eight months of the year, it remains below pre-pandemic levels; net deposits remained positive, reaching almost EUR 30 bn in the first half of the year. In this business area, the market seems to be increasingly oriented away from more conservative solutions, to the advantage of classic unit and multi-segment products, seeking to combine the protection of savings with participation in the positive market trend.

Customer Funding										
					Chg Q/Q		Chg 31/12		Chg Y/Y	
	30 09 2021	30 06 2021	31 12 2020	30 09 2020	Abs.	%	Abs.	%	Abs.	%
Direct funding	92,901.5	94,036.5	103,719.3	98,418.1	(1,135.0)	-1.2%	(10,817.8)	-10.4%	(5,516.6)	-5.6%
Indirect funding	104,758.2	104,594.6	102,067.3	99,604.0	163.6	0.2%	2,690.8	2.6%	5,154.2	5.2%
Total funding	**197,659.7**	**198,631.1**	**205,786.6**	**198,022.1**	**(971.4)**	**-0.5%**	**-8,127.0**	**-3.9%**	**(362.4)**	**-0.2%**

Volumes of **Direct Funding** stood at **EUR 92.9 bn**, with a decrease of EUR 1.1 bn compared to the end of June 2021. The decrease is mainly due to the contraction in current accounts (EUR -3.0 bn), driven by the continuation of the actions taken by the Parent Company to optimize the cost of funding, only partly offset by the increase in repurchase agreements (EUR +3.1 bn), in relation to the increased activity of MPS Capital Services. There was also a decrease in time deposits (EUR -0.5 bn), Other forms of funding (EUR -0.5 bn) and bond issues (EUR -0.2 bn).

Compared to the end of December 2020, the aggregate was down by EUR 10.8 bn, with a decline that characterized all technical forms. In particular, there was a decrease in current accounts (EUR -2.8 bn), term deposits (EUR -1.9 bn) and Other forms of funding (EUR -1.9 bn). There was also a decrease in repurchase agreements (EUR -2.5 bn) and in the bond segment (EUR -1.7 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 3.72% (figure last updated in July 2021), down compared to December 2020 (3.93%).

Direct funding

Type of transaction	30 09 2021	30 06 2021	31 12 2020	30 09 2020	Change Q/Q		Change 31.12		Change Y/Y	
					Abs.	%	Abs.	%	Abs.	%
Current accounts	65,140.9	68,155.9	67,988.7	63,606.8	(3,015.0)	-4.4%	(2,847.8)	-4.2%	1,534.1	2.4%
Time deposits	6,924.3	7,379.0	8,827.4	9,544.0	(454.7)	-6.2%	(1,903.1)	-21.6%	(2,619.7)	-27.4%
Reverse repurchase agreements	6,997.5	3,934.4	9,508.4	8,009.9	3,063.1	77.9%	(2,510.9)	-26.4%	(1,012.4)	-12.6%
Bonds	10,512.3	10,721.3	12,212.4	11,590.8	(209.0)	-1.9%	(1,700.1)	-13.9%	(1,078.5)	-9.3%
Other types of direct funding	3,326.5	3,845.9	5,182.4	5,666.6	(519.4)	-13.5%	(1,855.9)	-35.8%	(2,340.1)	-41.3%
Total	**92,901.5**	**94,036.5**	**103,719.3**	**98,418.1**	**(1,135.0)**	**-1.2%**	**(10,817.8)**	**-10.4%**	**(5,516.6)**	**-5.6%**

Indirect Funding was equal to **EUR 104.8 bn**, up by EUR 0.2 bn compared to 30 June 2021 as a result of the growth of the Assets under Management component (EUR +0.3 bn), which benefited from positive net flows partly offset by a negative market effect; the Assets under Custody component was basically unchanged (EUR -0.1 bn).

Compared to 31 December 2020, Indirect Funding grew by EUR 2.7 bn due to the increase in Assets under Management component (EUR +4.0 bn), which benefited from both positive net flows and a positive market effect. There was instead a contraction in the Assets under Custody component (EUR -1.3 bn), due to changes related to a major customer, partly offset by a positive market effect.

Indirect Funding

	30 09 2021	30 06 2021	31 12 2020	30 09 2020	Change Q/Q		Change 31/12		Change Y/Y	
					Abs.	%	Abs.	%	Abs.	%
Assets under management	64,426.6	64,125.4	60,400.3	58,484.1	301.1	0.5%	4,026.3	6.7%	5,942.4	10.2%
Funds	*29,371.3*	*29,245.5*	*26,992.2*	*25,970.2*	*125.8*	*0.4%*	*2,379.1*	*8.8%*	*3,401.1*	*13.1%*
Individual Portfolio under Management	*5,383.2*	*5,288.8*	*5,130.5*	*5,006.0*	*94.4*	*1.8%*	*252.7*	*4.9%*	*377.1*	*7.5%*
Bancassurance	*29,672.1*	*29,591.2*	*28,277.5*	*27,507.9*	*80.9*	*0.3%*	*1,394.6*	*4.9%*	*2,164.2*	*7.9%*
Assets under custody	40,331.6	40,469.1	41,667.0	41,119.8	(137.5)	-0.3%	(1,335.4)	-3.2%	(788.2)	-1.9%
Government securities	*13,554.3*	*13,770.8*	*13,223.5*	*13,714.5*	*(216.5)*	*-1.6%*	*330.7*	*2.5%*	*(160.2)*	*-1.2%*
Others	*26,777.3*	*26,698.3*	*28,443.5*	*27,405.4*	*79.0*	*0.3%*	*(1,666.2)*	*-5.9%*	*(628.0)*	*-2.3%*
Total funding	**104,758.2**	**104,594.6**	**102,067.3**	**99,604.0**	**163.6**	**0.2%**	**2,690.8**	**2.6%**	**5,154.2**	**5.2%**

[12] Deposits and repurchase agreements (excluding those 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 September 2021, the Group's **Loans to Customers** were equal to **EUR 81.2 bn**, with a slight decrease compared to the end of June 2021 (EUR -0.2 bn), as a result of a decrease in repurchase agreements (EUR -0.6 bn), partly offset by an increase in Other loans (EUR +0.3 bn). All other types of funding were basically unchanged.

The aggregate was down by EUR 1.4 bn compared to 31 December 2020, due to a decrease in repurchase agreements (EUR -2.5 bn), in Other loans (EUR -0.7 bn) and in current accounts (EUR -0.2 bn). The mortgage segment instead expanded (EUR +1.8 bn), also as a result of the disbursements made under the government decrees issued following the COVID-19 emergency.

The market share[13] of the Group was 4.50% (last available figure from July 2021), up 8 bps from the end of 2020.

Background

After the exceptional increase recorded last year, as a result of the measures put in place by the Government to facilitate access to credit, there was a moderate slowdown in bank loans from the second quarter of 2021. The rate of growth in loans to the private sector, net of repurchase agreements with central counterparties and adjusted for sales of loans, decreased from 4.7% yoy at the end of 2020 to around 2%. The slowdown was due to the less intense growth of non-financial companies (from +8% to around +1.5%), against an acceleration in loans to households, from +2.3% to almost 4%. The offer conditions remain relaxed, with interest rates close to historical lows and general conditions substantially unchanged compared to previous periods; the opinions of the companies regarding the conditions of access to credit did not indicate significant changes.
Therefore, the slowdown in the growth of loans to companies does not appear to be due to supply policies, but rather to a weakening of their liquidity needs. The extension to the end of the year of the measures to facilitate the exit from the emergency allows companies to continue to have access to medium-term loans at low rates and allows banks to meet the demand for credit with a limited impact on capital requirements. However, the payment suspension was extended only for the principal portion and many companies did not request the extension of the moratoria, proving that their financial condition is fairly solid; recourse to loan guarantees continues in a sustained manner (secured loans exceeded EUR 230 bn), favouring the debt extension process. Demand is driven not only by debt refinancing and renegotiation needs but also by the strengthening of the capital accumulation process, which has already been reflected in the rise of the investment rate.
Bank loans to households were affected by the recovery of the real estate market and of consumption. Sales of homes made a significant recovery from the first months of the year, with a yoy increase also compared to 2019 (+26.1% annual in the second quarter); a significant portion of the savings accumulated has gone into residential investments, encouraged by government incentives such as those for energy and seismic efficiency and for young people. The demand for home mortgages (for more than 80% directed towards fixed-rate products) was significant and actual new disbursements exceeded EUR 42 bn, an historically high level. The relaxation of the restriction measures also gave momentum to the purchase of durable goods, partly due to the good performance of the residential market, producing signs of a recovery in consumer credit.

With regard to interest rates, there was a further decrease both for loans to non-financial companies, with rates below 1.70% (-10 bps on the end of 2020), and for loans to households, with the rate at 2.69% (-9 bps). With regard to new loans, there was instead a differentiated trend between the business and the household segment. For loans to businesses, the average rate continued to fall and since July was under 1.10% (about -25 bps compared to the fourth quarter of last year); for household loans, there was a reversion of the downward trend for new loans of all types; on mortgage loans, in fact, the rate went back above 1.40% (from 1.26% in the fourth quarter of 2020), on consumer credit it settled around 6.40% (+15 bps compared to last year's average) and on other loans it came close to 3%, almost 60 bps more than at the end of 2020.

There is no evidence of a deterioration in credit quality: the increase in bad loans is still limited (+2% annual, net of sales), benefiting from the extension of the moratoria and public guarantees on loans; the ratio of bad loans to loans has fallen to 2.7%. Among non-performing loans, there was an increase (almost EUR 800 mln in the first half of the year, equal to 25%) in the loans past due or overdrawn, partly due to the entry into force of the new EBA regulations on the identification of exposures in a state of prudential default. In the same period, the ratio of new non-performing loans to total loans fell, for significant banks, to 1%, one-tenth below the level recorded in 2020.

[13] Loans to ordinary resident customers, including bad loans and net of repurchase agreements with central counterparties.

Loans to customers										
Type of transaction	30 09 2021	30 06 2021	31 12 2020	30 09 2020	Change Q/Q		Change 31.12		Change Y/Y	
					Abs.	%	Abs.	%	Abs.	%
Current accounts	2,870.9	2,823.6	3,038.5	3,648.8	47.3	1.7%	(167.6)	-5.5%	(777.9)	-21.3%
Mortgages	57,014.3	56,970.5	55,200.2	53,416.5	43.8	0.1%	1,814.1	3.3%	3,597.8	6.7%
Other forms of lending	12,935.4	12,655.2	13,616.3	14,420.6	280.2	2.2%	(680.9)	-5.0%	(1,485.2)	-10.3%
Repurchase agreements	6,094.8	6,668.1	8,617.1	9,829.3	(573.3)	-8.6%	(2,522.3)	-29.3%	(3,734.5)	-38.0%
Non performing loans	2,284.4	2,238.4	2,160.2	5,783.5	46.0	2.1%	124.2	5.7%	(3,499.1)	-60.5%
Total	**81,199.8**	**81,355.8**	**82,632.3**	**87,098.7**	**(156.0)**	**-0.2%**	**(1,432.5)**	**-1.7%**	**(5,898.9)**	**-6.8%**
Stage 1	*67,139.8*	*64,223.7*	*65,449.2*	*64,641.6*	*2,916.1*	*4.5%*	*1,690.6*	*2.6%*	*2,498.2*	*3.9%*
Stage 2	*11,632.9*	*14,763.5*	*14,901.2*	*16,523.4*	*(3,130.6)*	*-21.2%*	*(3,268.3)*	*-21.9%*	*(4,890.5)*	*-29.6%*
Stage 3	*2,271.2*	*2,222.4*	*2,138.7*	*5,759.6*	*48.8*	*2.2%*	*132.5*	*6.2%*	*(3,488.4)*	*-60.6%*
Performing loans measured at fair value	*142.6*	*130.2*	*121.8*	*150.1*	*12.4*	*9.5%*	*20.8*	*17.1%*	*(7.5)*	*-5.0%*
Non-performing loans measured at fair value	*13.3*	*16.0*	*21.4*	*24.1*	*(2.7)*	*-16.9%*	*(8.1)*	*-37.9%*	*(10.8)*	*-44.8%*

Loans to customers measured at amortised cost		Stage 1	Stage 2	Stage 3	**Total**
30 09 2021	Gross exposure	67,221.3	11,996.8	4,209.7	**83,427.8**
	Adjustments	81.5	363.9	1,938.5	**2,383.9**
	Net exposure	67,139.8	11,632.9	2,271.2	**81,043.9**
	Coverage ratio	*0.1%*	*3.0%*	*46.0%*	***2.9%***
	% on Loans to customers measured at amortised cost	*82.8%*	*14.4%*	*2.8%*	***100.0%***

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 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 09 2020	Gross exposure	64,713.6	17,083.6	11,374.8	**93,171.9**
	Adjustments	72.0	560.2	5,615.2	**6,247.4**
	Net exposure	64,641.6	16,523.4	5,759.6	**86,924.5**
	Coverage ratio	*0.1%*	*3.3%*	*49.4%*	***6.7%***
	% on Loans to customers measured at amortised cost	*74.4%*	*19.0%*	*6.6%*	***100.0%***

The gross exposure of loans classified as Stage 1 was equal to EUR 67.2 bn, an increase both compared to 30 June 2021 (EUR 64.3 bn) and to 31 December 2020 (EUR 65.5 bn).

