Monte dei Paschi di Siena Group

Consolidated Interim Report as at 31 march 2020

MONTE
DEI PASCHI
DI SIENA
BANK SINCE 1472

Interim Report on Operations
Monte dei Paschi di Siena Group
31 March 2020

Banca Monte dei Paschi di Siena S.p.a.
Share Capital: € 10,328,618,260.14 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*, Legislative Decree no. 58/1998) and the Issuers' Regulation (art. 82-*ter*, Consob Resolution no. 11971/1999), in implementation of the so-called 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obligation for listed companies to publish interim reports on operations (as at 31 March and as at 30 September) was repealed, allowing issuers to decide on a voluntary basis whether to disclose periodic financial information in addition to the annual and half-yearly reports.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, not subject to audit requirements, provides a description of the activities and results which largely characterised Montepaschi Group's operations as at 31 March 2020, both as a whole and in the various business lines into which consolidated operations are carried out.

Results in brief

Below are the main economic and financial values of the Montepaschi Group as at 31 March 2020, compared with those for the same period of the previous year and at the end of 2019, respectively. In addition, the key economic and financial indicators are provided[1], 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.

Pursuant to the requirements set forth in the "Guidelines on Alternative Performance Measures" published by the European Securities and Markets Authority (ESMA) in June 2015, this section also contains the definitions and calculation methods of alternative performance measures.

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

INCOME STATEMENT AND BALANCE SHEET FIGURES			
MPS GROUP			
INCOME STATEMENT FIGURES (EUR mln)	31 03 2020	31 03 2019	Chg.
Net interest income	327.1	408.9	-20.0%
Net fee and commission income	369.9	358.8	3.1%
Other income from banking business	38.8	44.5	-12.9%
Other operating income	(6.4)	(8.3)	-22.7%
Total Revenues	729.4	804.0	-9.3%
Operating expenses	(548.5)	(569.1)	-3.6%
Cost of customer loans	(314.5)	(143.9)	n.m.
Other value adjustments	(1.1)	(0.1)	n.m.
Net operating income	(134.7)	90.9	n.m.
Net profit (loss) for the period	(243.5)	27.9	n.m.
EARNINGS PER SHARE (EUR)	31 03 2020	31 03 2019	Chg.
Basic earnings per share	(0.221)	0.025	n.m.
Diluted earnings per share	(0.221)	0.025	n.m.
BALANCE SHEET FIGURES AND INDICATORS (EUR mln)	31 03 2020	31 12 2019	Chg.
Total assets	134,268.7	132,196.0	1.6%
Loans to customers	82,206.1	80,135.0	2.6%
Direct funding	95,367.1	94,217.3	1.2%
Indirect funding	89,139.5	101,791.5	-12.4%
of which: assets under management	54,436.0	59,302.0	-8.2%
of which: assets under custody	34,703.5	42,489.6	-18.3%
Group net equity	7,927.0	8,279.1	-4.3%
OPERATING STRUCTURE	31 03 2020	31 12 2019	Chg.
Total headcount - end of period	22,077	22,040	37
Number of branches in Italy	1,421	1,422	(1)

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

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

ALTERNATIVE PERFORMANCE MEASURES			
MPS GROUP			
PROFITABILITY RATIOS (%)	31 03 2020	31 12 2019	Chg.
Cost/Income ratio	75.2	69.7	5.5
R.O.E.	-12.0	-12.0	n.m.
Return on Assets (RoA) ratio	-0.7	-0.8	0.1
ROTE (Return on tangible equity)	-12.0	-12.0	n.m.
KEY CREDIT QUALITY RATIOS (%)	31 03 2020	31 12 2019	Chg.
Net impaired loans to customers / Loans to Customers*	7.1	7.6	-0.5
Gross NPL ratio	11.1	11.3	-0.2
Rate of change of impaired loans to customers	-1.0	-27.4	26.4
Bad loans to customers/ Loans to Customers	3.5	3.7	-0.2
Loans to Customers measured at amortised cost - Stage 2/Performing exposures measured at amortised cost	16.4	15.5	0.9
Coverage impaired loans to customers	49.6	48.7	0.9
Coverage bad loans to customers	54.5	53.6	0.9
Cost of customers loans/Cusotmers loans (Provisioning)	1.53	0.73	0.8
Texas Ratio	85.7	85.6	0.1

** At 31 December 2019 the indicator, expressed as Net non-performing loans / Loans to customers, stood at 6.8% (6.4% at 31 March 2020).*

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

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

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

Return On Tangible Equity (ROTE): ratio between the annualised Net profit (loss) for the period and the average between the shareholders' equity (including Profit and Valuation reserves, cleared of Goodwill) at the end of the previous year and for the current year.

Gross NPL Ratio: gross impact of non-performing loans calculated based on the EBA guidelines[2] as the ratio between Gross non-performing loans to customers and banks, net of assets held for sale, and total Gross loans to customers and banks, net of assets held for sale. The Gross NPE Ratio, presented also in previous reports and expressed as the ratio between Gross non-performing exposures to customers / Gross exposures to customers, thus including the securities component, stood at 11.8% at 31 March 2020 compared to 12.4% at 31 December 2019.

Growth rate of non-performing loans to customers: represents the annual growth rate of Gross non-performing loans to customers based on the difference between annual balances.

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

Texas Ratio: ratio between Gross non-performing loans to customers and the sum, in the denominator, of the relative loan loss provisions and tangible shareholders' equity[3].

[2] EBA GL/2018/10.

[3] Shareholders' equity of the Group, cleared of the value of intangible assets.

REGULATORY MEASURES			
MPS GROUP			
CAPITAL RATIOS (%)	31 03 2020	31 12 2019	Chg.
Common Equity Tier 1 (CET1) ratio - phase in	13.6	14.7	-1.1
Common Equity Tier 1 (CET1) ratio - fully loaded	11.9	12.7	-0.8
Total Capital ratio - phase in	16.2	16.7	-0.5
Total Capital ratio - fully loaded	14.5	14.7	-0.2
FINANCIAL LEVERAGE INDEX (%)	31 03 2020	31 12 2019	Chg.
Leverage ratio - transitional definition	5.4	6.1	-0.7
Leverage ratio - -fully phased	4.7	5.3	-0.6
LIQUIDITY RATIO (%)	31 03 2020	31 12 2019	Chg.
LCR	162.0	152.4	9.6
NSFR	113.2	112.6	0.6
Encumbered asset ratio	39.6	36.0	3.6
Loan to deposit ratio	86.2	85.1	1.1
Spot Counterbalancing capacity (bn of eur)	21.7	24.7	-3.0

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

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

Total Capital ratio: ratio between Own Funds and total 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. The comparative figure relating to the LCR index as at 31 December 2019 was restated to take into account a specific interpretative clarification provided by the supervisory authority.

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

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

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

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

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

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

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

Executive summary

Changes in the in key items of the Group's main aggregates recorded at 31 March 2020 are summarised below, noting that the results of the first quarter of 2020 were affected by the health emergency created by the spread of the COVID-19 virus, starting from the end of February. The economic aggregates that were most significantly affected were:

- Net fee and commission income, mainly following the sharp reduction in placement flows which took place progressively during March due to the reduced operations of the Network;
- Cost of customer credit, following the effects linked to the revision of the statistical parameters deriving from the changed macroeconomic scenario that emerged following the spread of the pandemic;
- Other revenues from banking business, following the decline in the net result of trading activities and the lower contribution from AXA-MPS, which were affected by tensions in the financial markets linked to the COVID-19 emergency;
- taxes, following the decision not to recognise, for prudential reasons, the reassessment of DTAs from tax losses for the quarter until long-term projections can be adopted that take into account a reliable and updated economic scenario.

Instead, with reference to the balance sheet aggregates, note the reduction in Indirect Funding, which reflected the negative performance of financial markets and the widening of the spread on Italian debt, as well as the sharp reduction in placement flows which took place progressively during March due to the reduced operations of the Network.

- **Net interest income**, equal to EUR 327 mln, was down by 20.0% compared to the same period of 2019, mainly due to the drop in interest-bearing commercial assets and the related yields. The aggregate also reflects i) the disposals of Unlikely to pay loans in 2019, ii) the conclusion in June 2019 of the sale of the subsidiary BMP Belgio S.A., which resulted in the deconsolidation of the related loan and deposit volumes, and iii) the increase in the cost of market funding, mainly linked to the return on the market of bond issues that took place in the second half of 2019 and continued in 1Q20.

- **Net fee and commission income**, totalling EUR 370 mln, posted an improvement of 3.1% compared to the same period of the previous year. This trend benefited mainly from higher income on asset management (in particular on product placement) earned during the first two months of the year, subsequently offset by the sharp reduction in placement flows which took place progressively during March following the spread of the COVID-19 pandemic. Other net fee and commission income also improved, due to the lower cost of the state guarantee following the repayment of the Guaranteed Government Bonds that took place in 1Q20. Instead, commissions on loans decreased due to lower fees on brokered loans and commissions from services.

- **Other revenues from banking business**, totalling EUR 39 mln, posted a decline of EUR 6 mln compared to the same period of the previous year. The higher profits from the sale of securities and the greater contribution from the net profit (loss) from financial assets/liabilities measured at fair value through profit and loss only partially compensated for the decrease in the net result of trading activities and the lower contribution from AXA, both negatively impacted by the tensions in financial markets linked to the COVID-19 emergency.

- **Other operating income/expense**, totalling EUR -6.4 mln, showed a slight improvement compared to the result recorded in 1Q19 (equal to EUR -8.3 mln).

- As a result of the trend in these aggregates, **Total revenues** amounted to EUR 729 mln, down 9.3% compared to the same period of the previous year.

- **Operating expense** was EUR 548.5 mln (-3.6% Y/Y). Within the aggregate, **Personnel expenses**, equal to EUR 357 mln, fell 3.2% compared to the same period of the previous year, benefiting from the lower average workforce (in relation, in particular, to the 750 departures for the Solidarity Fund recorded in 2019 and the deconsolidation of BMP Belgio S.A. in June 2019). This trend was only partially offset by the contractual increases/adjustments related to the effects of the renewal of the National Collective Bargaining Agreement. **Other administrative expenses**, amounting to EUR 136 mln, were down by 2.4% compared to the same period of the previous year, benefiting from the deconsolidation of BMP Belgio S.A. in June 2019, while **Net value adjustments to property, plant and equipment and intangible assets**, amounting to EUR 56 mln, showed an improvement of 8.9% compared to 31 March 2019.

- **Cost of customer credit**, equal to EUR 315 mln, an increase of EUR 171 mln compared to the same period of the previous year, includes approx. EUR 193 mln for increases in adjustments on positions measured statistically, linked to the revision of the valuation parameters deriving from the changed macroeconomic scenario that emerged following the spread of the COVID-19 pandemic. Excluding the effects related to the updated macroeconomic scenario from both 1Q20 and 1Q19 (equal to approx. EUR 193 mln euro in 1Q20 and approx. EUR 37 mln in 1Q19), the Cost of customer credit shows, in any case, an increase Y/Y mainly due to the lower contribution from customer care, which was influenced, in March, by the lockdown imposed following the spread of the pandemic. The **Provisioning Rate**[7] is equal to **153 bps** (equal to 83 bps including the EUR 193 mln increase in adjustments linked to the scenario update as a one-off effect of only 1Q20).