The gross exposure of loans classified as Stage 2 was equal to EUR 12 bn, a decrease compared to EUR 15.3 bn recorded as at 30 June 2021 and EUR 15.4 bn as at 31 December 2020.

The two trends are entirely due to the update of the forward-looking scenarios on which a clear improvement was observed compared to the scenarios used until now. The scenarios used for accounting purposes as at December 2020 and June 2021 were the 2020-2022 scenarios, therefore including the recessionary peak of 2020, while for the purposes of this Report, the scenarios have been updated using the latest macroeconomic forecasts for the 2022-2024 horizon. The overall trend shows a substantial stability of the three stages both in absolute levels and in coverage terms: therefore, there is no sign of a deterioration of the portfolio due to the gradual expiry of the moratoria granted to customers *ex lege* (the amount of which is now insignificant for retail customers and gradually decreasing for business customers).

Non-performing exposures of loans to customers

Total non-performing loans to customers of the Group as at 30 September 2021 were equal to **EUR 4.3 bn** in terms of gross exposure, a small increase both compared to 30 June 2021 (EUR 4.2 bn) and to 31 December 2020 (EUR 4.0 bn). In particular,

- the gross bad loan exposure, equal to EUR 1.7 bn, was slightly up both compared to 30 June 2021 (EUR 1.6 bn) and to 31 December 2020 (EUR 1.5 bn);
- the gross unlikely-to-pay loan exposure, equal to EUR 2.5 bn, was down by approximately 1% compared to 30 June 2021 and slightly up compared to 31 December 2020 (EUR 2.4 bn);
- the gross non-performing past due loan exposure, equal to EUR 89 mln, was down compared to 30 June 2021 (EUR 99 mln) and up compared to 31 December 2020 (EUR 76 mln).

As at 30 September 2021, the Group's **net exposure in terms of non-performing loans to Customers** was equal to **EUR 2.3 bn**, slightly up both compared to 30 June 2021 (EUR 2.2 bn) and to 31 December 2020 (EUR 2.2 bn).

The ratio between net non-performing loans to customers and total net loans to customers as at 30 September 2021 was 2.8%, unchanged compared to 30 June 2021 (2.8%) and slightly up compared to December 2020 (2.6%). In particular, the percentage incidence of bad loans (0.7%) and non-performing past due (0.1%) remain unchanged with respect to both June 2021 and December 2020. The percentage incidence of unlikely-to-pay loans, equal to 2%, remains unchanged compared to June 2021 and slightly up compared to December 2020 (1.9%).

Loans to customers		Bad loans	Unlikely to pay	Non-performing Past due Loans	**Total Non-performing loans to customers**	Perfoming loams	**Total**
30 09 2021	Gross exposure	1,706.8	2,472.8	89.4	**4,269.0**	79,360.7	**83,629.7**
	Adjustments	1,107.9	854.1	22.5	**1,984.5**	445.4	**2,429.9**
	Net exposure	598.9	1,618.7	66.9	**2,284.5**	78,915.3	**81,199.8**
	Coverage ratio	*64.9%*	*34.5%*	*25.2%*	***46.5%***	*0.6%*	***2.9%***
	% on Loans to customers	*0.7%*	*2.0%*	*0.1%*	***2.8%***	*97.2%*	***100.0%***
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 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 09 2020	Gross exposure	6,286.5	4,891.9	265.6	**11,444.0**	81,947.5	**93,391.5**
	Adjustments	3,430.1	2,167.5	62.8	**5,660.4**	632.4	**6,292.8**
	Net exposure	2,856.4	2,724.4	202.8	**5,783.6**	81,315.1	**87,098.7**
	Coverage ratio	*54.6%*	*44.3%*	*23.6%*	***49.5%***	*0.8%*	***6.7%***
	% on Loans to customers	*3.3%*	*3.1%*	*0.2%*	***6.6%***	*93.4%*	***100.0%***

As at 30 September 2021, the **coverage ratio of non-performing loans** was 46.5%, slightly down compared to 30 June 2021 (46.9%) mainly due to the reduction in the coverage ratio of unlikely-to-pay loans (from 36.3% to 34.5%) and non-performing past due loans (from 26.0% to 25.2%), only partly offset by the increase in the coverage ratio of bad loans (from 64.5% to 64.9%). Compared to 31 December 2020, the coverage ratio of non-performing loans was instead up from 46.2% to 46.5% due to the increase in the coverage ratio of bad loans (from 62.3% to 64.9%), only partly offset by the decrease in the coverage ratio of unlikely-to-pay loans (from 36.8% to 34.5%) and non-performing past due loans (from 27.8% to 25.2%).

The temporary decrease in the coverage of unlikely-to-pay loans, both with respect to 31 December 2020 and with respect to 30 June 2021, was mainly due the recovery in value recorded on a significant position, which was reclassified from unlikely-to-pay to performing on 1 October 2021 (if the reclassification had taken place in September, the coverage of unlikely-to-pay loans would have stood at 38.2% and the overall coverage of non-performing loans at 49.2%).

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.	92.1	(28.2)	(9.7)	**54.2**	(339.1)	**(284.9)**
	%	5.7%	-1.1%	-9.8%	**1.3%**	-0.4%	**-0.3%**
31.12	abs.	208.1	34.8	13.8	**256.7**	(1,704.6)	**(1,447.9)**
	%	13.9%	1.4%	18.3%	**6.4%**	-2.1%	**-1.7%**
Y/Y	abs.	(4,579.7)	(2,419.1)	(176.2)	**(7,175.0)**	(2,586.8)	**(9,761.8)**
	%	-72.8%	-49.5%	-66.3%	**-62.7%**	-3.2%	**-10.5%**

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	*0.4%*	*-1.8%*	*-0.9%*	***-0.4%***	*-0.2%*	***-0.1%***
31.12	*2.6%*	*-2.3%*	*-2.6%*	***0.3%***	*-0.2%*	***0.0%***
Y/Y	*10.3%*	*-9.8%*	*1.5%*	***-3.0%***	*-0.2%*	***-3.8%***

Trend of non-performing loans to customers	30 09 2021		3°Q 2021		2°Q 2021		30 09 2020		Chg. 3°Q 2021/2°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**	**4,214.8**	**1,614.7**	**4,089.7**	**1,544.0**	**11,907.9**	**6,423.5**	**125.1**	**3.1%**	**(7,895.6)**	**-66.3%**
Increases from performing loans	727.2	25.8	205.3	17.1	298.6	5.6	739.9	56.2	(93.3)	-31.2%	(12.7)	-1.7%
Transfers to performing loans	(131.6)	(15.2)	(24.2)	(0.2)	(47.7)	-	(149.9)	(0.4)	23.5	-49.3%	18.3	-12.2%
Collections (including gains on disposals)	(356.1)	(51.1)	(140.2)	(15.7)	(107.0)	(20.1)	(692.0)	(295.1)	(33.2)	31.0%	335.9	-48.5%
Write-offs (including loss on disposal)	(53.9)	(36.4)	(14.4)	(9.0)	(23.2)	(18.7)	(195.3)	(103.6)	8.8	-37.9%	141.4	-72.4%
+/- Other changes	71.1	285.0	27.7	99.9	4.4	103.9	(166.6)	205.9	23.3	n.m.	237.7	n.m.
Gross exposure, closing balance	**4,269.0**	**1,706.8**	**4,269.0**	**1,706.8**	**4,214.8**	**1,614.7**	**11,444.0**	**6,286.5**	**54.2**	**1.3%**	**(7,175.0)**	**-62.7%**
Opening balance of overall adjustments	**(1,852.1)**	**(933.7)**	**(1,976.4)**	**(1,041.5)**	**(1,939.3)**	**(999.7)**	**(5,800.1)**	**(3,441.5)**	**(37.1)**	**1.9%**	**3,948.0**	**-68.1%**
Adjustments / write-backs	(189.9)	(98.1)	(21.9)	(33.4)	(68.3)	(20.6)	(463.6)	(244.1)	46.4	-67.9%	273.7	-59.0%
+/- Other changes	57.5	(76.1)	13.8	(33.0)	31.2	(21.2)	603.3	255.5	(17.4)	-55.8%	(545.8)	-90.5%
Closing balance of overall adjustments	**(1,984.5)**	**(1,107.9)**	**(1,984.5)**	**(1,107.9)**	**(1,976.4)**	**(1,041.5)**	**(5,660.4)**	**(3,430.1)**	**(8.1)**	**0.4%**	**3,675.9**	**-64.9%**
Net exposure, closing balance	**2,284.5**	**598.9**	**2,284.5**	**598.9**	**2,238.4**	**573.2**	**5,783.6**	**2,856.4**	**46.1**	**2.1%**	**(3,499.1)**	**-60.5%**

Other financial assets/liabilities

As at 30 September 2021, the Group's **Securities Assets** were equal to **EUR 25.0 bn**, up compared to 30 June 2021 (EUR +1.8 bn) due to the increase in financial assets held for trading, mainly attributable to the subsidiary MPS Capital Services, while the other components were unchanged.

Securities holdings were also up compared to 31 December 2020 (EUR +3.3 bn), due to the increase in the trading component mainly attributable to the subsidiary MPS Capital Services, offset only in part by the decrease in financial assets measured at fair value through other comprehensive income and in the amortised cost component. It should be noted that the market value of the securities included in Loans to customers at amortised cost was equal to EUR 9,498.6 mln (with implicit capital gains of around EUR 180.6 mln).

On-balance-sheet financial liabilities held for trading, mainly attributable to the subsidiary MPS Capital Services, were equal to EUR 3.3 bn as at 30 September 2021, down both compared to 30 June 2021 (EUR -0.5 bn) and to 31 December 2020 (EUR -1.2 bn).

As at 30 September 2021, the **Net position in derivatives, equal to EUR -227 mln**, had worsened compared to 30 June 2021 (EUR -41 mln) and improved compared to 31 December 2020 (EUR -235 mln).