- As a result of the changes in these aggregates, the **Net operating income** was approximately EUR -135 mln, compared to a positive value of EUR 91 mln in the same period of the previous year.

- The trend in the aforementioned income statement aggregates also includes **Net provisions for risks and charges**, totalling EUR -40 mln (EUR -39 mln in 1Q19), **Gains (losses) on investments**, equalling EUR 0.2 mln (EUR +0.9 mln in 1Q19), **Restructuring costs/One-off charges**, amounting to EUR +3 mln (compared to EUR +2 mln recorded in the same period of the previous year), costs associated with **SRF (Single Resolution Fund), DGS (Deposit Guarantee Systems) and similar schemes**, amounting to EUR -58 mln (EUR -61 mln in 1Q19), **DTA fee** of EUR -18 mln (unchanged from same period of the previous year), and **Gains (losses) on sale of investments**, equal to EUR +2 mln (EUR +1 mln in 1Q19).

- As a result of these trends, together with the positive impact on taxes of EUR +4 mln (EUR 57 mln in 1Q19) and the net economic effects of the **PPA**, equal to EUR -1 mln (EUR -5 mln as at 31 March 2019), the Group posts a **Net Loss of EUR 244 mln**, compared to a Net Profit of EUR 28 mln posted in 1Q19. Note that until long-term projections can be adopted that take into consideration a reliable and updated macroeconomic scenario, it was decided, for prudential reasons, to not recognise proceeds of roughly EUR 22 mln connected with the reassessment of DTAs from tax losses for the first quarter of the year.

- **Total Funding** at 31 March 2020 amounted to approx. **EUR 184.5 bn**, with a decrease in volumes of EUR 7.8 bn compared to 1Q19. In particular, Indirect Funding decreased (EUR -10.5 bn), with the Assets under Management component reflecting the negative market situation, following tensions related to the COVID-19 emergency, while Assets under Custody is in decline due to the withdrawal of shares in deposit at the Parent Company by a large industrial group, put in place as part of its organisational/corporate restructuring. Conversely, Direct Funding increased (EUR +2.7 bn, EUR +3.6 bn excluding the deconsolidation of BMP Belgio S.A.), thanks to the growth in Current Accounts (EUR +4.6 bn) and Repurchase Agreements (EUR +1.6 bn). Decreases were recorded in other forms of funding (EUR -3.3 bn) and bonds (EUR -0.3 bn), mainly as a result of the effects from the repayment of the Guaranteed Government Bonds in 1Q20, partially offset by the initiatives envisaged by the Funding Plan (in particular, the issues of senior and subordinated bonds made in the second half of 2019 that continued in 1Q20). Total Funding also posted a decline with respect to 31 December 2019 (EUR -11.5 bn) primarily due to the decrease in Indirect Funding (EUR -12.7 bn), which reflected the aforementioned effects, only partly offset by the increase in Direct Funding (EUR +1.1 bn) thanks to the growth in Current Accounts (EUR +3.3 bn) and Repurchase Agreements (EUR +3.3 bn). Moreover, decreases were recorded with respect to 31 December 2019 for other forms of funding (EUR -2.8 bn) and bonds (EUR -2.5 bn) mainly as a result of the aforementioned effects from the repayment of the Guaranteed Government Bonds, partially offset by the issues of bonds made in 1Q20.

- **Loans to customers** stood at roughly **EUR 82.2 bn** as at 31 March 2020, up EUR 0.3 bn compared to 31 March 2019 (EUR +1.0 bn net of the deconsolidation of BMP Belgio S.A.), due to the increase in Repurchase Agreements (EUR +1.7 bn), Mortgages (EUR +0.7 bn) and Other loans (EUR +0.1 bn). There was a drop in Current Accounts (EUR -0.4 bn) and Net non-performing loans, which declined by EUR 1.7 bn, benefiting from the sales of UTP and bad loans, in particular during the second half of 2019. The aggregate was up also compared to 31 December 2019 by EUR 2.1 bn, principally due to more transactions in Repurchase Agreements (EUR +1.3 bn) as well as growth in Mortgages (EUR +0.5 bn) and Other loans (EUR +0.6 bn). Instead, non-performing loans were down (EUR -0.3 bn), influenced also by the increase in average coverage following the higher adjustments linked to the revision of the statistical valuation parameters deriving from the changed macroeconomic scenario that emerged following the spread of the COVID-19 emergency.

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

As at 31 March 2020, the **coverage** of non-performing loans stood at 49.6%, an increase compared to 31 December 2019 (48.7%), including following the higher adjustments on statistically measured positions linked to the revision of the valuation parameters deriving from the changed macroeconomic scenario that emerged following the spread of the COVID-19 emergency. Conversely, the coverage is down compared to 31 March 2019 (53.3%), in particular, the coverage on Bad Loans fell to 54.5% (61.3% as at 31 March 2019). This trend is influenced by the deconsolidation of positions subject to disposal transactions carried out during 2019 that, in reference to Bad Loans, mainly involved unsecured loans characterised by higher coverage percentages.

- With regard to capital ratios, as at 31 March 2020 the **Common Equity Tier 1 Ratio** stood at **13.6%** (14.7% at the end of 2019) and the **Total Capital Ratio** at **16.2%**, compared to 16.7% recorded at the end of December.

Reference context

After a modest slowdown in the global economy during 2019, the initial months of 2020 were marked by the outbreak of the COVID-19 epidemic; the coronavirus, which began in China at the end of January, spread around the world in a few months, with particular intensity in Europe and the United States, forcing the World Health Organisation to declare that it had reached pandemic status on 11 March 2020. The thousands of victims in the population have forced the majority of the countries affected to launch social distancing and stringent containment measures, including school closures, suspension of public events, limitations on individuals' movements, and suspension of numerous production activities (lockdown). Although monetary and fiscal authorities at the national and supranational levels are intervening through expansionary measures to support household and business income as well as credit to the economy and liquidity on the markets, the effects of the virus containment measures on production activities, international trade and aggregate demand are severely negative, creating a scenario of global recession, with risks of further decline for the world economy based on the evolution of the epidemic and the procedures for a gradual return to "normal". At the same time, the economic slowdown caused by the pandemic and the failure of Russia and Saudi Arabia to reach an agreement to renew oil production cuts (subsequently reached in April) provoked a sudden deceleration in inflation in the first quarter of 2020.

For the United States, 2019 ended with a pause in trade tensions with China, which generated expectations for a recovery of international trade and caused the markets to relax; but beginning in the second half of March, the virus hit the city of New York especially hard, pushing the country towards lockdown. The US administration responded to the COVID threat by launching an extraordinary relief package amounting to approximately USD 2,200 bn (9.5% of GDP) to support the economy, allocate funds for the healthcare system and manage the emergency. In particular, the stability of the labour market and possible social tensions are causing concerns, with new applications for unemployment benefits exceeding 3 mln in the penultimate week of March and 6.6 mln the following week, a value nearly ten times that of the peak recorded during the financial crisis of 2008-2009.

The epidemic has gradually spread to all countries in the Eurozone, leading to lockdown measures and causing a sharp deterioration in the economic outlook. The preliminary assessments of the leading indicators for March are heavily negative or below the threshold indicating a contraction, and reflect the sharp drop in the services sector, which is much more pronounced than manufacturing. To react to the economic crisis, the EU Commission has activated the general safeguard clause provided by the Stability and Growth Pact, which allows temporary deviations from the medium-term budget objective. It has also changed the State Aid rules, expanding the possibility of governments to guarantee financing to companies, and activated a temporary support tool of EUR 100 bn to mitigate unemployment risks related to the emergency (temporary Support to mitigate Unemployment Risks in an Emergency, SURE). The European Investment Bank (EIB) has set up a pan-European guarantee fund of EUR 25 bn, with the possibility of mobilising loans of up to EUR 200 bn for small and medium-sized enterprises. Eurogroup has enhanced the European Stability Mechanism (ESM) with a reinforced precautionary credit line, which Member States can access, provided that the resources obtained are used to finance the direct and indirect costs of healthcare, treatment and prevention. The amount granted to each country may reach 2% of the national GDP. The possible creation of a European fund for reconstruction is under discussion.

Among emerging countries, as infections halted in China in March, there was an initial return to normalcy; however, Chinese GDP contracted 6.8% on a trend basis in the first quarter of 2020, the first contraction in more than four decades.

Italy was hit by the spread of the COVID-19 epidemic in late February. The measures adopted by the government and local administrations, essential for limiting the contagion, had immediate repercussions on business in the sectors of hospitality and catering, travel and transportation, recreational, cultural and personal services as well as non-food retail trade (which together represent about 10% of the national added value). Since 22 March, the measures have affected all sectors of the economy defined as "non-essential", which account for around 28% of the added value. In March, with inflation rapidly falling to 0.1% Y/Y (preliminary data), the business confidence indicators and the Purchasing Managers' Index (PMI) recorded very significant decreases in manufacturing and especially in the services sector, implying a severe recession. The Italian government, with Legislative Decree 17/2020, made full use of the higher deficit authorised by Parliament (EUR 20 bn), introducing specific measures to address the health emergency and to support the economy. In particular, it envisaged: higher expenditures for the healthcare system, interventions to support household income, suspension of due dates for collections as well as tax and social security contributions, support measures for businesses (e.g., blocking the revocation of some types of financing, extension of loans and suspension of debt repayment for small and medium-sized enterprises, as well as access to credit through a broad programme of public guarantees on loans). Interventions to support business liquidity were further strengthened in April through Law Decree 23/2020, which reinforced the role of public guarantees.

In financial markets, there was substantial turbulence in the wake of developments in the epidemic, with prices slightly recovering after central banks and governments introduced anti-crisis measures. However, since the beginning of the year, the Euro Stoxx index has lost more than 25%, the FTSE MIB index is down 28%, and both the S&P 500 and the Nikkei are down 20%. The drop in the Chinese stock exchange was more contained (Shenzhen -10%), with China being the first economy to enter lockdown but also to exit it.

Long-term rates have declined in all major advanced economies since mid-January, reflecting heightened fears of a generalised slowdown in global business activities. Thus, the yield on the ten-year BTP fell below 1% and the yield on the German ten-year bond to -0.85%; but the outbreak of the epidemic has brought the Italian yield back to almost 2.5% and the German yield to -0.2% before changing course following the announcement by the ECB of the Pandemic Emergency Purchase Programme (PEPP) on 18 March. During that period, the spread with the Bund, from its peak of 280 basis points, closed below 200 points on 31 March 2020 (around 40 points more than the beginning of the year). The yield on ten-year US treasury bonds closed the quarter with a sharp decline to 0.67%, from 1.92% at the end of 2019.