Items	30 09 2021	30 06 2021	31 12 2020	30 09 2020	Chg. Q/Q		Chg. 31.12		Chg. Y/Y	
					Abs.	%	Abs.	%	Abs.	%
Securities assets	24,961.0	23,121.9	21,623.3	23,041.0	1,839.1	8.0%	3,337.7	15.4%	1,920.0	8.3%
Financial assets held for trading	*9,281.1*	*7,442.1*	*5,247.1*	*6,220.6*	*1,839.0*	*24.7%*	*4,034.0*	*76.9%*	*3,060.5*	*49.2%*
Financial assets mandatorily measured at fair value	*331.4*	*333.0*	*317.8*	*491.8*	*(1.6)*	*-0.5%*	*13.6*	*4.3%*	*(160.4)*	*-32.6%*
Financial assets measured at fair value through other comprehensive income	*5,296.1*	*5,313.0*	*5,777.9*	*5,933.0*	*(16.9)*	*-0.3%*	*(481.8)*	*-8.3%*	*(636.9)*	*-10.7%*
Financial assets held for sale	*(0.0)*	*(0.0)*	*0.6*	*17.7*	*0.0*	*0.0%*	*(0.6)*	*n.m.*	*(17.7)*	*-100.0%*
Loans to customers measured at amortised cost	*9,318.0*	*9,306.8*	*9,520.5*	*9,606.1*	*11.2*	*0.1%*	*(202.5)*	*-2.1%*	*(288.1)*	*-3.0%*
Loans to banks measured at amortised cost	*734.4*	*727.0*	*759.4*	*771.8*	*7.4*	*1.0%*	*(25.0)*	*-3.3%*	*(37.4)*	*-4.8%*
On-balance-sheet financial liabilities held for trading	(3,325.0)	(3,819.3)	(4,545.5)	(3,122.2)	494.3	-12.9%	1,220.5	-26.9%	(202.8)	6.5%
Net positions in Derivatives	(227.3)	(40.6)	(234.9)	(270.9)	(186.7)	n.m.	7.6	-3.2%	43.6	-16.1%
Other financial assets and liabilities	**21,408.7**	**19,262.0**	**16,842.9**	**19,647.9**	**2,146.7**	**11.1%**	**(2,805.0)**	**-14.3%**	**1,760.8**	**9.0%**

Items	30 09 2021		30 06 2021		31 12 2020		30 09 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	24,385.7	-	22,536.7	-	21,124.5	-	22,586.6	-
Equity instruments and Units of UCITS	575.3	-	585.2	-	498.8	-	454.4	-
Loans	-	3,325.0	-	3,819.3	-	4,545.5	-	3,122.2
Total	**24,961.0**	**3,325.0**	**23,121.9**	**3,819.3**	**21,623.3**	**4,545.5**	**23,041.0**	**3,122.2**

Interbank position

As at 30 September 2021, the **net interbank position** of the Group stood at **EUR 6.5 bn** of net funding, against EUR 3.3 bn of net funding as at 30 June 2021. The change was mainly due to the decrease in deposits on the compulsory reserve account.

Compared to 31 December 2020 (when the net interbank position was equal to EUR 5.6 bn of net loans), the change was due to further access to TLTRO III auctions for a total of EUR 5.5 bn, accompanied by a decrease in deposits on the compulsory reserve account and in payables to banks, resulting from a decrease in repurchase agreements.

Interbank balances

					Change Q/Q		Change 31.12		Change Y/Y	
	30/09/21	30/06/21	31/12/20	30/09/20	Abs.	%	Abs.	%	Abs.	%
Loans to banks	4,855.2	4,292.1	5,452.3	4,934.9	563.1	13.1%	(597.1)	-11.0%	(79.7)	-1.6%
Deposits from banks	3,019.5	3,854.3	4,484.5	4,733.6	(834.8)	-21.7%	(1,465.0)	-32.7%	(1,714.1)	-36.2%
Net position with banks	**1,835.7**	**437.8**	**967.8**	**201.3**	**1,397.9**	**n.m.**	**867.9**	**89.7%**	**(430.1)**	**n.m.**
Loans to central banks	20,940.8	25,570.5	28,526.2	18,679.7	(4,629.7)	-18.1%	(7,585.4)	-26.6%	2,261.1	12.1%
Deposits from central banks	29,230.2	29,305.6	23,933.6	23,994.9	(75.4)	-0.3%	5,296.6	22.1%	5,235.3	21.8%
Net position with central banks	**(8,289.4)**	**(3,735.1)**	**4,592.6**	**(5,315.2)**	**(4,554.3)**	**n.m.**	**(12,882.0)**	**-280.5%**	**(2,974.2)**	**56.0%**
Net interbank position	**(6,453.7)**	**(3,297.3)**	**5,560.4**	**(5,113.9)**	**(3,156.4)**	**95.7%**	**(12,014.1)**	**-216.1%**	**(1,339.8)**	**26.2%**

As at 30 September 2021, the operational liquidity position showed an unencumbered **Counterbalancing Capacity** equal to **EUR 25.6 bn**, down by EUR 5.4 bn compared to 30 June 2021. There was also a decrease compared to 31 December 2020 (EUR -7.5 bn) due to lower commercial funding and to the maturing of market bonds (in particular, due to the maturing of covered bonds in the second quarter of 2021).

Other assets

Item Other assets includes the tax credits related to the "Rilancio" Decree-Law, which has introduced tax incentives for specific energy and anti-seismic efficiency initiatives, the installation of photovoltaic systems and infrastructure for recharging electric vehicles in buildings ("Superbonus").

As at 30 September 2021, the Group had finalised approximately 3,000 purchase transactions, of which roughly 74% with private parties and condominiums, for a nominal value of EUR 74.2 mln, of which EUR 20.9 mln can be already used this year and EUR 53.2 mln can be used from 2022. The carrying amount of these receivables recognised under "Other Assets" was equal to EUR 65 mln as at 30 September 2021.

It should also be noted that, as at 31 October 2021, the Group had received requests for the sale of these receivables for a total amount of approximately EUR 1.2 bn, currently being assessed/processed.

Shareholders' equity

As at 30 September 2021, the **Shareholders' equity of the Group and non-controlling interests** was equal to **EUR 6.3 bn,** up by EUR 185 mln compared to 30 June 2021 due to the profit recorded in the third quarter. The net effect of the sale of treasury shares (decrease in treasury shares of EUR 131.5 mln offset by the negative trading result equal to EUR 114.1 mln, recorded in other Reserves) was, in fact, substantially offset by the reduction in the valuation reserves.

The equity of the Group and non-controlling interests was up EUR 479 mln from 31 December 2020, due to i) the increase in valuation reserves, ii) the profit for the period and iii) the net effect of the decrease in treasury shares for EUR 309.7 mln as a result of sales carried out by the Group, offset by the negative trading result of EUR 267.2 mln recognised in Other Reserves.

Reclassified Consolidated Balance Sheet

Equity	30 09 2021	30 06 2021	31 12 2020*	30 09 2020*	Chg Q/Q		Chg 31/12		Chg Y/Y	
					Abs.	%	Abs.	%	Abs.	%
Group Net Equity	6,250.7	6,065.3	5,771.6	6,764.2	185.4	3.1%	479.1	8.3%	(513.5)	-7.6%
a) Valuation reserves	302.3	324.7	260.9	153.5	(22.4)	-6.9%	41.4	15.9%	148.8	96.9%
d) Reserves	(3,630.7)	(3,521.0)	(1,684.0)	(1,872.1)	(109.7)	3.1%	(1,946.7)	n.m.	(1,758.6)	93.9%
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 (-)	(4.0)	(135.5)	(313.7)	(313.7)	131.5	-97.0%	309.7	n.m.	309.7	-98.7%
h) Net profit (loss) for the period	388.1	202.1	(1,686.5)	(1,532.1)	186.0	92.0%	2,074.6	n.m.	1,920.2	n.m.
Non-controlling interests	1.4	1.4	1.3	1.3	-	0.0%	0.1	7.7%	0.1	7.7%
Shareholders' equity of the Group and Non-controlling interests	**6,252.1**	**6,066.7**	**5,772.9**	**6,765.5**	**185.4**	**3.1%**	**479.2**	**8.3%**	**(513.4)**	**-7.6%**

** 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 (pursuant to 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, 8 April 2020, transposed with amendments by Law no. 40, 5 June 2020, as amended by Law no. 178, 30 December 2020, resolved to refer the decisions set forth in article 2446 paragraph 2 of the Italian Civil Code, concerning the reduction in the share capital, to the Shareholders' Meeting that will be called to resolve on the capital strengthening measures, to take into account the losses carried forward and the loss for the year, and therefore to carry forward 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 a Pillar 1 minimum requirement ("P1R") equal to 8% pursuant to Art. 92 of the CRR and a Pillar 2 additional requirement ("P2R") equal to 2.75%, which must be met for at least 56.25% with CET1 and for at least 75% with Tier 1.

With regard to the *Pillar II Capital Guidance* (P2G), the ECB expects the Parent Company to comply, on a consolidated basis, with a 1.3% requirement, to be fully met with Common Equity Tier 1 capital in addition to the overall capital requirement (OCR). Failing to comply with this capital guideline is not, at any rate, equivalent to failing to comply with the 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* equal to 0.19% (0.25% from 1 January 2022), having 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 September 2021:

- CET1 Ratio of 8.74%;
- Tier 1 Ratio of 10.76%;
- 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 0.003% 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.

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

- 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 September 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 1,250% (*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 September 2021 in the various countries in which the MPS Group operates and the requirements set by national authorities.

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

Categories / Values	30 09 2021	31 12 2020	Chg. 31 12 2020	
			Abs.	%
OWN FUNDS				
Common Equity Tier 1 (CET1)	5,948.7	6,053.3	(104.6)	-1.73%
Tier 1 (T1)	5,948.7	6,053.3	(104.6)	-1.73%
Tier 2 (T2)	1,737.0	1,806.6	(69.6)	-3.85%
Total capital (TC)	7,685.7	7,859.9	(174.2)	-2.22%
RISK-WEIGHTED ASSETS				
Credit and Counterparty Risk	33,215.4	35,409.6	(2,194.2)	-6.20%
Credit valuation adjustment risk	890.5	440.4	450.1	102.20%
Market risks	2,777.6	2,487.4	290.2	11.67%
Operational risk	11,322.7	11,565.6	(242.9)	-2.10%
Total risk-weighted assets	**48,206.2**	**49,903.0**	**(1,696.8)**	**-3.40%**
CAPITAL RATIOS				
CET1 capital ratio	**12.34%**	**12.13%**	**0.21%**	
Tier1 capital ratio	**12.34%**	**12.13%**	**0.21%**	
Total capital ratio	**15.94%**	**15.75%**	**0.19%**	

Compared to 31 December 2020, CET1 decreased by EUR -105 mln, mainly due to the following:

- profit for the period equal to EUR +202 mln (as at 30 June 2021, as the profit for the third quarter has not been calculated);
- decrease in treasury shares as a result of the sale of a portion of these, with an overall effect on shareholders' equity of EUR +42 mln;
- improvement in the balance of the Other Comprehensive Income reserve for a total of EUR +42 mln, including the net positive effect of the revaluation of properties held for business use (IAS 16) equal to EUR 165 mln, partly offset by the decline in valuation reserves on debt securities;
- increase in deductions related to DTAs, securitisations and intangible assets (EUR -42 mln), as well as decrease in the non-deductible deductions related to significant financial investments and DTAs (EUR +104 mln);
- decrease in the neutralisation of the impact of IFRS 9 related 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 -263 mln, due to the filter falling from 70% to 50%;
- sterilisation of the capital impact associated with the increase in impairment reversals on loans recognised in the period as at 30 September 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 reversals, expected to be equal to 100% in 2021: as at 30 September, this effect was equal to EUR -157 mln (including the related tax effect);
- additional deduction on CET1 (pursuant to Article 3 of the CRR Regulation) equal to EUR -60 mln, carried out to implement the minimum coverage requirements for non-performing loans as defined in the SREP decision and in the Addendum to the ECB Guidelines ("calendar provisioning").