To counter the considerable economic fallout from the pandemic, central banks intervened substantially. The Fed reduced the Federal Funds rates in the range of 0.00%-0.25%, increased the liquidity available to intermediaries and launched a new programme to purchase public debt and mortgage-backed securities, without limits on their amount. Moreover, it activated a series of instruments to support credit to businesses, consumers and local administrations both indirectly, through the banking system, and directly, by granting loans and purchasing private securities in the secondary market. Finally, to ensure the availability of dollar liquidity in international markets, it activated swap lines with the central banks of major advanced and emerging countries. The ECB arranged to conduct new longer-term refinancing operations (LTRO) and further ease the conditions applied to the third series of targeted longer-term refinancing operations (TLTRO3). It also provided an additional envelope of EUR 120 bn as part of the Expanded Asset Purchase Programme (APP) and launched a new programme to purchase public and private securities (Pandemic Emergency Purchase Programme, PEPP) with a budget of EUR 750 bn to have flexibility in conducting securities purchases until the end of the pandemic crisis and at least throughout 2020. The ECB's Supervisory Board announced measures to ease the capital and liquidity requirements of banks under direct supervision, encouraging the opportunity to reinforce the effect through a reduction in the countercyclical capital buffer ratio by macro-prudential authorities.

COVID-19

In the initial months of 2020, the effects of the COVID-19 pandemic were reflected in the production activities and aggregate demand of all economies. The deterioration in growth forecasts has translated into a sharp drop in stock market indices and a sudden increase in volatility and risk aversion. In all the largest countries, monetary and fiscal authorities have put in place strong expansionary measures to support household and business income as well as providing credit to the economy and liquidity on the markets; at the same time, supervisory authorities have approved measures to ease banks' capital and liquidity requirements and the amount assumed in their decisions.

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

Regulatory and supervisory interventions by institutions

The European institutions (European Commission, European Council and Parliament), Italian and European Supervisory Authorities (**EBA, ESMA, ECB/SSM, Bank of Italy, SRB**), and international institutions (**IASB, Basel Committee**) are adopting a series of measures to address the economic effects of the emergency caused by the COVID-19 pandemic. These measures have the objective of supporting banks in mitigating the economic impact of the pandemic.

Regulatory interventions

Capital requirements

On 12 March 2020, the European Central Bank (ECB) issued a press release entitled "**ECB Banking Supervision provides temporary capital and operational relief in reaction to coronavirus**", announcing important measures with reference to the capital and liquidity requirements of banks for the duration of the COVID-19 pandemic, which in all respects represents a situation of severe systemic stress. Specifically, the ECB, as also clarified in the subsequently published FAQs, announced:

- the possibility of temporarily operating below the capital level defined by Pillar II Capital Guidance (P2G), the capital conservation buffer (CCB) and the liquidity coverage ratio (LCR);
- that it was in favour of a relaxation of the countercyclical capital buffer (CCyB) by national authorities[8];
- the possibility of partially using Additional Tier 1 Capital or Tier 2 Capital to meet the Pillar II requirement, bringing forward a measure contained in the Capital Requirements Directive V (CRDV), which was scheduled to take effect in 2021. These measures help free up capital that banks can use to support the economy. In this regard, the ECB emphasised the expectation that banks will not use the positive effects from the aforementioned measures to increase the dividend distribution or pay variable bonuses;
- the application of the preferential treatment for non-performing exposures, currently envisaged for loans guaranteed by official export credit agencies, to exposures that will become non-performing and that benefit from public guarantees granted for the COVID-19 emergency (i.e., a minimum coverage of 0% for seven years as part of the "calendar provisioning" envisaged by the Addendum);
- The ECB also indicated that it would ensure maximum flexibility regarding NPE reduction strategies, taking into account the extraordinary nature of current market conditions.

On 20 March 2020, the ECB communicated the decision to postpone for 6 months:

- the deadline for corrective actions imposed following "on-site inspections", TRIM reviews and analyses on internal models;
- verification of compliance with SREP quality measures;
- the issue of TRIM decisions, follow-up letters from on-site inspections and decisions on internal models not yet communicated to banks, unless the bank explicitly requests a decision because it is considered advantageous.

On 22 April 2020, the EBA proposed to change the standards on prudent valuation, in order to mitigate the impact of volatility triggered by the COVID-19 pandemic on prudential market risk requirements; in particular,

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

the authority proposed introducing the use of a 66% aggregation factor to be applied until 31 December 2020 as part of the "core approach".

On 28 April 2020, the European Commission proposed certain measures to ease capital requirements, such as:

- changing the IFRS 9 transitional provisions, which would allow banks to sterilise the capital impacts associated with the increase in credit value adjustments recognised in the period 2020-2024 with respect to 1 January 2020 for stage 1 and 2 portfolios. In particular, the amendment provides for the re-introduction into Tier 1 capital of a progressively decreasing share of the effect of the higher adjustments, equal to 100% in 2020 and 2021, 75% in 2022, 50% in 2023 and 25% in 2024;
- bringing forward the application date of a) the SME Supporting Factor, b) the Infrastructure Supporting Factor, and c) a more accurate calibration of the salary-/pension-backed loans. The Commission's proposal entails bringing forward the application to the date on which the Regulation in question will enter into force, instead of 28 June 2021, currently envisaged by the CRR;
- immediately applying the EBA's RTS on the prudential treatment of software; the latest revision of the CRR introduced provisions to modify the regulatory treatment of software assets, providing for their exclusion from CET1 deductions. The EBA was commissioned to develop the Regulatory Technical Standards (still being drafted, with the mandate expected to expire in June 2020) to specify how to apply this exemption. The application date of the new prudential treatment of software was set to 12 months from the entry into force of the aforementioned RTS. To free up capital and support digital investments by banks, the Commission has proposed bringing forward the application date to the date on which the Technical Standards enter into force;
- amending the Regulation on the prudential backstop for non-performing loans ("calendar provisioning"), or extending the preferential regime envisaged for loans guaranteed by Export Credit Agencies (SACE in Italy) in terms of the provisioning obligations (0% for the first 7 years, 100% provision only in the eighth year), to all loans guaranteed by the State (only for the portion of the guaranteed loan);
- amending the compensation mechanism, with reference to the Leverage Ratio, associated with the discretion of the competent authority to allow banks to temporarily exclude exposures in the form of central bank reserves from the calculation of the financial leverage ratio.

The entry into force and application date of the measures proposed by the European Commission will depend on the timing of the conclusion of the European legislative process currently under way. In this regard, the European Commission has requested the full collaboration of the Parliament and Council in order to rapidly conclude the legislative process and to adopt the regulation by June 2020.

Liquidity requirements

With reference to the liquidity requirement, the ECB has allowed the possibility to supervised banks to operate below 100% of the liquidity coverage ratio. The ECB has clarified the temporary nature of the measures taken, reiterating that they are valid until further notice.

MREL requirement

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

Classification of exposures for accounting and prudential purposes

Various authorities and standard setters have expressed opinions regarding the prudential and accounting rules on credit risk: the European Commission, Ecofin, ECB, EBA, ESMA, IASB, and BCBS. The general recommended guideline is to make full use of the flexibility of accounting and prudential rules in order to support households and businesses affected by the pandemic.

The suggested flexibility is also useful for avoiding excessive pro-cyclical effects; at the same time, the authorities stressed the importance of banks continuing to measure risks accurately and transparently.

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

- forborne classification;
- performing/non-performing classification;
- updates to macroeconomic scenarios;
- measurement of significant increase in credit risk (SICR) for IFRS 9 purposes;
- recognition of the effects (gain/loss on forbearance) related to contractual changes resulting from customer support measures;
- inclusion of state guarantees in the ECL calculation for IFRS 9 purposes;
- financial reporting.

Forborne classification

The European Banking Authority (EBA) intervened on this specific aspect in a document dated 25 March 2020 "**Statement on the application of the prudential framework regarding Default, Forbearance and IFRS 9 in light of COVID-19 measures**", which framed the accounting and prudential issues related to potential credit reclassification by public and private moratorium measures and other forms of support adopted in response to the pandemic crisis.

In particular, the EBA specifies that public and private moratorium measures granted in relation to the pandemic crisis, as they are intended to mitigate systemic risks and not the specific needs of an individual borrower, must not be automatically classified as forbearance measures, neither for purposes of classifying the receivables that benefit from it, nor for IFRS 9 purposes (and therefore transfer between the risk stages, in particular with higher transfers to stage 2 and consequent recognition of the expected lifetime loss instead of the 12-month loss) as well as for the prudential classification of positions under non-performing loans.

That said, the EBA notes that, even in this specific circumstance, the banks are required to evaluate the creditworthiness of borrowers who benefit from the moratorium and, consequently and possibly, to reclassify borrowers that show a deterioration in creditworthiness.

In carrying out these assessments - which may concern a large audience of borrowers - banks must avoid automatic approaches and prioritise analyses with risk-based criteria. Furthermore, once the moratoria are over, particular attention must be given to companies that will have delays in payment or other signs of deterioration in creditworthiness.

On 2 April 2020, the EBA also published the document "**Guidelines on legislative and non-legislative moratoria on loan repayments applied in light of the COVID-19 crisis**", which provides detailed criteria that must be observed for public and private moratoria granted before 30 June 2020, so that they are not classified as exposures subject to forbearances or distressed restructurings. The guidelines also establish that the entities must continue to promptly identify situations of possible financial difficulty for borrowers and establish consistent classification in accordance with the regulatory framework.

The EBA guidelines refer both to legislative moratorium measures and those from private initiatives that are "broadly applied", that is, granted by banks in order to prevent systemic risk through widespread support to all companies temporarily in difficulty due to the ongoing pandemic. Note that the guidelines describe a series of conditions, all of which must be met, in order for a moratorium measure to be considered "broadly applied":

1. the moratorium must be the result of national legislation or a private initiative. In the latter case, the measure must be based on an intervention scheme that is widely coordinated throughout the banking sector, in order to guarantee uniformity in the moratorium granted by the various credit institutions;
2. the moratorium is applied in relation to a broad spectrum of obligors, determined based on general criteria, such as certain customer types (retail, SMEs, etc.), obligors from one of the areas most affected by the pandemic, exposure type (mortgage, lease, etc.), or part of a particularly affected production sector, etc.;
3. the measure is based solely on a modification of the payment deadlines and, therefore, may consist of a payment suspension, rescheduling, or a temporary reduction of the principal and/or interest to be paid.

The moratorium, therefore, cannot entail the modification of other contractual clauses (e.g., interest rate);

4. the moratorium is applied under the same conditions to all subjects who benefit from it;
5. the measure is not granted on loans disbursed after the date on which the moratorium was announced;
6. the moratorium is a response specifically to the emergency generated by the COVID-19 pandemic and applied before 30 June 2020.

If the moratorium measure meets the requirements listed above, it must not be classified as a "forbearance measure" unless it was already classified as such at the time the measure was applied.

Performing/non-performing classification

The moratoria granted in the context of the COVID-19 pandemic have impacts on the identification and reporting of past due exposures, as this category takes into account the modifications granted to the payment due dates; therefore, the aforementioned forbearances should entail, in the short term, a reduction in transfers of exposures to non-performing as a result of the suspension of due dates for the purpose of calculating past due.

Article 18 of the EBA "**Guidelines on the application of the definition of default under Article 178 of Regulation (EU) no. 575/2013**" of 18 January 2017 (in force for the Group from 31 December 2020) established, in relation to legislative moratoria, the suspension of the calculation of the days past due in the period in which the payments are suspended, entailing an extension of the period for 90 days, as a trigger for the transfer of exposures to non-performing loans.

The EBA guidelines of 2 April 2020, referred to above, equate public moratoria and those granted on a private basis in response to COVID-19; consequently, the latter also benefit from the suspension of counting of days past due, provided that they comply with the requirements set out in the EBA guidelines.