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

Tier 2 fell by EUR -69.6 mln compared to the end of December 2020, due to the reduction in the contribution to Tier 2 of the excess impairment reversals over expected losses.

Hence, the Total Capital Ratio reflects an overall decrease in own funds equal to EUR -174 mln.

RWAs decreased by EUR 1.7 bn. Notably, there was a decrease in the RWAs related to credit and counterparty risk (EUR -2.2 bn): this was the result of public guarantees on new disbursements and the reduction in RWAs related to standard credit risk. The following should also be noted: an increase in CVA risk (EUR 450 mln), mainly due to the new CRR II calculation methods; an increase in RWAs for market risks (EUR +290.2 mln) and a decrease for operational risk (EUR -242.9 mln).

It should be noted that, in March 2020, the ECB announced a series of supervisory measures that provide for a relaxation of capital requirements and greater flexibility in supervisory burdens 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 specified by the 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 changes to capital requirement regulations, in May 2021 the final decision was received concerning the two ECB inspections (IMI 4357 and 5258) for the revision of the AIRB models carried out by the Group in 2019 (Model Change 2019). The new AIRB models were implemented in production starting from 30 June 2021.

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 was implemented from the third quarter of 2021 with the estimated RWA increase around EUR 2.8 bn. This increase will occur gradually over the next twelve months, as it is entirely attributable to the worsening of the default probabilities, which will be updated at the natural expiry of each individual rating (validity 12 months, except for significant changes observed on the individual scores).

In 2021 the Group will also re-estimate the models to ensure full alignment with the EBA Guidelines (EBA-GL-2017-16), with an estimated RWA increase of an additional EUR 3.7 bn. This new estimate will be reviewed by the ECB in 2022 and the impact will be included in the capital requirements not before the fourth quarter of 2022.

Disclosure on risks

Main risks and uncertainties

Detailed information on the risks and uncertainties to which the Group is exposed is provided in the Consolidated Financial Statements as at 31 December 2020, to which reference is made. The risks and uncertainties most significant at the moment are described below.

Risks linked to the prospective capital shortfall

The Group estimates a potential prospective capital shortfall on 1 January 2023, and the EBA 2021 stress test have shown results consistent with the Capital Plan approved in January, which envisages a capital strengthening of EUR 2.5 bn.

In the absence of a "structural solution", DG Comp and ECB are expected to assess, to the extent of their respective competences, the Italian government's intervention based on the Parent Company's standalone viability in the light of the indications provided in the new 2022-2026 business plan. It cannot be excluded that, as part of this assessment, unforeseeable elements might arise that could affect the Parent Company's capital strengthening process and the structure and feasibility of a capital increase at market conditions. If the capital increase does not take place under market conditions, the Italian government intervention will be qualified by DG Comp as "State aid", and the cost sharing principle provided for under the regulations in force would be applied.

Lastly, if DG Comp and the ECB were to conclude that the Group is not viable, winding-up proceedings or, if the winding up was not found to be in the public interest, the orderly liquidation of the Group would be initiated.

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.

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 business 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 nine months 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 use of the resources made available by European countries through debt-sharing instruments, 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, which will have considerably increased in the meantime.

If, as expected, the serious situation caused by the pandemic 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" decree-laws. Measures such as the credit moratorium and public guarantees on new loans have in fact been key 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 (Cyber Security Risk) there are no significant updates to the initiatives already undertaken and set out in the 2020 financial statements.

Exposure to sovereign debt risk

A breakdown of the Group's exposure to sovereign debt risk in government bonds, loans and credit derivatives as at 30 September 2021 is provided below.

The exposure is 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	-	-	-	-	-
Belgium	5.0	4.1	8.0	6.7	-	-	-
France	10.0	9.6	15.0	14.0	7.4	-	-
Germany	3.0	3.1	-	-	-	-	-
Italy	4,886.8	4,702.1	4,261.0	4,321.3	5,893.7	1,993.2	3,213.6
Portugal	-	-	15.0	17.0	2.5	-	-
Romania	-	-	15.0	15.3	-	-	-
Spain	35.0	37.2	10.0	10.2	1,393.8	-	-
United States	-	-	60.5	63.7	-	-	-
Other Countries	5.1	5.2	(0.1)	-	-	-	-
Total 30 09 2021	**4,955.2**	**4,771.3**	**4,384.4**	**4,448.2**	**7,297.4**	**1,993.2**	**3,213.6**
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 September 2021, the residual duration of the exposure to sovereign debt was 4.7 years.

Main types of legal, employment law, tax and complaint risks

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 for risks and charges for disputes and out-of-court claims considered to have a “likely” risk, using statistical or analytical criteria.

The most significant events occurred in the third quarter of 2021 are described below. For more details on legal, employment law and tax disputes, reference should be made to the Half-yearly financial report as at 30 June 2021.

Legal disputes and out-of-court claims

The following were pending as at 30 September 2021:

- legal disputes with total relief sought, where quantified, equal to EUR 4.8 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 “potential”;
  - approx. EUR 1.6 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 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 0.01 bn as relief sought in disputes for which there is a "potential" risk of losing the case.

On 19 October 2021, in execution of the settlement agreement reached with the Fondazione Monte dei Paschi di Siena on 21 July 2021 and approved by the Parent Company's Board of Directors on 5 August 2021, Banca MPS paid the amount of EUR 150 mln. As a result of the finalisation of this transaction, Banca MPS has reached a final settlement on claims equal to EUR 3.8 bn in total.

Considering also the effects of the conclusion of the above-mentioned agreement, concluded after 30 September 2021, the total relief sought extrajudicially would be around EUR 1.2 bn. In particular:

- approx. EUR 1.2 bn as relief sought in disputes for which there is a “likely” risk of losing the case;
- approx. EUR 0.01 bn as relief sought in disputes for which there is a "potential" risk of losing the case.

Disputes regarding compound interest, interest rates and conditions

For this type of dispute, provisions for risks have been made equal to EUR 123.3 mln(against total relief sought of EUR 293.8 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

For this type of dispute, as at 30 September 2021, provisions for risks equal to EUR 19.0 mln have been made (against a total relief sought equal to EUR 115.9 mln), against EUR 26.2 mln recognised as at 31 December 2020 (against a total relief sought equal to EUR 131.4 mln).

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

For this type of dispute, provisions for risks equal to EUR 6.9 mln have been made (against a total relief sought equal to EUR 20.5 mln), compared to EUR 8.1 mln recognised as at 31 December 2020 (against relief sought equal to EUR 24.0 mln).

Dispute with purchasers of subordinated bonds issued by Group companies

The total relief sought for these disputes was EUR 30.8 mln as at 30 September 2021, down compared to 31 December 2020 (EUR 49.9 mln). The focus of the opposing claims concerns the lack of disclosure and/or in any case violations of specific regulations on financial intermediation. As at 30 September 2021, provisions have been made equal to EUR 14.3 mln (down by EUR 15.3 mln compared to 31 December 2020).

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

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

Type of dispute	30/09/21	30/06/21	31/03/21	31/12/20
Civil dispute	703	677	676	662
Filed civil claim cp 29634/14	137	137	137	137
Filed civil claim cp 955/16 *	159	158	159	177
Out-of-court claims **	4,721	4,693	4,672	4,698
Total relief sought	**5,720**	**5,665**	**5,644**	**5,674**

(*) The decrease in relief sought compared to 31 December 2020 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 from the proceedings. The relief sought had been considered to be at likely risk.
(**) On 19 October 2021, in execution of the settlement agreement reached with the Fondazione Monte dei Paschi di Siena on 21 July 2021 and approved by the Parent Company's Board of Directors on 5 August 2021, Banca MPS paid the amount of EUR 150 mln. Considering the effects related to the completion of the transaction after 30 September 2021, the total relief sought was reduced by EUR 3.8 bn. The increase in the relief sought compared to 31/12/20 was due to new claims received in the first three quarters of 2021.

Criminal proceeding no. 29634/14

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

The Parent Company, as civilly liable person (not accused pursuant to Legislative Decree 231/2001 as a result of a previous plea bargaining) was convicted – jointly with the accused natural persons and the two foreign banks – and ordered to pay damages to the civil parties still making an appearance, to be settled in separate civil proceedings, having the Court rejected the request to make available an amount on a provisional and immediately enforceable basis, 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 ruling of first instance, as the civilly liable party, 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 15 October 2020, the Court of Milan read the conclusion of the ruling of first instance, registered under number 10748/20, sentencing all accused natural persons and the Parent Company pursuant to Italian Legislative Decree 231/01. The grounds of the ruling were filed on 7 April 2021.

In the grounds of the ruling, the Court reviewed the acts of which the defendants were charged with reference to the incriminating circumstances pursuant to art. 2622 of the Italian Civil Code (false disclosure) and 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 related to market manipulation in regard to the 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 of 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, pursuant to art. 2049 of the Italian Civil Code, in separate civil proceedings.

In the grounds of the ruling, the exclusion from the criminal proceedings of 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 ruling of first instance, as the civilly liable party, jointly and severally liable with the defendants, having administrative liability under Italian Legislative Decree 231/2001.

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 in the bankruptcy proceeding of Siena Calcio, in the criminal proceedings involving, together with Massimo Mezzaroma, Giuseppe Mussari with two other former executives and one current employee of the Group.
The dispute object of these criminal proceedings, pursuant to art. 223 par. 2 no. 2 of the Italian Bankruptcy Law, concerns the transaction, carried out between the end of 2011 and the beginning of 2012, for the sale of the trademarks of A.C. Siena S.p.A. to Newco B&W Communication s.r.l., a transaction that was conditional to the disbursement of a EUR 22 mln loan by the Parent Company to enable B&W to pay the price.
A claim is made against the Parent Company for monetary and non-monetary damages jointly and severally with these representatives and employees pursuant to art. 2049 of the Italian Civil Code. The relief sought is not exactly quantified, however, the liquidator has stated that the damage to the company assets amounts to at least EUR 65.1 mln, given by the difference between the liabilities in bankruptcy and the recoverable assets.
At the hearing on 18 February 2021, the Parent Company has appeared as the 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 sent to trial.
At the hearing on 5 October, preliminary questions were raised: the Court, after rejecting all questions, declared the trial open and adjourned until 23 November 2021.

Banca Monte dei Paschi di Siena S.p.A. vs. Riscossione Sicilia S.p.A.

On 17 July 2018, the Finance Department of the Sicily Region sent to the Parent Company an order of injunction pursuant to art. 2 of Italian Royal Decree no. 639/1910 and repayment, pursuant to art. 823, paragraph 2 of the Italian Civil Code, in the amount of EUR 68.6 mln, setting a term of 30 days for the Parent Company to make the payment and warning that, in the event of failure to pay, it would proceed with the forced recovery through the registration of the claim. This followed 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 fail to pay the amount of EUR 68.6 mln to the Sicily Region. The Parent Company filed notice of opposition, with first hearing set for 12 December 2018, to said injunction, and applied to obtain the 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. After reserving its right to consider its verdict at the hearing of 21 August, the Court, by order of 24 August, rejected the suspension request, specifying, however, that the injunction may be enforced on the positive current account balances held by Riscossione Sicilia. The Sicily Region requested the summon of Riscossione Sicilia, 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 lodging the statements 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 action had become devoid of purpose, as Riscossione Sicilia during the proceedings had proved that the receivable claimed by the Sicily Region had been fully cancelled. The Judge then postponed the judgement to 29 April 2021 for the hearing for closing arguments. At the hearing on 29 April 2021, the case was adjourned pending decision and legal terms were set for the filing of written counterarguments.
With ruling issued on 17 September 2021 and published on 4 October 2021, the Court of Palermo dismissed the opposition brought by the Bank, confirming the original order to pay EUR 68.6 mln.

Employment law disputes

Risks relating to employment law are subject to monitoring and evaluation by the relevant Group functions; in the event of disputes with "likely" risk, appropriate allocations are made to the provision for risks and charges. The overall relief sought for this type of disputes is equal to EUR 78.8 mln, of which EUR 42.0 mln refers to claims for which there is a "likely" risk of losing the case.

Risks for tax disputes

Risks for tax disputes are subject to monitoring and evaluation by the relevant Group functions; in the event of disputes with "likely" risk, appropriate allocations are made to the provision for risks and charges. The overall relief sought for this type of disputes is equal to EUR 80.2 mln, of which EUR 10.3 mln refers to claims for which there is a "likely" risk of losing the case.

Criminal proceedings and compensation for transactions in diamonds

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 regarding three former executives of the Parent Company and one current executive. The crimes subject to the proceedings are those of aggravated fraud (art. 640, par. 1, par. 2 bis in connection to art. 61 no. 5, Italian Criminal Code), self-laundering (art. 648 ter, par. 1, 2 and 5, Italian Criminal Code) and obstruction of regulators (art. 2638, par. 2 and 3, Italian Civil Code). In these proceedings, identified by no. 25193/20 RGNR [Italian General Criminal Records Registry], the Parent Company is not being investigated as a party with administrative liability pursuant to Italian Legislative Decree 231/01 and the Public Prosecutor may request committal for trial or dismissal.

On 6 April 2021, the request for committal for trial was issued by the Public Prosecutor's Office at the Court of Milan, against 110 parties, including the former officers and employees of the Parent Company who had received the first two notices of conclusion of investigations in criminal proceedings no. 44628/17 RGNR and no. 25081/19 RGNR (the latter joined with no. 44628/17); for more details, reference should be made to the "Main types of legal, employment law and tax risks" section in part E of the Notes to the 2020 Consolidated financial statements. It was requested that the Parent Company also be called before the court in relation to the administrative offences specified by Italian Legislative Decree 231/01.

As part of criminal proceedings 44628/17, at the preliminary hearing of 19 July 2021, after the legal counsels of the defendants presented the preliminary pleas of nullity of the indictment request, the documents related to the claim for damages were filed.

At the hearings held on 20 and 29 September 2021, some requests to join the proceedings as a civil party were received while other requests were withdrawn.

The Judge invited the legal counsels of the civil parties to request the summons of the civilly liable party from the very beginning. Some legal counsels have therefore already requested the summons of the civilly liable party; the others will do so on filing.

The plaintiffs claiming damages against employees/managers of the Parent Company are a rather small number compared to the total and, for the moment, there are no claims against the Parent Company as civilly liable party.

The Judge adjourned to the hearing to 20 October 2021 for the decision on the exclusion of the civil parties as well as on the requests for summons of civilly liable parties.

As part of criminal proceedings 25193/20, linked to the main proceedings, concerning investments in diamonds, on 22 June 2021, the Public Prosecutor's Office at the Court of Milan issued a new notice of conclusion of preliminary investigations 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 a party with administrative liability pursuant to Italian Legislative Decree 231/01.

On 12 July 2021, another new notice of guarantee and notice of conclusion of the preliminary investigations was issued to four former executives and one current executive, already appearing as defendants in the main proceedings (c.p. 44628/17).

Against the claims made, the Parent Company has set aside provisions which take into account, among other things, the expected number of claims and the current wholesale value of the stones to be taken back.

As at 30 September 2021, more than twelve thousand claims had been received for a total value of EUR 314 mln; the settlements carried out were equal to a total of EUR 307 mln (of which EUR 19 mln in the first nine months of 2021, covered for the countervalue net of the market value of the stones by the provision for risks and charges made in previous years) and represent 90% of the total volume of diamond offers reported by the Parent Company. Residual provisions for risks and charges recognised against the relief initiative were equal to EUR 6.6 mln at the end of September 2021.

Market risks

The Group has a significant exposure to market risk, with particular reference to sovereign exposures, both in the Trading and in the Banking Book, given the potential volatility of the underlying market variables, the concentration 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 to be assessed in view of the future regulatory changes of capital requirements regarding the trading portfolio (Fundamental Review of the Trading Book).

Over the quarter, the spread on government bonds remained at the very low levels of the last five years; however, as a condition for greater capital stability, it should be noted that, in terms of market risks, the Group continues to apply the temporary prudential filter for the 2020-2022 period to FVOCI positions 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.

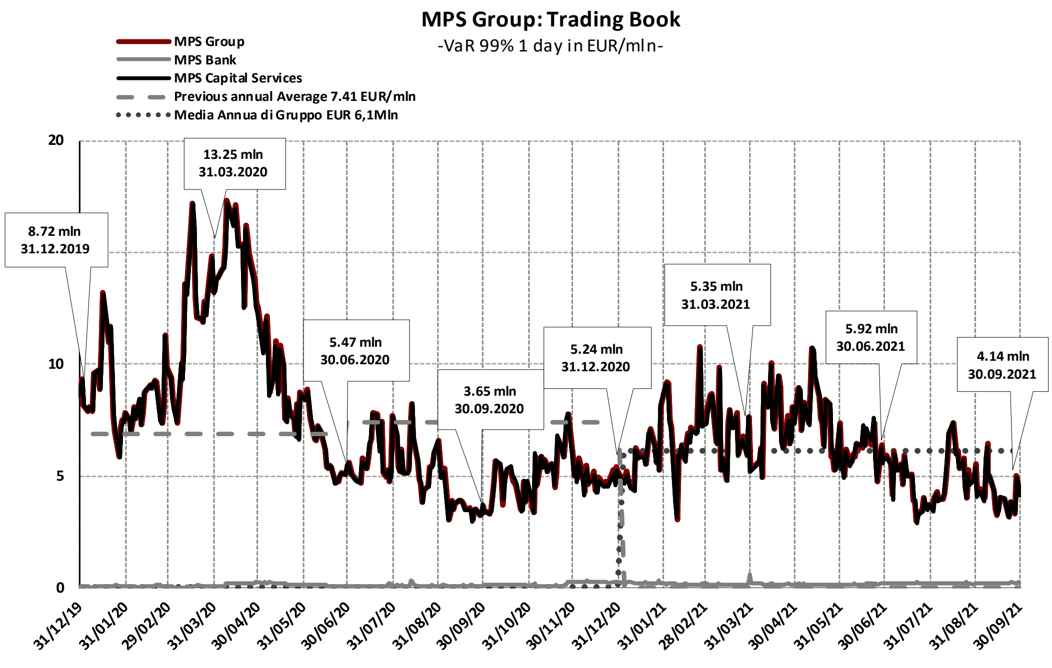
Following the adoption of this treatment, the change in the FVOCI Reserve on government securities of EU Member States calculated with respect to the level at the end of 2019 is sterilised with the application of the phase-in coefficients set by the regulation (100% for 2020, 70% for 2021 and 40% for 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.

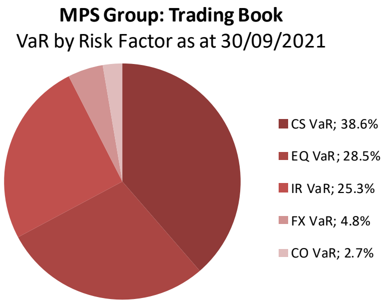
As at 30 September 2021, the market risks of the Group's Regulatory Trading Book [Portafoglio di Negoziazione di Vigilanza, PNV], measured as VaR, equal to EUR 4.14 mln, were down on the end of June (EUR 5.92 mln) and lower than the yearly average (EUR 6.10 mln).

During the third quarter 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 quarter, VaR volatility resulted from auctions on Italian government securities by the subsidiary MPS Capital Services for primary dealer activities, with temporary changes in the overall CS Italy risk exposure, primarily short term.

During the quarter, the average holding of Italian sovereign securities in the Group's trading portfolios was equal to EUR 3.8 bn in nominal terms, unchanged from the previous quarter, with lower levels in July (EUR 2.9 bn) compared to the average holding in August and September (EUR 4.1 and 4.4 bn, respectively), as observed in the overall VaR trend.





The VaR breakdown shows that the Credit Spread is the main risk factor, accounting for 38.6% of the RTB Gross VaR of the Group, while the EQ factor accounts for 28.5%, IR for 25.3%, FX for 4.8% and CO for 2.7%.

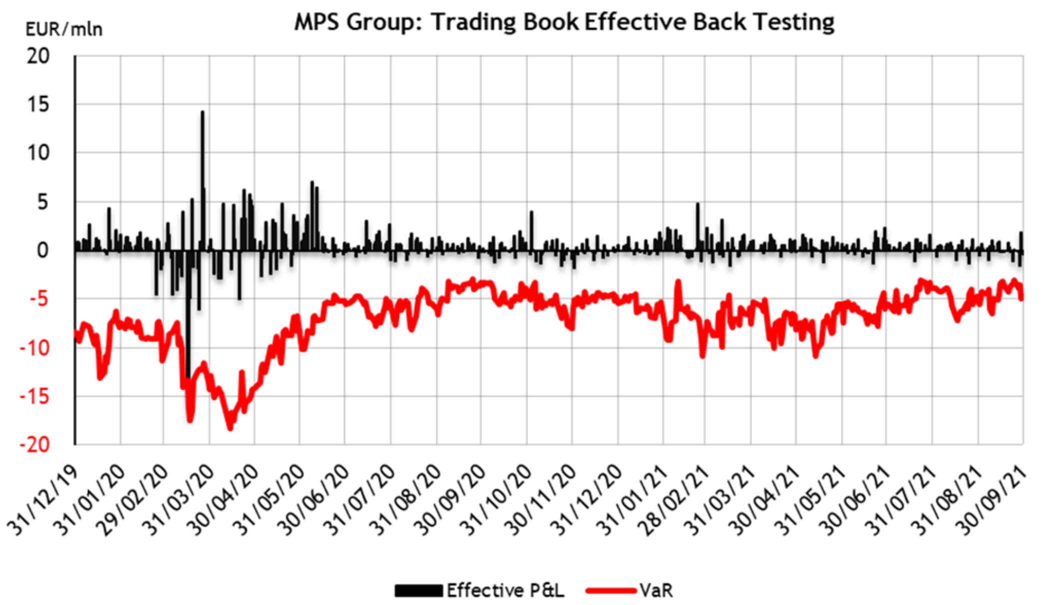
MPS Group: Trading Book
VaR 99% 1 day in EUR/mln

	VaR	Date
End of Period	4.14	30/09/2021
Min	2.96	22/07/2021
Max	10.79	25/02/2021
Average	6.10	

In the first nine months of 2021, the Group's VaR in the RTB ranged between a low of EUR 2.96 mln recorded on 22 July 2021 and a high of EUR 10.79 mln recorded on 25 February 2021, with an average value of EUR 6.10 mln. The RTB VaR as at 30 September 2021 amounted to EUR 4.14 mln.

VaR model backtesting

The chart below shows the results of the Effective Backtesting of the Market Risk internal model in regard to the Group's Regulatory Trading Book for 2020 and the first nine months of 2021:



No exception was recorded in 2021.

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 specialised commercial organizational model was introduced on two first level units within the Chief Commercial Officer Department: "Private Business" and "Companies and Private Banking Business".

The Private Business is in charge of Retail customers (Value and Premium service models).

The Companies and Private Banking Business is in charge of Corporate customers and companies (SME, Small Business, Key Clients and Large Groups service models), Private customers and the foreign segment.