The EBA reiterates that forbearances granted for the COVID-19 emergency, in cases in which the present value of cash flows subsequent to the contractual modification are essentially unchanged, should not be considered distressed, do not result in the transfer to default and represent a temporary relief for those who are unable to fulfil their contractual obligations following the suspension of business activities due to the pandemic.

However, the EBA emphasises that banks are obliged to assess the possible classification of customers benefiting from moratoria among "unlikely to pay", considering the borrower's ability to comply with the new payment plan (regardless of any public guarantee) and ruling out the transfer of these loans to the category of "distressed restructurings".

In this regard, the EBA recognises it may be difficult to perform individual assessments for purposes of classification in non-performing; in this case, banks must adopt a risk-based approach (i.e. taking into account, for example, the sectors most exposed to the long-term effects of the crisis such as transportation, tourism, hotels, and retail trade). Therefore, it will be important to identify, after the suspensions linked to the COVID-19 moratoria, those exposures that will have delays in payments with respect to the new repayment plans, in order to be promptly categorised in "non-performing".

Updates to macroeconomic scenarios

Pursuant to the IFRS 9 accounting standard, the determination of expected credit losses (or, in any case, on all financial instruments that fall within the scope of application of the aforementioned standard) must always be the result of a combined analysis of the following factors:

- an objective and probability-weighted amount, determined by evaluating a range of possible outcomes;
- the time value of money;
- reasonable and demonstrable information, available without excessive costs or efforts at the reporting date, on past events, current conditions and forecasts of future economic conditions (in this case, the inclusion of forward-looking macroeconomic scenarios is critical).

In the context of IFRS 9, particular importance is given to information on future macroeconomic scenarios in which the Group may operate and clearly affects the situation of borrowers in reference to both the "riskiness" that exposures migrate to lower quality classes (thus referring to "staging") as well as recoverable amounts (thus the calculation of expected loss on exposures).

The crisis triggered by the COVID-19 pandemic has produced a sudden worsening in economic forecasts: the context of pronounced uncertainty limits the reliability of available information, making the task of producing detailed long-term forecasts extremely difficult. Various authorities have taken action on this point, providing indications and references to the use of forecasts in developing estimates of expected credit losses during this period characterised by the COVID-19 pandemic.

Measurement of significant increase in credit risk (SICR) for IFRS 9 purposes

The analysis of significant increase in credit risk and, therefore, the identification of the exposures to be included in stage 2, is a multi-factorial and holistic analysis, as indicated by IFRS 9, which takes into account the changes in default risk over the expected life of financial instruments. In this regard, ESMA, in its statement of 25 March 2020, indicated that when economic support programmes for businesses implemented by governments reduce the risk of default on a financial instrument, they must be appropriately considered in the aforementioned measurement; therefore, a moratorium should not be considered, in itself, representative of a significant increase in the credit risk of the financial instrument. Moreover, the specific circumstances linked to the COVID-19 epidemic constitute adequate justification to refute the presumption of a significant increase in credit risk for exposures that are past due for more than thirty days. This provision also represents a significant change from the ordinary rules of the IFRS 9 standard and will generate effects on transfers to stage 2. In addition, ESMA suggests considering collective approaches, also supported by the ECB, to evaluate the significant increase in credit risk; in other words, given the difficulty in identifying risk factors or indicators at the level of the individual borrower, a top-down approach is required, that is, starting from the risk level of specific portfolios (e.g., sectors most affected such as tourism, hotels, airlines) and the creditworthiness prior to the COVID-19 pandemic.

For purposes of staging, the EBA also emphasises the need to distinguish the exposures that will experience a temporary deterioration in credit standing from those that will suffer from a structural deterioration: the transfer to stage 2 must be considered only for the latter.

Recognition of the effects (gain/loss on forbearance) related to contractual changes resulting from customer support measures

ESMA maintains that it should be assessed whether the economic support and relief measures could entail a change in the characteristics of financial assets and, consequently, their derecognition, including in relation to the substantial nature of the change itself. This assessment must include both qualitative and quantitative criteria. In light of current circumstances, the supervisory authority reiterates that it is unlikely that the change would be considered substantial and lead to derecognition if the financial support measures provide temporary relief to borrowers affected by the COVID-19 epidemic and if the net economic value of the loan will not be significantly affected. In any case, entities must provide adequate disclosure of the accounting policies adopted to determine the substantial nature of the change.

Inclusion of state guarantees in the ECL calculation for IFRS 9 purposes

Guarantees provided by sovereign states in conjunction with legislative moratoria or other support measures have diverse characteristics in the various jurisdictions, but share the fundamental characteristic of guaranteeing partial or complete recovery of the relevant loans.

ESMA reiterates, based on the provisions of the IFRS 9 accounting standard, that the aforementioned guarantees impact the measurement of expected losses to the extent that they can be considered an integral part of the contractual conditions governing the loans and are not recognised independently. In this regard, ESMA notes, in reference to the first aspect, that the guarantee does not need to be explicitly established in the contractual clauses (as also provided for by the Transition Resource Group for Impairment in December 2015): this is the case, for example, of public guarantees provided in conjunction with large-scale legislative debt moratoria or economic support measures. The supervisory authority stresses the importance of providing adequate reporting regarding the assessments made.

Financial reporting

Consob, in line with the ESMA statements published in March 2020, in its warning notice no. 6/20 of 9 April 2020 entitled "**COVID 19 - Drawing attention to financial reporting**", emphasises the importance that issuers provide updated information (i) on the risks related to COVID-19 that may have an impact on the economic and financial situation, (ii) on any measures taken or planned to mitigate these risks, as well as (iii) an indication of a qualitative and/or quantitative nature of the potential impacts that were considered in estimating the company's future performance. In addition, in relation to reporting subsequent to 31 December 2019, it cautioned directors to carefully evaluate the extent to which the business planning is updated, in order to consider the main risks related to the pandemic that could preclude the achievement of the strategic objectives and/or compromise business continuity. These elements could be an indication that the assets recorded in the financial statements may be impaired, thus highlighting the need to estimate the recoverable value of the asset. Specific assessments should also be made on other areas of the financial statements that could be impacted by the crisis.

Monetary policy interventions

Financing transactions

While leaving the interest rate on the main refinancing operations and the interest rates on marginal loans and deposits unchanged, the ECB's Governing Council approved some significant changes to the refinancing operations at its meeting on 12 March 2020. In particular:

- the increase in the nominal access amounts for TLTRO III operations and an improvement in the conditions applied;
- introduction of new refinancing operations (LTRO).

With reference to TLTRO III, the maximum total amount that counterparties may borrow has been increased, for all future transactions, from 30% to 50% of the stock of eligible loans at 28 February 2019 and the limit of 10% of the stock of eligible loans, applied to determine the amount of funds obtainable in each transaction, has been removed. More favourable conditions will apply in the period from June 2020 to June 2021: during this period, the interest rate on TLTRO III operations will be 25 basis points lower than the average rate applied in the Eurosystem's main refinancing operations (MRO).

During the same period, for counterparties that achieve non-negative net lending between 1 April 2020 and 31 March 2021, the interest rate applied on existing TLTRO III will be 25 basis points lower than the average interest rate applied on the Deposit Facility in the same period and in any case not exceeding -0.75%.

The option to repay the amounts borrowed under TLTRO III before their final maturity was brought forward to one year from the settlement of each operation (rather than two years), starting from September 2021.

The changes to TLTRO III were accompanied by the introduction of a series of longer-term refinancing operations (LTROs), with the aim of providing immediate liquidity support to the Eurozone financial system.

The transactions, conducted on a weekly basis with full allotment, were designed specifically to meet liquidity needs and to support the normal functioning of the euro money market. These operations expire on 24 June 2020, in conjunction with the regulation of the fourth TLTRO III operation, to which the counterparties will be able to transfer the refinancing obtained. The rate applied to them will be particularly favourable, equal to the average of the Deposit Facility rate during the term of each operation (now equal to -0.50%).

On 30 April 2020, the Governing Council decided to further ease the conditions applied with reference to the interest rate and the incentive mechanism. In particular:

- for the period from 24 June 2020 to 23 June 2021, the interest rate on all TLTRO III operations will be 50 basis points (instead of 25) lower than the average rate applied to MROs in the same period (currently 0%);
- for counterparties whose net lending is not negative for the period 1 March 2020 to 31 March 2021, the interest rate applied from 24 June 2020 to 23 June 2021 on all TLTRO III operations will be 50 basis points (instead of 25);
- for banks that reach this net lending target, more favourable conditions will be applied for the entire duration of the operations, otherwise the remuneration scheme originally envisaged will be applied, i.e., "base rate" equal to the average MRO rate over the life of the operation, reduction of this rate if a certain net lending benchmark is exceeded in the period 1 April 2019- 31 March 2021, up to a minimum equal to the average of the Deposit Facility rate. Lastly, the net lending threshold, above the benchmark, to be reached in order to benefit from the maximum rate reduction, was reduced from 2.5% to 1.15%.

The ECB's Governing Council, at its meeting of 7 April 2020, approved measures aimed at easing the eligibility criteria and the risk control system applied to the assets eligible as collateral for the Eurosystem's refinancing operations, in response to the economic crisis and financial crisis caused by the COVID-19 pandemic. The measures introduced are intended to expand the availability of collateral, facilitating banks' access to financing and supporting credit to businesses and households, through a strengthening of the use of secured loans and a general increase in risk tolerance by the Eurosystem.

These temporary interventions will remain in force until the end of the Pandemic Emergency Purchase Programme (PEPP). By the end of 2020, the Governing Council will assess the possible necessity of extending the programme to ensure adequate availability of collateral for counterparties.

In particular, the following measures will be applied:

- from 8 April 2020: i) the minimum threshold for domestic credit at the time of collateral transfer is reduced to zero (from the current EUR 30,000); ii) the concentration limit envisaged for the use as collateral of uncovered senior bank bonds (UBB) issued by a credit institution or by other entities with which this institution has close ties is increased from 2.5% to 10% of the total value of the collateral pool of each counterparty;
- from 20 April 2020: the minimum rating requirement for Greek government bonds is suspended, in order to make them eligible to be used as collateral in Eurosystem credit operations;
- from 20 April 2020: a generalised reduction in haircuts for all eligible assets (securities and loans) will be applied. A reduction is also envisaged for the additional risk mitigation measures applied to covered bank bonds for own use and to securities measured using a theoretical price (UBBs, GGBBs, covered bank bonds and ABSs).

Furthermore, as part of the framework for additional credit claims (ACC), effective 20 April 2020, the following were introduced:

- the possibility for banks to use their own internal credit quality assessment system (IRB), even if they have only been approved by supervisory authority;
- a reduction in haircuts applied to loans provisioned both individually and as part of portfolios;
- a review of other risk mitigation measures specifically envisaged for credit portfolios;
- change in the frequency, from monthly to quarterly, for sending detailed data on individual loans included in the portfolios (loan-level data).

Finally, in the context of the ACC system, analyses are under way to further expand the list of eligible assets, as well as to define the implementation methods and risk control measures necessary to accept as collateral loans to households and businesses supported by a state guarantee granted in response to the COVID-19 emergency.