In July 2021, another change was made to the commercial organisational model, which provided for the reclassification of customers pertaining to the Institutions service model to the other service models based mainly on their complexity, with a prevailing impact, in terms of volumes of deposits and loans, on the SME service model.

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, 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 the offsetting of intragroup entries, incorporates the results of the following business centres:
    - service units supporting the Group's business, dedicated in particular to the management and development of IT systems (Consorzio Operativo Gruppo MPS);
    - companies consolidated with the equity method and those held for sale;
    - operating units, such as proprietary finance, treasury and capital management.

Following the changes described above, for the purposes of reporting by operating segment:

- the Small Business service model, which was included in "Retail Banking", was reclassified, starting from the Half-yearly Report as at 30 June 2021, in "Corporate Banking". The comparative values have been consistently restated: therefore, the comparison involves homogeneous data;
- starting from the Interim Report on Operations as at 30 September 2021, the Institutions service model is no longer included. The comparative values have been consistently restated by allocating the economic and financial results of former Institution customers to the SME service model.

The income statement and balance sheet results for each identified operating segment are shown in the following paragraphs.

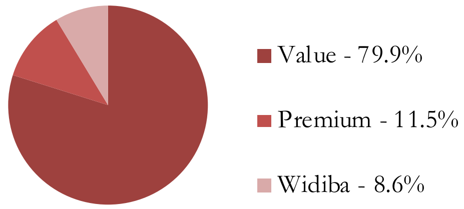
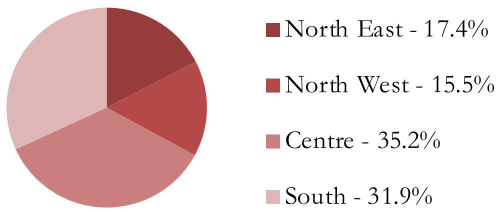
Results in brief

The following table shows the main income statement and balance sheet aggregates for the Group's Operating Segments as at 30 September 2021:

SEGMENT REPORTING	Operating Segments									
Primary segment	Retail banking		Wealth Management		Corporate banking		Corporate Center		Total MPS Group	
(EUR mln)	30/09/21	Chg % Y/Y	30/09/21	Chg % Y/Y	30/09/21	Chg % Y/Y	30/09/21	Chg % Y/Y	30/09/21	Chg % Y/Y
PROFIT AND LOSS AGGREGATES										
Total Revenues	984.7	-12.5%	108.1	9.5%	857.6	-10.0%	315.4	n.m.	2,265.8	3.0%
Operating expenses	(975.5)	-2.5%	(77.4)	-8.8%	(491.6)	-1.4%	(42.3)	20.7%	(1,586.8)	-2.0%
Pre Provision operating Profit	9.2	-92.6%	30.7	n.m.	365.9	-19.5%	273.2	n.m.	679.0	16.8%
Cost of customer loans/Net impairment (losses)-reversals on securities and loans to banks	(76.9)	-46.8%	(6.6)	n.m.	47.0	n.m.	5.4	n.m.	(31.1)	-95.0%
Net Operating Income	(67.7)	n.m.	24.0	80.4%	413.0	n.m.	278.6	n.m.	647.9	n.m.
	30/09/21	Chg. % 31/12	30/09/21	Chg. % 31/12	30/09/21	Chg. % 31/12	30/09/21	Chg. % 31/12	30/09/21	Chg. % 31/12
BALANCE SHEET AGGREGATES										
Gross Interest-bearing loans to customers (*)	31,091	0.8%	563	6.5%	41,848	2.8%	8,421	-26.7%	81,923	-2.0%
Direct funding	42,595	-0.2%	3,091	-2.1%	26,483	-7.2%	20,732	-29.3%	92,902	-10.4%
Indirect Funding	54,789	4.9%	16,533	6.2%	15,137	-6.8%	18,300	1.4%	104,758	2.6%
Assets under management	*46,395*	*6.4%*	*12,624*	*6.4%*	*2,717*	*18.5%*	*2,691*	*1.5%*	*64,427*	*6.7%*
Assets under custody	*8,394*	*-2.6%*	*3,909*	*5.4%*	*12,420*	*-10.9%*	*15,609*	*1.4%*	*40,332*	*-3.2%*

(*) 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

<table>
<tr><th>Business areas</th><th>Customers</th></tr>
<tr><td rowspan="3">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 530 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.</td><td>Retail Banking has around 3.4 mln customers, including 296,200 Widiba customers, of which 141,500 in the Financial Advisor Network channel, 88,100 in the self-service channel and 66,600 customers migrated from the MPS branch network.</td></tr>
<tr><td>Breakdown by type

</td></tr>
<tr><td>Breakdown by geography

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</table>

Income statement and balance sheet results

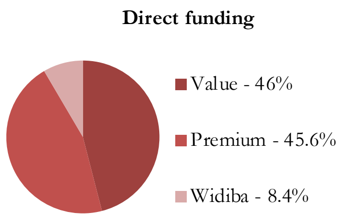
As at 30 September 2021, **Total Funding** for Retail Banking amounted to approximately **EUR 97.4 bn**, unchanged from June 2021 and up by around EUR 2.5 bn compared to the end of 2020. More specifically:

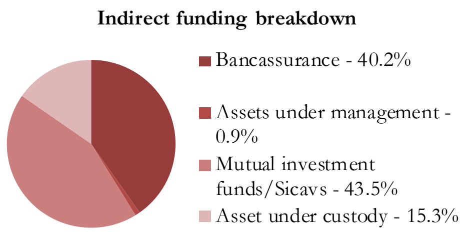
- **Direct Funding** stood at **EUR 42.6 bn,** basically unchanged compared to 30 June 2021, due to the growth in deposits on demand (EUR +0.5 bn), almost entirely offset by the decrease recorded in medium / long-term (EUR -0.3 bn) and short-term (EUR -0.2 bn) technical forms of funding. The slight decrease in comparison with 31 December 2020 (EUR -0.1 bn) was due to the increase in on-demand deposits (EUR +1.7 bn), more than offset by a decrease in the medium/long-term (EUR -1.3 bn) and in the short-term (EUR -0.5 bn) funding component.

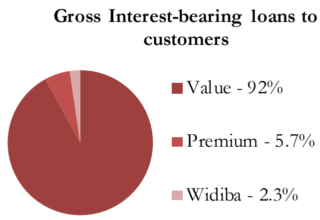
- **Indirect Funding** was equal to **EUR 54.8 bn**, unchanged compared to June 2021, with an increase in the asset management component (EUR +0.3 bn) offset by a decrease in assets under custody (EUR -0.3 bn). There was an increase equal to EUR 2.6 bn in comparison with 31 December 2020, entirely due to the asset management component, which has benefited from the positive market effect and positive net flows.

- **Gross interest-bearing loans to Retail Banking customers** were **EUR 31.1 bn**, substantially in line with June 2021 and up on December 2020 (EUR +0.3 bn).

RETAIL BANKING - BALANCE SHEET AGGREGATES										
(Eur mln)	30/09/21	30/06/21	31/12/20	30/09/20	Chg Abs Q/Q	Chg % Q/Q	Chg Abs 31/12	Chg % 31/12	Chg Abs Y/Y	Chg % Y/Y
Direct funding	**42,595**	**42,530**	**42,686**	**41,091**	**65**	**0.2%**	**-91**	**-0.2%**	**1,504**	**3.7%**
Assets under management	*46,395*	*46,127*	*43,592*	*42,143*	*268*	*0.6%*	*2,803*	*6.4%*	*4,252*	*10.1%*
Assets under custody	*8,394*	*8,675*	*8,620*	*8,522*	*-282*	*-3.2%*	*-226*	*-2.6%*	*-128*	*-1.5%*
Indirect Funding	**54,789**	**54,803**	**52,212**	**50,665**	**-14**	**0.0%**	**2,577**	**4.9%**	**4,124**	**8.1%**
Total Funding	**97,384**	**97,333**	**94,898**	**91,756**	**51**	**0.1%**	**2,486**	**2.6%**	**5,628**	**6.1%**
Gross Interest-bearing loans to customers	**31,091**	**31,048**	**30,839**	**30,950**	**43**	**0.1%**	**252**	**0.8%**	**142**	**0.5%**







With regard to profit and loss, as at 30 September 2021 Retail Banking reported total **Revenues** equal to **EUR 985 mln**, down 12.5% compared to the same period of the previous year. A breakdown of the aggregate shows:

- Net interest income was equal to EUR 256 mln, down by 47.6% compared to the same period of the previous year as a result of the lower contribution from funding due mainly to 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 EUR 686 mln, with a 12.9% increase on the same period of the previous year, mainly due to higher income from asset management, particularly on product placement.

Considering the impact of Operating Expenses, which decreased by 2.5% yoy, Retail Banking generated **Gross Operating Income** equal to **EUR 9 mln** (EUR 125 mln as at 30 September 2020). The cost of credit was equal to **EUR -77 mln** (EUR -145 mln as at 30 September 2020).

The **Net Operating Income** recorded since the beginning of the year was **negative and around EUR 68 mln.**

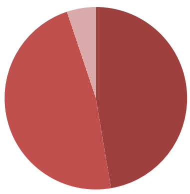
The non-operating components were equal to approx. EUR -33 mln, an increase compared to the same period of the previous year (equal to EUR -18 mln) due mainly to the higher Other net provisions.

The **Result before tax from continuing operations** was **EUR -101 mln** (EUR -38 mln as at 30 September 2020).

The cost-income ratio of the Operating Segment **was 99.1%** (88.9% at the end of September 2020).

RETAIL BANKING - PROFIT AND LOSS AGGREGATES				
			Chg. Y/Y	
(EUR mln)	30/09/21	30/09/20	Abs.	%
Net interest income	*255.7*	*487.7*	*-231.9*	*-47.6%*
Net fee and commission income	*685.7*	*607.4*	*78.3*	*12.9%*
Other Revenues from Banking and Insurance Business	*50.0*	*36.9*	*13.1*	*35.6%*
Other operating expenses/income	*(6.7)*	*(6.7)*	*0.0*	*0.6%*
Total Revenues	**984.7**	**1,125.2**	**-140.5**	**-12.5%**
Operating expenses	*(975.5)*	*(1,000.7)*	*25.2*	*-2.5%*
Pre Provision Operating Profit	**9.2**	**124.5**	**-115.3**	**-92.6%**
Cost of customer loans/Net impairment (losses)-reversals on securities and loans to banks	(76.9)	(144.6)	67.7	-46.8%
Net Operating Income	**(67.7)**	**(20.1)**	**-47.6**	**n.m.**
Non-operating components	**(33.2)**	**(17.8)**	**-15.5**	**87.0%**
Profit (loss) before tax from continuing operations	**(100.9)**	**(37.9)**	**-63.0**	**n.m.**

Breakdown of revenues



Results for the subsidiary

Banca Widiba S.p.A.: as at 30 September 2021, **the Total Funding** of Banca Widiba was equal to **EUR 9.6 bn**, basically in line compared to 30 June 2021 due to positive net inflows of EUR 32 mln in the quarter and negative stock market trends; the aggregate was up by EUR 0.5 bn from the beginning of the year, benefiting from both positive net funding flows of EUR 278 mln during the nine-month period (mainly in Assets under Management, EUR 343 mln) and favourable financial market trends.

In terms of economic performance, as at 30 September 2021, Banca Widiba reported total **Revenues** equal to **EUR 51.0 mln (of which EUR 17.2 mln in the third quarter)**, down by EUR 9.8 million (-16%) on 30 September 2020, due to the decrease in net interest income (EUR -13.6 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 3.4 mln driven by Assets under management and a significant reduction in the cost of funding.

Gross Operating Income benefited from the decrease in **Operating Expenses** (down by EUR 1.7 mln, -4%) and reached **EUR 7.2 mln (of which EUR 3.0 mln in the third quarter),** down by EUR -8.2 mln on 30 September 2020. In relation to the slight lower incidence of the cost of credit of EUR 0.1 mln compared to 30 September 2020, the **Net Operating Income** was equal to **EUR 5.1 mln (of which EUR 2.2 mln in the third quarter),** with a decrease of EUR -8.0 mln on 30 September 2020, again due to the decrease in the interest margin offset by lower operating costs and higher commissions.

Lastly, as a result of higher non-operating components (of which EUR +1.9 mln representing estimated costs for DGS charges, which had a total impact in the third quarter of EUR 4.2 mln, and EUR +0.7 mln representing net provisions for risks and charges), **Profit (loss) before taxes from continuing operations** was equal to **EUR -0.2 mln**, down by EUR 10.5 mln on 30 September 2020, a decrease mainly due to intragroup financial assets.

Wealth Management

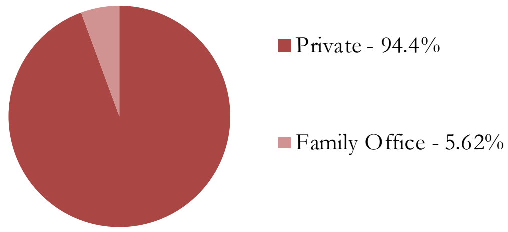
Business areas

- 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).

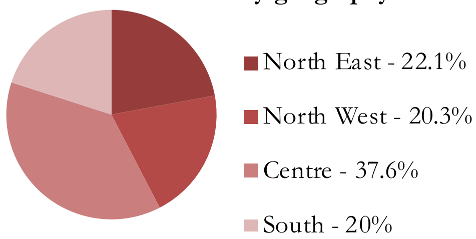
Customers

There are around 38,300 private customers.

Breakdown by type



Breakdown by geography



Income statement and balance sheet results

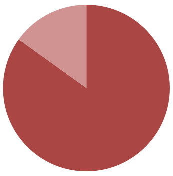
As at 30 September 2021, **Total Funding** for Wealth Management was equal to **EUR 19.6 bn**, up by EUR 0.3 bn compared to 30 June 2021 and EUR 0.9 bn compared to the end of the year. More specifically:

- **Direct Funding** was equal to **EUR 3.1 bn**, up by EUR 0.1 bn on June 2021 and unchanged compared to 31 December 2020;
- **Indirect Funding** was equal to **EUR 16.5 bn**, up both compared to 30 June 2021 (EUR +0.2 bn) and to the end of the previous year (EUR +1.0 bn) due to a positive market effect;
- **Gross interest-bearing loans to customers** of Wealth Management were essentially in line with both 30 June 2021 and December 2020, around **EUR 0.6 bn**.

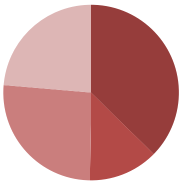
WEALTH MANAGEMENT - BALANCE SHEET AGGREGATES

(EUR mln)	30/09/21	30/06/21	31/12/20	30/09/20	Chg Abs Q/Q	Chg % Q/Q	Chg Abs 31/12	Chg % 31/12	Chg Abs Y/Y	Chg % Y/Y
Direct funding	**3,091**	**2,976**	**3,157**	**3,238**	**115**	**3.9%**	**-66**	**-2.1%**	**-147**	**-4.5%**
Assets under management	*12,624*	*12,481*	*11,865*	*11,534*	*143*	*1.1%*	*759*	*6.4%*	*1,089*	*9.4%*
Assets under custody	*3,909*	*3,891*	*3,708*	*3,594*	*18*	*0.5%*	*202*	*5.4%*	*315*	*8.8%*
Indirect Funding	**16,533**	**16,372**	**15,572**	**15,128**	**161**	**1.0%**	**960**	**6.2%**	**1,405**	**9.3%**
Total Funding	**19,624**	**19,348**	**18,730**	**18,366**	**276**	**1.4%**	**894**	**4.8%**	**1,258**	**6.8%**
Gross Interest-bearing loans to customers	**563**	**516**	**529**	**536**	**47**	**9.0%**	**34**	**6.5%**	**27**	**5.0%**

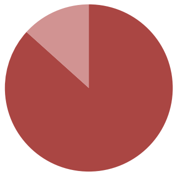
Direct funding



Indirect funding breakdown



Gross interest-bearing loans to customers



With regard to profit and loss as at 30 September 2021, Wealth Management reported total **Revenues** equal to **EUR 108 mln**, up 9.5% compared to the same period of the previous year. A breakdown of the aggregate shows:

- Net Interest Income was equal to EUR 0.9 mln, down EUR 5 mln compared to the same period of the previous year, as a result of the lower contribution of direct funding mainly due to the decrease in the internal transfer rate;
- Net fee and commission income were equal to EUR 93 mln, up by EUR 11 mln compared to 30 September 2020.

Considering the impact of Operating Expenses, which were down by 8.8% yoy, Wealth Management generated **Gross Operating Income** equal to **EUR 31 mln** (EUR +17 mln yoy). Including Cost of credit, equal to EUR -7 mln, the **Net Operating Income** was equal to **EUR 24 mln.**

The non-operating components were equal to EUR -1.5 mln, an EUR 0.8 mln deterioration compared to the same period of the previous year.

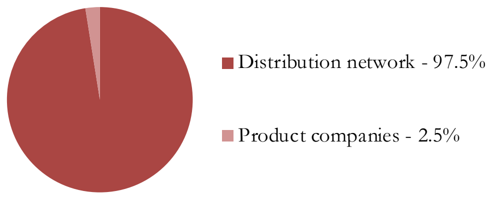
The **Result before tax from continuing operations** was equal to **EUR 23 mln** (EUR +13 mln as at 30 September 2020).

The cost-income ratio of the Operating Segment was **equal to 71.6%** (86.0% at the end of September 2020).

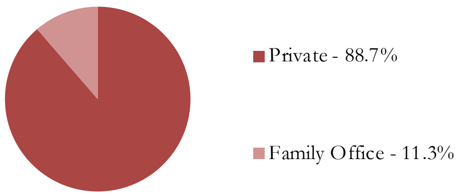
WEALTH MANAGEMENT - PROFIT AND LOSS AGGREGATES

			Chg. Y/Y	
(EUR mln)	**30/09/21**	**30/09/20**	**Abs.**	**%**
Net interest income	*0.9*	*6.4*	*-5.5*	*-85.3%*
Net fee and commission income	*92.9*	*82.1*	*10.9*	*13.2%*
Other Revenues from Banking and Insurance Business	*14.9*	*10.9*	*4.0*	*37.0%*
Other operating expenses/income	*(0.7)*	*(0.7)*	*0.0*	*1.5%*
Total Revenues	**108.1**	**98.7**	**9.4**	**9.5%**
Operating expenses	*(77.4)*	*(84.9)*	*7.4*	*-8.8%*
Pre Provision Operating Profit	**30.7**	**13.8**	**16.8**	**n.m.**
Cost of customer loans/Net impairment (losses)-reversals on securities and loans to banks	(6.6)	(0.5)	-6.1	n.m.
Net Operating Income	**24.0**	**13.3**	**10.7**	**80.4%**
Non-operating components	**(1.5)**	**(0.7)**	**-0.8**	**n.m.**
Profit (loss) before tax from continuing operations	**22.6**	**12.6**	**10.0**	**79.0%**

Breakdown of revenues



Breakdown of revenues



Results for the subsidiary

- **MPS Fiduciaria**: as at 30 September 2021 the subsidiary reported a profit for the year equal to EUR 0.4 mln.

Corporate Banking

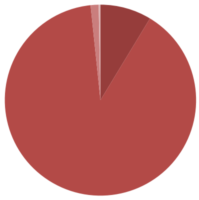
Business areas

- 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).

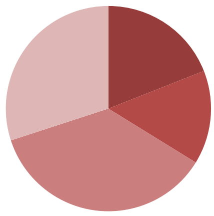
Customers

Corporate Banking directly supports about 326,180 Corporate and Large Group customers of the Parent Company.

Breakdown by type



Breakdown by geography



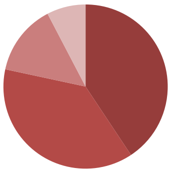
Income statement and balance sheet results

The **Total Funding** of Corporate Banking as at 30 September 2021 was equal to **EUR 41.6 bn**, down by EUR 0.4 bn with respect to 30 June 2021, mainly due to the decrease in Direct Funding (EUR -0.5 bn), with Indirect Funding basically unchanged. There was also a EUR 3.2 bn decrease compared to the end of December 2020, as a result of a decrease in both Indirect Funding (EUR -1.1 bn), mainly on Assets under custody, and Direct Funding (EUR -2.1 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 was mainly due to changes related to a major customer.
With regard to lending, as at 30 September 2021, **Gross interest-bearing loans to customers** of Corporate Banking were equal to **EUR 41.8 bn** (up EUR 0.1 bn compared to 30 June 2021 and EUR 1.1 bn compared to 31 December 2020).

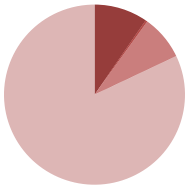
CORPORATE BANKING - BALANCE SHEET AGGREGATES

(EUR mln)	30/09/21	30/06/21	31/12/20	30/09/20	Chg Abs Q/Q	Chg % Q/Q	Chg Abs 31/12	Chg % 31/12	Chg Abs Y/Y	Chg % Y/Y
Direct funding	**26,483**	**26,993**	**28,534**	**27,468**	**-510**	**-1.9%**	**-2,051**	**-7.2%**	**-985**	**-3.6%**
Assets under management	*2,717*	*2,819*	*2,292*	*2,234*	*-101*	*-3.6%*	*425*	*18.5%*	*484*	*21.7%*
Assets under custody	*12,420*	*12,224*	*13,946*	*14,380*	*195*	*1.6%*	*-1,526*	*-10.9%*	*-1,960*	*-13.6%*
Indirect Funding	**15,137**	**15,043**	**16,238**	**16,613**	**94**	**0.6%**	**-1,101**	**-6.8%**	**-1,477**	**-8.9%**
Total Funding	**41,620**	**42,036**	**44,772**	**44,081**	**-416**	**-1.0%**	**-3,152**	**-7.0%**	**-2,461**	**-5.6%**
Gross Interest-bearing loans to customers	**41,848**	**41,727**	**40,722**	**42,673**	**121**	**0.3%**	**1,126**	**2.8%**	**-825**	**-1.9%**

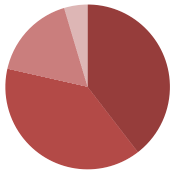
Direct funding



Indirect funding breakdown



Gross interest-bearing loans to customers



With regard to profit and loss, as at 30 September 2021, Corporate Banking **Revenues** were around **EUR 858 mln** (-10.0% yoy). A breakdown of the aggregate shows:

- Net Interest Income was equal to EUR 434 mln, down 15.5% yoy, due to the decrease in returns on commercial assets and the lower contribution of direct funding;
- Net Fee and Commission income was equal to EUR 398 mln, down 2.9% compared to the same period of the previous year;
- Other Revenues from Banking and Insurance Business were equal to EUR +40 mln against EUR 45 mln in the first nine months of 2020.

Considering the impact of Operating Expenses, down by 1.4% compared to 30 September 2020, **Gross Operating Income** was equal to **EUR 366 mln** (-19.5% yoy).

Net Operating Income was equal to **EUR 413 mln** (EUR -19 mln in the same period of the previous year), against a Cost of credit showing a recovery of EUR +47 mln (EUR -474 mln as at 30 September 2020).
The non-operating components were equal to EUR -94 mln, an improvement compared to EUR -179 mln in the same period of the previous year due to lower Other net provisions.