The ECB's Governing Council on 22 April 2020 adopted temporary measures (applicable until September 2021, when the first TLTRO III is planned) to mitigate the effects of possible downgrades in the ratings of marketable assets resulting from the economic effects of the COVID-19 pandemic on the eligibility of collateral to guarantee refinancing operations.

In particular, the Governing Council has introduced a grandfathering regime, according to which marketable assets and issuers that fulfilled the minimum credit quality requirements for the eligibility of collateral on 7 April 2020 (BBB- for all assets, with the exception of ABSs) will continue to be eligible in the event of a deterioration in ratings, provided that their rating remains at or above credit quality step 5 (CQS5), as per the Eurosystem's harmonised rating scale (equivalent to a BB rating).

The ABSs, to which a minimum rating threshold of CQS2 (equivalent to an A- rating) within the ECB General Framework currently applies, will be eligible as long as their rating remains at or above CQS4 (equivalent at a BB+ rating).

Collateral haircuts will be applied to the grandfathered assets based on their actual ratings.

Hence, the measures launched offer protection against potential downgrade risks and the consequent ineligibility of all marketable assets (securities) included in the Group's counterbalancing.

On 30 April 2020, the ECB's Governing Council decided to temporarily conduct pandemic emergency longer-term refinancing operations (PELTRO) to support the liquidity conditions of the Euronzone financial system and to help preserve the orderly functioning of money markets by providing effective liquidity support after the expiry of the bridge LTROs conducted from March 2020. The counterparties participating in the PELTROs will benefit from measures to ease eligibility criteria applicable to the assets that can be used as collateral in force until the end of September 2021.

Market liquidity support

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

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

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

Government interventions

State Aid in the European context

European institutions have approved the activation of the suspension clause of the Stability Pact, i.e. the framework of rules to ensure fiscal discipline for Member States.

In addition, the European Commission on 19 March 2020 adopted a **Temporary Framework** to allow Member States to take full advantage of the flexibility provided by State Aid rules to support the economy in the current COVID-19 emergency. Together with numerous other support measures that can be used by Member States under existing State Aid rules, the Temporary Framework allows Member States to ensure that businesses of all types have sufficient liquidity and to maintain the continuity of economic activity during and after the COVID-19 epidemic.

This Temporary Framework, based on article 107, paragraph 3, letter b) of the Treaty on the Functioning of the European Union (TFEU), envisages five types of aid:

- **direct grants, selective tax advantages and advance payments:** Member States will be able to set up systems to grant up to EUR 0.8 mln to a business facing urgent liquidity needs;
- **state guarantees for bank loans taken by companies:** Member States can provide state guarantees to allow banks to continue providing loans to customers who need them;
- **subsidised public loans to companies:** Member States will be able to grant loans with favourable interest rates to companies. These loans can help businesses meet immediate working capital and investment needs;
- **safeguards for banks that channel State Aid to the real economy:** some Member States plan to leverage banks' existing lending capacities and use them as a support channel for businesses, in particular small and medium-sized enterprises. The framework clarifies that this aid is considered direct aid to the banks' customers and not to the banks themselves and provides guidelines to minimise the distortion of competition between banks;
- **short-term export credit insurance:** the framework introduces additional flexibility in demonstrating that some countries constitute uninsurable risks on the market, thus allowing states to offer credit insurance, where necessary, for short-term exports.

On 3 April, the European Commission extended the Temporary Framework on State Aid, adopted on 19 March 2020, to allow Member States to accelerate research, testing and production of coronavirus-related products, to protect the jobs, and further support the economy.

The amendment to the Temporary Framework also broadens the range of existing types of support that Member States can provide to businesses in difficulty. For example, it now allows Member States to grant zero-interest loans, loan guarantees covering 100% of the risk, or to provide capital up to a nominal value of EUR 0.8 mln per company. This can also be combined with "*de minimis*" aid (bringing aid per company to EUR 1 mln) and other types of aid. This possibility should be particularly useful for rapidly meeting the urgent liquidity needs of small and medium-sized enterprises. The change will be in effect until the end of December 2020.

On 14 April 2020, the European Commission approved an aid package to support the Italian economy in tackling the effects of the COVID-19 epidemic as part of the Temporary Framework on State Aid. In order to immediately implement the approved measures, the Ministry of Economic Development published online the form to request guarantees up to EUR 25 thousand.

Lastly, on 21 April 2020, the European Commission approved two additional support schemes, for a total of EUR 150 mln, for the agriculture, forestry, fishing and aquaculture sectors in the context of the COVID-19 pandemic.

Italian government decrees

To counteract the negative effects that the COVID-19 epidemiological emergency is having on the domestic social and economic fabric and to prevent the temporary crisis from producing permanent effects, in the initial months of the year the Italian government implemented a series of extraordinary, necessary, and urgent measures. Among these, note, in particular, Law Decree 18/2020 issued on 17 March 2020 "Measures to strengthen the National Health Service and economic support for households, workers and businesses related to the COVID-19 epidemiological emergency" (known as "**Cura Italia**") and Law Decree 23/2020 issued on 8 April 2020, "Urgent measures regarding access to credit and tax obligations for businesses, special powers in strategic sectors, as well as healthcare and employment interventions and to extend administrative and procedural deadlines" ("**Liquidity Decree**") which, within each measure's vast sphere of intervention, contain a series of significant provisions that are relevant to the banking system.

The "Cura Italia" decree acts within four main areas. Firstly, the resources available to the healthcare system have been strengthened, including for hiring doctors and nurses and increasing the number of intensive care units. Secondly, measures to support household income have been introduced through numerous instruments, mostly intended to strengthen social safety nets throughout the country for employees and freelance workers as well as specific sectors. In particular, the existing social safety nets, such as the Cassa Integrazione Guadagni Ordinaria (Ordinary Unemployment Fund)[9], the Fondo di Integrazione Salariale (Income Support Fund) and the Cassa Integrazione Guadagni in Deroga (Exceptional Unemployment Fund), are extended to all companies forced to limit or suspend business activities due to COVID-19, reducing all or part of employees' working hours. Furthermore, the decree suspends lay-offs for economic reasons for the duration of the emergency period. The third line of action relates to the support of companies' liquidity, at risk due to the collapse in demand following the halt in economic activities, through the banking system and the use of the Fondo Centrale di Garanzia (Central Guarantee Fund). The primary objective of the Italian government is to prevent the difficulties of the real economy from escalating due to a lack of liquidity and interruption in the supply of credit. In particular, it envisages:

- the temporary postponement of fiscal deadlines relating to taxes and social security contributions;
- the obligation for banks to maintain credit lines[10] to respond promptly to the exceptional and urgent need for liquidity of small and medium-sized enterprises (SMEs) in particular;
- the recognition to banks of government guarantees on one-third of the loans subject to a moratorium measure. At the same time, the Central Guarantee Fund for SMEs has been enhanced, in terms of resources and operating procedures, and a public guarantee has been granted on exposures assumed by Cassa Depositi e Prestiti to banks and financial intermediaries that disburse loans to companies affected by the emergency and operating in specific sectors.

The fourth line of intervention of the "**Cura Italia**" decree concerns aid for the most heavily affected sectors, such as the tourism-hospitality sector, transportation, catering and bars, culture (cinemas, theatres), sports and education.

Among the fiscal changes made by the aforementioned decree, art. 55 "Financial support measures for businesses" envisages important measures to support the disposal of non-performing loans. In particular, a company that concludes the disposal for consideration of monetary claims against defaulting borrowers no later than 31 December 2020, can transform the Deferred Tax Assets (DTAs) into tax credits deriving from the following components:

[9] In particular, the introduction of a new justification for "national COVID-19" has been introduced.

[10] Banks are required to: i) approve the suspension of mortgage and loan instalments until 30 September; ii) maintain the availability of any amounts not yet used in credit facilities, and iii) not revoke the credit facilities and advances granted.

- tax losses not yet calculated as a decrease in taxable income on the disposal date;
- notional return amount exceeding total net income, not yet deducted nor used as tax credit on the disposal date (known as ACE Surplus).

for a total amount not exceeding 20% of the nominal value of the disposed receivables, with a maximum limit of EUR 2 bn of gross value for the disposed receivables for each company (determined taking into account all disposals made by 31 December 2020 by companies linked through control relationships). These provisions are not applicable to companies that have been determined to be failed or failing, that is, in a state of insolvency.

Finally, among the other measures contained in the "**Cura Italia**" decree, note that article 106 provides for the possibility of extending the approval period for financial statements as at 31 December 2019 to 180 days, establishing, also through waivers of the current statutes, the possibility of voting electronically or by mail, participating in the shareholders' meeting through telecommunications, and, finally, the possibility of designating a proxy for the ordinary or extraordinary shareholders' meetings as envisaged by article 135-*undecies* of the Legislative Decree no. 58 of 24 February 1998.

On 29 April 2020, Law no. 27/2020, converting the "**Cura Italia**" decree, was published in the Official Gazette. The main changes introduced during the process of conversion into law include the extension of the intended beneficiaries of the "first home" mortgage solidarity fund (Fondo Gasparrini), providing for, among other things, the suspension of mortgages of amounts up to EUR 400 thousand (the previous threshold was EUR 250 thousand) as well as mortgages granted through the Guarantee Fund for the purchase of first home loans, managed by CONSAP S.p.A.

The **Liquidity Decree** introduces urgent measures regarding access to credit and postponement of obligations for companies, as well as special powers in the strategically important sectors and in relation to the courts, to address the issues resulting from the coronavirus emergency. In particular, it ensures the disbursement of EUR 400 bn in credit to the economy (in addition to the EUR 350 bn for moratorium measures or guaranteed by the "Cura Italia" decree) and provides:

- specific measures to facilitate access to credit, to support liquidity, exporting activities, globalisation and investments; these include the enhancement of guarantees granted through the company SACE Simest of the Cassa Depositi e Prestiti Group on loans to companies affected by the emergency, provided that the loans are used for production activities located in Italy;
- faster payments by the public administration to its suppliers;
- strengthening of special powers in strategically important sectors and financial transparency obligations; these include the extension of the golden power, that is, the tool that allows the State to authorise in advance corporate operations in companies operating in strategic sectors for the country, such as lending, insurance, water, and energy, in order to block hostile take-overs;
- other fiscal and accounting measures, such as a further postponement of tax obligations for workers and businesses, and other measures, such as the temporary postponement of the deadline for postponing hearings for civil and criminal proceedings pending at all levels of courts as well as suspension of the time limits for carrying out any act for civil and criminal proceedings.

The government has announced additional measures to support the economy which are expected to be approved in the coming days.

MPS Group initiatives

Occupational safety

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

The following were involved in managing the crisis:

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

In relation to "**231 risks**", the Compliance Function performed audits on the mitigation actions carried out, with a positive outcome, in order to assess any violation of the provisions contained in the Consolidated Law on Workplace Health and Safety (Legislative Decree 81/2008), subsequently subjected to the scrutiny of the 231 Supervisory Body.

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

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

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

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

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

The primary strategic initiatives adopted are listed below.

- <u>Agile work</u>: smart working was encouraged for all Group resources, including those in the Commercial Network and Specialised Centres, taking care to safeguard operational continuity; this method of remote working is undoubtedly the most effective initiative to limit the spread of the contagion.