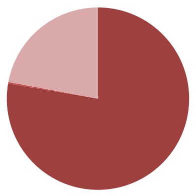
The **Result before tax from continuing operations** was equal to **EUR 319 mln** (EUR -198 mln as at 30 September 2020).

The cost-income ratio of Corporate Banking was equal to **57.3%** (52.3% as at 30 September 2020).

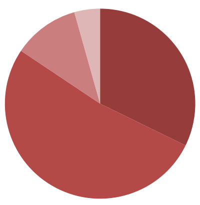
CORPORATE BANKING - PROFIT AND LOSS AGGREGATES

			Chg. Y/Y	
(EUR mln)	**30/09/21**	**30/09/20**	**Abs.**	**%**
Net interest income	*434.1*	*513.8*	*-79.6*	*-15.5%*
Net fee and commission income	*397.9*	*409.8*	*-11.9*	*-2.9%*
Other Revenues from Banking and Insurance Business	*40.2*	*44.6*	*-4.4*	*-9.8%*
Other operating expenses/income	*(14.6)*	*(14.8)*	*0.2*	*-1.2%*
Total Revenues	**857.6**	**953.3**	**-95.7**	**-10.0%**
Operating expenses	*(491.6)*	*(498.4)*	*6.8*	*-1.4%*
Pre Provision Operating Profit	**365.9**	**454.8**	**-88.9**	**-19.5%**
Cost of customer loans/Net impairment (losses)-reversals on securities and loans to banks	47.0	(474.0)	521.0	n.m.
Net Operating Income	**413.0**	**(19.1)**	**432.1**	**n.m.**
Non-operating components	**(94.3)**	**(178.9)**	**84.6**	**-47.3%**
Profit (loss) before tax from continuing operations	**318.7**	**(198.0)**	**516.7**	**n.m.**

Breakdown of revenues



Breakdown of revenues



Results of the main subsidiaries

- **MPS Capital Services**: net income before tax equal to EUR 110 mln, up by EUR 72 mln compared to 30 September 2020, due to the lower 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 126 mln, up compared to the profit of EUR 21 mln as at 30 September 2020 due to the trends described above.
- **MPS Leasing & Factoring:** net income before tax equal to EUR +22 mln, up by EUR 56 mln compared to 30 September 2020, mainly 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 23 mln, compared to a loss of EUR 42 mln as at 30 September 2020 due to the trends described above.
- **MP Banque[15]:** loss for the period of EUR 3 mln, in line with that of the same period of the previous year (EUR -3 mln).

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;
- units providing service and support to the business, particularly with regard to the development and management of information systems (Consorzio Operativo di Gruppo).

The Corporate Centre also includes the offsetting of intragroup entries and the results of the companies consolidated under the equity method and those held for sale.

As regards Finance activities, as at 30 September 2021, securities from the Parent Company's portfolio were sold, of which EUR 850 mln classified at amortised cost, for a total profit of EUR 124 mln, an increase of around EUR 3 mln compared to the same period of the previous year (when around EUR 925 mln of sales from the securities portfolio had been carried out). In addition, EUR 50 mln classified as FVOCI was sold, generating a profit of EUR 5 mln. Partly offsetting these sales, to support net interest income, securities were bought back during the year, of which EUR 870 mln were classified as at amortised cost and EUR 421 mln as FVOCI.

[15] The performance indicated above is that calculated on an operational basis. It should be recalled that in 2018 the Parent Company approved the run-off of MP Banque.

Prospects and outlook on operations

The progress of the vaccination campaigns and the extraordinary stimulus policies implemented to combat the pandemic justify outlining a scenario of robust global growth in the medium term (annual GDP growth close to 6% in 2021 and close to 5% in 2022[16]), although there is no lack of downside risks to the current business cycle phase. First of all, inflationary tensions may persist, due to the exceptional increase in the prices of sea freight and certain commodities, which has produced shortages in global supply chains, market tensions and a slowdown of international trade. It will also be necessary to monitor the normalisation of monetary policies, which, if premature, could have a negative impact on the recovery. The adoption of a smaller fiscal stimulus than that announced by President Biden could affect US growth, while in China growth could be affected by imbalances in the real estate sector. Italy must prove to be able to spend NGEU funds in the medium term by completing its ambitious plan of structural reforms. In the background, there remains the issue of the management of the epidemic, which seems to be under control at the moment.

Assuming the effective management of the pandemic and the gradual disappearance of the pressures on prices so that the robust expansion underway is only marginally affected, especially in the winter months, Italian growth could reach 6% this year[17]; pre-crisis levels of activity should thus be achieved in the second quarter of 2022. In the coming years, growth will be driven by monetary and fiscal policies aimed at guaranteeing the necessary stimulus to the economy, by the renewed optimism of businesses and consumers and by the National Recovery and Resilience Plan (NRRP). The COVID-19 pandemic will leave behind a national scenario transformed in consumption habits, in working and travelling practices, in modes of social interaction, in healthcare and welfare, which will be intertwined with the transformations induced by the initiatives envisaged in the NRRP and financed with Next Generation EU, which will represent a powerful push towards digitalisation and the green transition.

The Italian banking system will continue to play its role in supporting the economy and will continue to evolve to achieve the objectives of renewed profitability, constant gains in operational efficiency, and adaptation of its business model to the needs of the ecological transition. In addition to the management of non-performing loans, the change of pace in the use of technologies and the acquisition of suitable know-how, one of the challenges of the future concerns the adaptation of the offer and business support activities to a context that gives greater importance to the sustainability issue. 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 process includes the climate stress test exercise that the ECB will carry out next year, providing a first snapshot of the positioning of Italian banks with respect to climate risks.

The liquidity support measures have encouraged the expansion of credit to the private sector throughout 2021, supported by the good dynamics of loans to households, despite the slowdown in loans to companies. These measures (moratoria, loan guarantees, TLTRO III auctions and Pandemic Emergency Purchase Program, PEPP), unless renewed, will end in 2022: this could result in lower financing flows, especially to companies, even if the expected economic recovery supports demand. The stock of credit to non-financial companies will have in any case to support the supply chain of the companies that will access the NGEU funds and will need advances for payments of the public administration; however, financing flows may show a lower elasticity to the growth of the economic activity since the increase in the financial needs of the companies could be partially met by using the liquidity deposited with the banks during the pandemic. The increase in disposable income and in households' propensity to consume will result in a greater demand for loans both for the purchase of homes, in the wake of the recovery of the real estate market, and in the consumer credit segment. The trend that sees the private sector turn to other non-bank institutional operators continues.

The FED and the ECB will maintain their accommodative policy stance to avoid a slowdown in the recovery as a result of a premature increase in monetary policy rates. In any case, while carefully assessing the risk of a higher inflation scenario, to avoid the overheating of the economy, the FED has already indicated that tapering might start by the end of the year. In the Eurozone, the ECB announced only a moderate reduction in the monthly purchases envisaged by the PEPP: a change in the rate on the remuneration of deposits held with the monetary authority in the next two years does not seem likely. The 3-month swap rate could therefore remain unchanged until the first part of 2023, and then anticipate the increase in the policy rate expected at the beginning of 2024. In the medium term, the rise in the market rate would be accompanied by a slightly lower growth in the rates on loans, a more moderate increase in the average rate on deposits and a stronger trend in the rate on bonds, the latter in line with the rise in Italian government bond yields.

[16] World Economic Outlook, International Monetary Fund, October 2021.
[17] World Economic Outlook, International Monetary Fund, October 2021.

In 2021, the liquidity of the banking sector continues to be high with further accumulation of deposits in the coming months. From next year, a reduction in current account deposits is expected for companies, which will use the liquidity to finance investments and working capital, and, later, also for households, due to a lower propensity to save and a restructuring of the portfolio towards more profitable forms of investment (e.g. asset management and insurance), the latter trend already underway. In the medium term, the repayment of the TLTROs (the last auction is scheduled for December 2021) will induce banks to increase medium and long-term funding, increasing foreign funding and bond issues in the wholesale segment.

Expectations of an improvement in net interest income remain based on the benefit on the medium and long-term funds of the ECB, which should reach a maximum in 2021 and gradually decrease in the following years with the end of the TLTRO III and the beginning of repayments. After the expected contraction for the current year, a basically stable banking spread will continue to limit the growth of net interest income from customers in the medium term. Revenues from indirect funding should record a significant increase due to the recovery of economic activity and the repositioning of some of the accumulated liquidity towards managed investment products. The contribution of commissions from insurance protection products should also increase, due to customers more sensitive to working conditions and health protection. With increased household and business activity, revenue from liquidity management services is also expected to grow, but the competitive pressure of non-traditional operators in the field of payment systems could limit growth prospects.

Moratoria and guarantee mechanisms, confirmed until the end of 2021, in the absence of further extensions, will postpone a deterioration in credit quality to 2022: the cost of risk will start to rise again also due to the adjustments related to the plans for the sale of non-performing loans, which are expected to continue.

Some of the factors that allowed Italian banks to return to profits in 2021 could continue to support the profit outlook. In 2021, the ROE of the banking system has gradually recovered also due to increased efficiency and there are prospects of a consolidation of the indicator above 5% in the medium term.

The ongoing economic recovery could have positive effects on the Group's performance also in the coming months. With the continuation of the measures to support the economy at least until the end of 2021, the emergence of new flows of non-performing loans is likely to be postponed. Therefore, the cost of credit for the current year is expected to be lower than forecast earlier, due to lower flows of non-performing loans, including defaults, which have been very contained on exposures covered by moratoria that have ended, as well as impairment reversals related to the higher estimates of Gross Domestic Product growth. Revenues are also expected to be higher than expected, 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 exceed forecasts.

The actual figures for the third quarter of 2021 confirm the very 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 scheduled for the last quarter of 2021 do not appear to be especially significant, mostly consisting of EUR 0.7 bn in bilateral funding. The Parent Company will in any event have to meet the MREL targets which, as of 1 January 2022, will become "binding" for the banking system. To meet these MREL targets, besides capital strengthening for EUR 2.5 bn, the plans of the Parent Company provide for the issue of unsecured senior public bonds for a total of EUR 2 bn. This amount was revised during the year in light of RWA trends, based on which the MREL targets are set. In particular, considering a better than expected trend in RWAs and capital ratios, the estimate of the issues to be carried out in 2021 has been gradually reduced, to almost zero, assuming the expected capital increase is carried out.

While the estimates used in the 2020 financial statements indicated that a capital shortfall would already occur in the first quarter of 2021, increasing to EUR 1.5 bn as at 1 January 2022, as at 30 September 2021, like in the two previous quarters, no capital shortfall had occurred nor is one expected 12 months after the reference date, i.e. as at 30 September 2022. It should also be noted that, as at 1 January 2023, taking into account the planned capital reduction due to the IFRS 9 phase-in and assuming the full implementation in the fourth quarter of 2022 of the inflationary effects on the risk-weighted assets related to the changes in the credit risk measurement models as a result of the EBA Guidelines, the shortfall in terms of the Tier 1 capital aggregate could reach EUR 500 mln. This shortfall could be mitigated by some capital management initiatives by the Group.

As regards the 2021 EBA stress tests, the results announced to the market on 30 July are consistent with the aforementioned Capital Plan, which envisages capital strengthening for EUR 2.5 bn.

DECLARATION OF THE FINANCIAL REPORTING OFFICER

Pursuant to para. 2, article 154-bis of the Consolidated Law on Finance, the Financial Reporting Officer, Mr. Nicola Massimo Clarelli, declares that the accounting information contained in this Interim Report on Operations as at 30 September 2021 corresponds to the underlying documentary evidence and accounting records.

Siena, 4 November 2021

Signed by

the Financial Reporting Officer

Nicola Massimo Clarelli