  The results obtained are noteworthy:

  - in the Group, the weekly average was 87%, with peaks of 100% in many facilities;
  - in the Network, the daily average on branch opening days is around 50% and over 85% on closure days;
  - on closure days, peaks of over 19,000 logins to the corporate network were reached through the VPN channel (in addition to connections with personal PCs enabled with a specific procedure); on the same days, on average about 3% of the workforce is physically at the bank.

  Agile work was only possible thanks to the strengthening of the technology infrastructure, through significant investments designed to enhance the systems for monitoring logical security, with the purchase of new applications and the strengthening of existing infrastructures. Furthermore, as a result of the purchase of PCs, mobile phones and virtualisation systems for branch telephones, it was possible to contact customers also during the times and days that the branch was closed to the public, thus ensuring operational continuity and the provision of the majority of services. To date, over 90% of the Group's personnel can access the system remotely.

- Closure of branches and Specialised Centres: another initiative that contributed considerably to limiting the spread of the infection was undoubtedly the limitation of the opening hours of commercial branches (initially only in the morning, then three days a week and then only for customers who had scheduled an appointment by phone). Unfortunately, in the areas most affected by the epidemic and in the "red zones", it was difficult to ensure the continuity of opening of the branches, even under the reduced scheduled described above.
- Customers were informed through notices outside the branches, information on the Parent Company's institutional website and press releases in the media, referencing the availability of alternative channels to the traditional branch, such as the opportunity to use ATMs, internet banking and mobile banking, which were functioning and operational.
- Information to branches: the branches have been constantly updated in real time on developments in the crisis and the resulting provisions of the government, regional ordinances and municipal ordinances, including through the efforts of Health and Safety Executives. Furthermore, at certain points in time, signs were prepared that were hung up in the branches for the benefit of customers.
- Procurement and cleaning: enhanced cleaning is carried out (in terms of intensity, frequency and use of specific sanitising products); protective masks, sanitising gel and disposable gloves were distributed in all structures. Plexiglas protective screens have been installed at the teller counters and are in the process of being installed for all other desks open to the public.
- Information to personnel: with the evolution of the health emergency and, consequently, the containment measures ordered by the Council of Ministers and by the individual regions, detailed instructions on corporate and national provisions have been made available and constantly updated for all personnel (via individual emails as well as through the web page dedicated to emergency management created on the company's intranet portal).
- Responses to employees: in order to handle requests for specific clarifications and analysis, an email address and an information request form were made available to all Montepaschi Group personnel, which can be filled out on the intranet. The form consists of a series of questions with a guided response. In cases where the answer is not complete, a specific request can be added in a special field.
- FAQs: FAQs have been prepared and constantly updated, broken down by topic, which Group employees can access to get answers to their questions/doubts. The FAQs are published on the web page dedicated to emergency management on the company's intranet portal. This page acts as an access point for all employees for relevant useful information, stored virtually, which can be accessed from any device, including personal devices that have updated credentials.

Commercial activities

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

When the emergency began, on 21 and 24 February, the Parent Company had to order the closure of some branches, in particular those in the municipalities of Codogno and Vò Euganeo, as they were included in the "red zones".

Subsequently, with the intention of safeguarding both customers and employees and, in general, the communities in which the Parent Company operates, from 14 March the branches were open on Monday, Wednesday and Friday, with the exception of the Paschi Valore Top branches, which continued to be open daily to the public, but only in the mornings. Beginning on 21 March, the Paschi Valore Top branches have also been open only on Monday, Wednesday and Friday.

The branches, throughout the country, can be accessed only by appointment, while **no customer access is allowed in the afternoons**. However, the branches continue to **guarantee all essential services** and can be contacted by telephone and e-mail even on closure days.

In order to reduce contacts to the extent possible, customers were invited to use the **apps** and **Digital Banking,** through which accounts can be viewed (current account, debit and credit cards, investments, prepaid cards, mortgages, and loans) and all banking transactions can be carried out remotely. Alternatively, customers can **telephone directly** to their branch to check if it is actually necessary to go to the branch to carry out the operations they wish to make, and if so, schedule an appointment.

From 13 March, a toll-free "Covid Emergency" number was made available to customers to support the existing generic number. Direct communication activities with customers on digital information and social channels were also progressively enhanced.

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

On 16 March, an email was sent to customers informing them of the alternating branch openings, communicating the toll-free numbers available and how to access the bank's services. From 17 March on all MPS ATMs and digital channels - internet, social and mobile banking - a message is displayed containing information on the alternating branch openings and toll-free numbers. All messages contain a link to the site www.mps.it.

On 19 March, an e-mail was sent to business customers informing them of opportunities to suspend instalment payments, extend loan terms, and postpone due dates for advances as well as the granting of loans, inviting customers to find more information on the institutional website or through support numbers.

On 24 March, the Business and Private Forms were published on the website www.mps.it, so that customers could download them and complete the necessary preliminary steps for requesting the suspension of loan instalments.

From 13 to 24 March, in contacts with customers, the available information was provided regarding the possibility of taking advantage of waivers, and, pending the availability of the forms on the website, collecting personal and contact information necessary for the subsequent recall activity by the branches.

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

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

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

- **web collaboration (from 24 March)**, the relationship manager can send the customer, on the Digital Banking platform, basic and advanced advisory proposals developed through the Advice application, which the customer can accept or reject (service previously available only for Private customers and extended from 24 March to Premium customers);
- **telephone orders (from 31 March)**, allows the possibility of receiving and recording customer orders over the telephone, also extended to include the conversion of UCITS units (switches), and total/partial redemption of UCITS units;
- **unilateral stipulations**: preliminary activities are under way to allow customers to take out a loan based on a unilateral contract, by which only the borrower goes to the notary's office, without the presence of the Parent Company.

Credit

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

In relation to this guideline, a **structured monitoring activity of support measures and the relevant credit aggregates** was implemented, **credit strategies were reviewed**, and the **current validity of credit standards** was assessed.

As regards ***monitoring activities***, a "Daily Credit Dashboard" has been developed with the objective, on one hand, of verifying any tensions on credit lines and, on the other, to monitor the progress of operations for granting credit, suspensions, freezes on instalment payments as well as assessing the effectiveness of measures taken and the levels of customer service in terms of response.

As regards the ***credit strategies***, approved by the Board of Directors on 25 February, the new scenario has, in fact, resulted in their being inapplicable. The Parent Company therefore started "sounding" consultations with leading research and consultancy companies to evaluate assumptions regarding the evolution of the macroeconomic scenario. In particular, geographic and sectorial impact estimates and tools to manage both the crisis phase and the new scenario subsequent to the emergency phase (or the "new normal") were studied in depth.

The activity - still in progress - involves the addition of "COVID" indicators and the clustering of the portfolio based on strategies to be activated both in terms of support and risk mitigation.

In addition to the strategies, **credit standards** are being redefined, that is, the criteria and assumptions to be adopted to assess the creditworthiness of companies in the new context, including based on impact analyses of the health emergency on the individual financial statement indicators.

Forward-looking analyses to assess repayment capacity require a thorough knowledge of the company.

Considering the "asymmetrical" nature of the crisis, it becomes necessary to assess the ecosystem in which the company operates, the business and technological legacy and its ability to react and operate in the new context. For this reason, the activity will be accompanied by an **assessment of companies based on a questionnaire which seeks to evaluate their ability to adapt to the new context**, the new constraints and the path to return to the "new normal".

In this context, the Group will give **priority to actions to support households and businesses** in the emergency phase.

In fact, in interpreting the provisions of the Liquidity Decree, the willingness of the legislature to **use financial intermediaries as the entities responsible for channelling liquidity** in the context of the characteristic lending activities was carefully considered.

This decision required the introduction of provisions for "streamlining" the analysis required by intermediaries inherent in determining creditworthiness, with particular reference to capital ratios and future cash flow generation, also considering the uncertainty that characterises the macroeconomic context and the poor reliability of forecasts.

For this purpose, all of the **assessment rules** were precisely defined with the aim of ensuring sound practices to manage risk and at the same time ensure prompt action. All decisions and assumptions have been presented to the supervisory authorities at various points in time.

Given the current regulatory framework, an area that was comprehensively analysed was that of the "precautions" to be adopted in the process, in the information set and in the **tools to be used in the preliminary assessment phase in order to mitigate potential legal risks**. The fact that the State guarantees a significant percentage of the loans granted to SMEs indemnifies the banks from the risk of future insolvency of the borrower, but in itself does not free them from potential litigation risks for having granted additional liquidity to parties who did not satisfy the requirements to benefit from the guarantees. An aspect that becomes relevant in this context: the measures are always in favour of companies that have suffered an economic and financial impact from the emergency situation, a circumstance which, other things being equal, increases the probability of insolvency.

All lending transactions carried out by the Bank as a result of the health emergency have been **registered with a specific justification code so that actions can be managed and monitored on a daily basis**.

The "**early warning detection**" system is active on all measures adopted and an enhancement is being developed to allow the detection in advance of any issues with respect to the programme used for households and businesses.

The granting/suspension transactions carried out for "COVID" purposes have not been classified as "forborne". In addition, on 27 March, the automatic parameters for classifying overdrafts as non-performing, applied to forborne measures already active, were temporarily deactivated.

The "binding" parameters for the classification remained active and classified as "non-binding parameters" with high importance. The approach adopted and the tracking allows the phenomena to be governed and managed and the overall risk profile to be assessed. All the initiatives - also activated based on the EBA guidelines on the matter - were presented and discussed with the ECB Joint Supervisory Team.

With regard to the management of non-performing loans, an extraordinary assessment and monitoring activity on all of the largest exposures, an assessment of the impact on KPIs of the operational management of the UTP portfolio, the achievement of "Cura Italia" targets and the analysis of the impact on the recovery of bad loans due to the postponement of hearings and the suspension of procedural deadlines have been launched. Impacts are also expected from the cancellation of attempts for non-performing sales planned until 31 July and the possibility of requesting new ones only from 1 September 2020.

The management of bad loans, from 31 March 2020, was re-internalised as planned, with the return of staff seconded to the Juliet company.

Particular attention was given to collection actions on private individuals in order to mitigate potential reputational risks that, in this scenario, could result from the credit collection activities and in the classification to bad loans (notice of default status, etc.). Therefore, it was decided to suspend until June classifications to bad loans envisaged at the end of the "mass" collection process of UTP positions of small amounts, mainly private individuals with a "non-performing" status for more than 24 months (approximately 1,400 customers with GBV of EUR 29.5 mln)

Another aspect to which particular attention was given concerns the management of payment suspension requests (and requests for rescheduling) of "unlikely to pay" customers (excluded from the "Cura Italia" decree). In this regard, the Parent Company has decided to evaluate the suspension requests for the UTP portfolio, even if they do not fall within the legislative scope.

An analysis is also under way on the conversion of DTAs into tax credits for the disposal of non-performing loans.

As at 31 March, the **Group had received requests to freeze instalments** for approximately 62 thousand accounts (approx. 39 thousand from businesses and 23 thousand from private customers) related to instalment loans with a gross exposure of EUR 6.8 bn (EUR 4.5 bn for businesses and EUR 2.3 bn for individuals).

The same requests at a more recent date[11] amount to nearly 90 thousand (48 thousand from businesses and 42 thousand from private customers) for a total gross exposure of EUR 10.2 bn (EUR 6.1 bn for businesses and EUR 4.1 bn for individuals).

The number of requests for loans up to EUR 25 thousand that are 100% backed by the Guarantee Fund for SMEs (art. 13 of the Liquidity Decree) was approx. 22 thousand on 4 May 2020, amounting to EUR 450 mln.

[11] The reference date is 30 April 2020 for the Parent Company and 24 April 2020 for the subsidiaries.

Business Continuity Management

In particular, business continuity management has:

- guaranteed operational continuity of critical and systemic processes by:
  - creating separate working teams for the core treasury and operating liquidity processes operating in the regular offices, through smart working and in the recovery room;
  - using smart working, progressively implemented based on developments in the emergency and government provisions;
  - progressively implementing equipment (laptops) for all other resources involved in critical processes.
- launched the crisis management process envisaged by company regulations - emergency level raised to 3 (extraordinary);
- convened and launched the Crisis Management Committee (CMC) to monitor the emergency;
- participated regularly in institutional working teams created by CODISE (Service Committee for managing the banking system crisis led by Bank of Italy), ABI, COBAN, and the BCM Observatory.

Logical Security and Physical Security Management

In response to the extraordinary needs that emerged, in particular in recent weeks and related to the COVID-19 emergency, the Group has:

- activated 720 "Citrix" licenses for secure connection to the corporate system using personal laptops;
- enhanced the perimeter of the corporate VPN (reaching peaks of around 19 thousand users connected in agile work);
- strengthened security measures against cyber attacks;
- enhanced monitoring of extraordinary activities (sanitisation, ATM refilling, etc.) during the branch closure days (Tuesday and Thursday);
- adopted extraordinary measures, with the presence of a doorman for managing customer flows in branches during peak periods (e.g., for pension payments);
- launched the pilot project (branches with sliding doors) with regard to the use of the anti-theft technology for active management of the daily flow of customers (failure to comply with the rules established by the DPCM, etc.);
- monitored daily the number of people in the General Management buildings.

Shareholders

As at 31 March 2020, the Parent Company Banca Monte dei Paschi di Siena's share capital amounted to EUR 10,328,618,260.14, broken down into 1,140,290,072 ordinary shares, of which 36,280,748 treasury shares.

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

Major BMPS shareholders as at 31 March 2020

Shareholder	% of outstanding ordinary shares
Ministry of Economy and Finance	68.247%
Assicurazioni Generali S.p.A.*	4.319%
BMPS S.p.A.**	3.181%

* Share held directly and through subsidiary companies.

** Own shares held by MPS Group following the capital strengthening transaction pursuant to Italian Law Decree no. 237/2016 (as subsequently amended and converted into law) and Ministerial Decrees of 27 July 2017.

Information on the BMPS share

Share price and trends

The social and health crisis linked to the spread of COVID-19, and the consequent lockdown measures progressively put in place by various countries to halt the spread of the pandemic, were the most important factors for markets around the world during the first quarter of the year, resulting in considerable declines on all stock exchanges. In Asia, the negative trend was triggered in January, causing drops in the first quarter of 2020 in both Tokyo (Nikkei) and Shanghai (SHCOMP) of -18.2% and -9.8%, respectively. In the United States, the crisis worsened beginning in the second half of February with the New York stock exchange (S&P 500) closing the first quarter at -20.0%, despite the double rate cut by the Federal Reserve, the announcements of Quantitative Easing without limits and aid packages to support the economy.

In Europe, the negative effect on the markets was particularly significant in the first quarter of 2020, reaching the moment of greatest uncertainty following the monetary policy measures adopted by the ECB on 12 March. The implementation of the additional EUR 750 bn securities purchase programme and the greater flexibility in the accounting for NPEs have only partially contained the losses. The exchange that recorded the worst performance was Madrid (IBEX), at -28.9%, but heavy losses were also posted in Paris (CAC40) at -26.5%, Frankfurt (DAX) -25.0%, and London (UKX) -24.8%.

The FTSE MIB was the index that anticipated the drop in the European stock exchanges, closing the quarter with a -27.5%, benefiting only in part from the "Cura Italia" decree issued by the government at the end of March. In particular, banks were struggling in the IT8300 "All Italian Banks" index, which ended the quarter with a -38.8%, a quarter in which Intesa San Paolo made a public tender offer for UBI.

For the BMPS share, the first quarter of 2020 started with a positive outlook, but closed at -19.0% due to the impact of COVID-19. The average trading volume stood at 9.1 mln, almost triple the average value recorded in 2019.

SHARE PRICE SUMMARY STATISTICS (from 31/12/2019 to 31/03/2020)	
Average	1.56
Minimum	1.00
Maximum	2.11

Rating

The ratings assigned by the rating agencies are provided below:

Rating agency	Short-term debt	Outlook	Long-term debt	Outlook	Last rating action (as at 31/03/20)
Fitch	B	-	B	Rating Watch Negative	24/03/20
DBRS	R-4	Stable	B (High)	Stable	19/06/19
Moody's	(P)NP	-	Caa1	Developing	26/03/20

Following the downturn in the economic outlook and general market conditions caused by the COVID-19 epidemic emergency, the Fitch, Moody's and DBRS Morningstar rating agencies reviewed the ratings of a large number of Italian banks, including BMPS, during the months of March and April.

- On 26 March 2020, Moody's Investors Service confirmed the long-term rating of "Caa1", changing the outlook from "Positive" to "Developing", and the short-term rating of "(P)NP".

- On 24 March 2020, Fitch Ratings confirmed both the long-term rating of "B", moving it from a "Stable" outlook to "Rating Watch Negative", as well as the short-term rating of "B".
- On 19 June 2019, DBRS Morningstar confirmed the long-term rating of "B (high)" and the short-term rating of "R-4", "Stable" outlook. Subsequently, on 2 April 2020, the agency confirmed all ratings, however changing the long-term outlook to "Negative" from "Stable".

Significant events in the first quarter of 2020

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

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

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

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

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

On **28 February 2020**, at the conclusion of a competitive procedure launched in July 2019 that ended with a period of exclusivity granted to Ardian on 10 February, the Parent Company and Ardian signed an agreement for the sale of a real estate portfolio owned by MPS Group. Subsequently, the parties will stipulate a preliminary purchase agreement, which will precede the finalisation of the sale.

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

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

Significant events after the 1st quarter of 2020

On **1 April 2020**, as part of the employment law dispute following the sale of the business unit for back office services and accounting and administrative activities related to the management and provision of specific services to Fruendo, the Parent Company executed the unfavourable decisions, readmitting the relevant employees who had obtained favourable judgements in the first and/or second instance, without renouncing the appeals filed against these rulings. At the same time as the re-admission in service, these workers were partly seconded to Fruendo.

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

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

On **8 April**, the Parent Company's Board of Directors resolved to convene the Ordinary Shareholders' Meeting on 18 May which will, among other things, appoint the Chairman and other members of the Board of Directors for the years 2020, 2021 and 2022, as well as appoint the Chairman and other members of the Board of Statutory Auditors for the same years. The lists submitted by shareholders were published on 27 April. The agenda also includes the authorisation to carry out disposals of treasury shares (pursuant to article 2357-*ter* of the Italian Civil Code).

In April, preparatory activities continued for the stipulation of the preliminary agreement with Ardian, concerning the sale of the portfolio of 28 real estate assets. The signing of the preliminary agreement, expected by the middle of May 2020, will precede the finalisation of the sale planned to take place by the second half of 2020, for most of the assets.

Strategy

The Group's strategy is outlined in the Restructuring Plan approved by the European Commission on 4 July 2017, which is subject to formal monitoring by the European Commission, through a Monitoring Trustee[12]. This monitoring assumes formal relevance in verifying compliance with the commitments only at specific deadlines agreed with the European Commission.

In order to take into account the change in the macroeconomic scenario that occurred in the second half of 2019 (in particular, expected developments in interest rates, industrial output and household consumption indicators, and consensus on GDP growth estimates), the Parent Company updated its internal long-term projections (2020-2024) for the Group's income statement and balance sheet. These estimates are lower than the figures envisaged in the 2017-2021 Restructuring Plan approved by the competent authorities in July 2017, but nonetheless the values of capital ratios are above the regulatory requirements. Furthermore, the Parent Company has initiated appropriate reflections on revising its internal long-term projections to take into account the effects of the COVID-19 pandemic.

The 2020 strategies for renewing the commercial approach, continuing the path that started in 2019, seek to refocus the business on the **core areas of commercial activities** and relaunch the Group's **economic performance** with projects aimed at:

- ***improving the customer experience and continuing the digital transformation***, through the extension of the NPS (Net Promoter Score) surveys with "close-the-loop" processes for managing customer feedback and improving the service based on reports collected, the launch of **Customer Journeys** designed for understanding customer needs, the search for a **superior experience** in the **internet banking** platform (for both Private and Business customers), also through the creation of new smartphone apps and the enhancement of tools that allow remote contract signing, enabling products and services to be subscribed without having to go to the branch, inclusion in the **Open Banking** environment, upgrading of the **branch technology platform** and the optimisation of Media Centre activities and remote customer service;

- ***activating the new Wealth Management platform***, with solutions in line with market best practices aimed at structuring 360° advisory services and maximising commercial benefits by enhancing the front end, overcoming technology constraints of the current platform, and focusing on "value" advisory, by maximising the manager's commercial efforts, obtained by automating activities with lower added value. The goal is to continue to improve the advisory service through constant monitoring of the quality of service provided, enhancement of non-financial advisory services to completely cover customers' needs (protection, trust services) and the continuous strengthening and evolution of the offer range;

- ***reviewing commercial processes from a customer centricity perspective***, by optimising the commercial contact processes (campaigns, customer journeys and information tools), specialisation of employees in the various areas of customer needs (with particular reference to the Value segment) and a well-developed caring programme and targeted actions for potential customers;

- ***accelerating growth in Bancassurance***, through interventions on the layout of branches and updates of the operating and commercial model, already successfully tested in the last months of 2019 on a pilot branch;

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

- ***developing the Consumer Finance business within the Group***, by creating a Group Consumer Finance Factory within Widiba, fully operational by the end of 2020, which realises the full benefits of the "intrinsic profitability" of a product aimed at a key customer segment, while respecting the Group's risk appetite.

All the projects described above were launched at the beginning of the year and continued, according to the work plan defined for the quarter, until mid-March. Subsequently, some priorities were redefined to take into account the requirements imposed by the COVID-19 emergency, with particular reference to issues of digitisation and

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

commercial processes, and the Bancassurance and Agrifood projects were put on stand-by. The remaining project activities continued in smart-working mode, without reporting any particular problems.

With reference to some of the main commitments of the Restructuring Plan, pursuant to art. 114, paragraph 5 of Italian Legislative Decree 58/1998, the relative implementation status as at 31 March 2020 is described below:

- Exposure to sovereign debt:
  - financial assets measured at fair value through other comprehensive income (FVTOCI) are down by around EUR 0.6 bn compared to the end of 2019, essentially represented by Italian government debt securities.
- Transfer of foreign banks:
  - the closing of the sale of Banca Monte Paschi Belgio S.A. to an investee of funds managed by Warburg Pincus was finalised on 14 June 2019 (the agreement had already been announced to the market in October 2018 and was concluded in June 2019 after the acquisition was approved by the European Central Bank); On 23 March, the procedure for calculating the price adjustment was completed through the intervention of an independent expert: as a result, BMPS recorded a write-back of approximately EUR 2 mln in this quarter;
  - the Parent Company, as envisaged in Commitment no. 14 of the Plan, approved the orderly winding-down procedure of the subsidiary Monte Paschi Banque S.A., 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, MP Banque has focused its efforts on existing customers and activities: the performance for 2019 and the first quarter of 2020 is in line with the objectives of the subsidiary's orderly winding down plan.
- Closure of foreign branches:
  - following the suspension of banking activities and the extinction or transfer to Italy of residual assets (which began in 2019), the Hong Kong Branch ceased to exist in February 2020, with the return of the banking license to the local authority (HKMA), which formalised the confirmation of receipt.
- Cost reduction measures:
  - departure of 2,550 resources from 2017 to 2019 (53% of the total 4,800 resources over the Plan period) through the activation of the Solidarity Fund; the Parent Company is committed to continuing its workforce reduction activities in line with the indications of the Restructuring Plan;
  - closure of 611 branches, achieving the overall target set for the period. Of these, 107 branches were closed in the fourth quarter of 2019 and an additional branch was closed in the first quarter of 2020, in line with the scheduled closures;
  - in 2019 the Parent Company did not achieve the profit targets established in the Restructuring Plan. The Plan commitment establishes that, if the profit objectives are not reached, a programme will be activated in 2020 to reduce operating costs by EUR 100 mln with respect to the Plan commitments; in this case the reduction should be fully realised during 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 31 March 2020, MPS Group sold 76 real estate assets for a value of roughly EUR 52.0 mln. In addition, preliminary sale agreements have been signed for 23 real estate assets corresponding to approx. EUR 14.0 mln of book value as at 31 March 2020;
  - at the end of February 2020, the Parent Company and Ardian signed an agreement for the sale of a real estate portfolio of 28 assets owned by MPS Group, including the prestigious offices in Milan (via S. Margherita) and Rome (via del Corso 232 and via del Corso 518/520). Subsequently, the parties will stipulate a preliminary purchase agreement, which will precede the finalisation of the sale.
- Strengthening of the capital position:
  - in January 2020, a subordinated Tier 2 bond was issued for EUR 400 mln, thereby completing the planned issue programme for this type of instrument that was the subject of a specific commitment in the Restructuring Plan.

The commitments required by DG Comp envisage, among other things, that the MEF divest its shareholding in the Bank 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 Bank'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 to the beginning of 2020, in light of and consistent with the ongoing dialogue regarding a derisking transaction of the Parent Company.

After the repayment of the senior securities with Government Guarantees (GGB) for EUR 8 bn in January and March 2020, the 2020-2022 period entails, for the Group, bond maturities of roughly EUR 3 bn, (of which EUR 1.8 bn in covered bonds, EUR 0.6 bn in senior institutional bonds and EUR 0.6 bn in securities placed with retail customers).

In addition, this three-year period will include the following maturities:

- in June 2020, the LTROs and auctions in USD to which the Parent Company had access in March of this year, for EUR 5 bn and EUR 500 mln, respectively;
- in September 2020, the TLTRO II to which the Parent Company had access in 2016 that is still outstanding, equivalent to EUR 6.5 bn (following the early repayment in December 2019 and March 2020 for EUR 4.5 bn and EUR 5.5 bn, respectively);
- in 2022, the TLTRO III transaction in which the Parent Company participated in December 2019, for EUR 4 bn.

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

In executing its funding strategies, the Parent Company placed the aforementioned Tier 2 subordinated issue on 15 January for EUR 400 mln and placed an unsecured Senior Preferred issue on 21 January for EUR 750 mln.

Subsequently, starting at the end of February, the outbreak of the COVID-19 epidemic, the resulting economic and market crisis and the responses of governments and central banks have profoundly changed the macro scenario and the legislative and regulatory framework, which were the basis on which the Group's strategies, including in terms of funding, were designed.

A review of these strategies, in light of the changed context, may be conducted in the second quarter of the year, but it is already possible to emphasise that the consequences of the epidemic could potentially have effects on the Group's liquidity situation during 2020, even though this impact is currently difficult to predict in terms of amount and timing. From a commercial perspective, the limited liquidity available to customers may, for example, cause:

- an increase in the use of credit facilities granted by the Group;
- participation in the various payment suspension initiatives introduced by the government, or the initiatives put in place by the Group and/or banking system;
- a reduction in deposits of businesses, for the "operational" cash component, as a result of reduced operations and the flows deriving from the payment of wages and salaries for retail customers.

These negative effects could be partially offset by:

- greater propensity to save for households and an increase in deposits, linked to the higher volatility of markets and the increased uncertainty regarding future prospects, which dampen the propensity to invest in financial instruments and could result in a significant conversion of managed assets into liquidity products, especially current accounts and deposits in general;
- postponement of tax payments sent by the Group and possible reduction in terms of amount.

With regard to institutional funding, it is likely that access to the primary market of public bonds will be reduced, or completely unavailable, during 2020, in particular in the senior preferred segment, where the Group had planned issues for an additional EUR 1.5 bn. The drop in bond prices of unsecured bank issues, in particular for Italian issuers and, among these, institutions such as BMPS that are considered by market to be weaker in terms of capital, makes it difficult, at present, to envisage market access in the next few months for significant amounts. On the other hand, the Group will be able to benefit from the important extraordinary monetary policy measures announced by the ECB in March, with particular reference to the LTRO/PELTRO/TLTRO III refinancing operations.

As previously mentioned, the Parent Company already had access, in March, to the new LTROs maturing in June 2020, for EUR 5 bn, while, as regards TLTRO III, the considerable increase in the maximum amount to which each bank has access may lead to a revision of the plans originally prepared by the Group: the maximum amount available to BMPS is estimated at approx. EUR 26 bn compared to the previous limit of EUR 16 bn.
The greater recourse to TLTRO III may be used (by the Group and the rest of the Italian banking system) to manage the potential impact on the liquidity position resulting from the components described above where, as it may be presumed, the negative effects are not fully offset by positive ones, as well as for purposes of maintaining liquidity indicators at adequate levels, in particular the LCR and NSFR regulatory indicators.

The possible reduction or lack of access to the senior unsecured public funding market in 2020 would instead make it difficult to achieve the MREL targets by the first "binding" date (for BMPS, June 2021), which was one of the Group's priorities, as part of its funding strategies. In this case, a revised plan to converge on this target will be proposed to the SRB, including in light of the flexibility and the "forward-looking" approach announced by the SRB within the context of the COVID emergency, and in accordance with the new deadlines envisaged in the new BRRD2/SRMR2 banking package.

Given its potential impacts on banks' sources of liquidity, the health crisis could affect the expected development of the regulatory liquidity indicators (LCR - Liquidity Coverage Ratio and NSFR - Net Stable Funding Ratio). In this regard, the central bank has communicated the possibility for banks to temporarily operate below the minimum threshold of 100%, with particular reference to the LCR. Considering the solid liquidity position established in previous years and the satisfactory levels of its indicators (at 31 March 2020, LCR equal to 162% and NSFR equal to 113.2%), BMPS will keep its targets higher than the minimum threshold, with a minimum buffer, as it is able to benefit from the important channel provided by the ECB through the new LTRO/PELTRO/TLTRO programmes.

Explanatory Notes

The Interim Report on Operations of Monte dei Paschi di Siena Group as at 31 March 2020, approved by the Board of Directors on 7 May 2020, 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 of 19 July 2002.

With reference to the classification, recognition, valuation and derecognition of the various asset, liability and equity entries, as well as the methods for recognising revenue and costs, the accounting standards used for the preparation of this Interim Report on Operations are the same as those used for preparation of the Report and Consolidated Financial Statements as at 31 December 2019, to which the reader is referred for more detail, with the exception of that which is described in the section, "Use of estimates and assumptions in preparing the Interim Report on Operations in the context of the COVID-19 pandemic".

The additional IAS/IFRS accounting standards and related SIC/IFRIC interpretations, whose mandatory application took effect on 1 January 2020, but which had no significant impacts on the Group, are listed below:

On 6 December 2019, Regulation (EU) no. 2019/2075 was published, approving the document "**Changes to the Conceptual Framework**", issued by IASB in March 2018, which amended certain accounting standards and interpretations in order to update the existing references to the previous Conceptual Framework, replacing them with references to the revised Conceptual Framework. The amendments shall apply as of 1 January 2020. However, their early application is permitted.

On 10 December 2019, Regulation (EU) no. 2019/2104 was published, approving the document "**Amendments to IAS 1 and IAS 8 - Definition of Material**", issued by IASB in October 2018. The amendments aim to clarify the definition of "material" in order to assist companies in deciding whether to include information in the financial statements. The amendments shall apply as of 1 January 2020. In any event, early application is permitted.

For completeness of information, note that on 15 January 2020, the European Commission approved, through publication of Regulation (EU) no. 2020/34, the document "**IBOR Reform**", which amends IFRS 9, IAS 39 and IFRS 7. The Regulation, which envisages the mandatory application of the relevant provisions from 1 January 2020, is aimed at governing the effects from the reform of the reference indices for determining interest rates on hedging relationships in place that are directly affected by the reform. The Group decided to opt for early application of the Regulation. For more detail, please refer to the Report and Consolidated Financial Statements as at 31 December 2019.

In preparing this Interim Report on Operations, the guidelines, documents and warnings published by ESMA, EBA, ECB, Consob and IASB are also considered, more fully described in the section on the interventions from institutions, for application consistent with international accounting standards, in particular IFRS 9, in European Union countries with reference to exceptional measures already taken or that governments will take in the current context of the COVID-19 pandemic.

The Interim Report as at 31 March 2020 is supplemented by the certification of the Financial Reporting Officer, pursuant to art. 154-*bis*, paragraph 2 of the Consolidated Law on Finance.

Use of estimates and assumptions in preparing the Interim Report on Operations in the context of the COVID-19 pandemic

The decisions implemented by company management in the context of the COVID-19 pandemic for the main cases in which the use of subjective valuations are required are reported below.

Contractual changes and forbearance

The social and economic emergency caused by the COVID-19 pandemic has prompted the Italian government to launch a series of support measures for customers. The Group has identified the following lines of intervention:

- suspension of instalment payments and/or extension of due dates on instalment transactions, in application of both the legislative rules suspending instalments until 30 September 2020 as well as the ABI moratorium tool, which allows suspension of up to 12 months;
- extension of due dates for outstanding advances;
- new medium/long-term financing products to meet the working capital needs of borrowers.

The first two of these measures entail, when granted, a change in the original contract conditions and are classified as contractual modifications to financial assets, for which IFRS 9 requires the verification of whether the original asset must continue to be recognised in financial statements or if, conversely, the original instrument must be derecognised from financial statements and a new financial instrument must be recognised. The Group's accounting decisions regarding derecognition/modification accounting or the materiality of contractual changes are unchanged with respect to the financial statements as at 31 December 2019, to which reference is made for more details, with the exception of the following.

As reaffirmed in the statements from the EBA and ESMA, contractual changes in response to COVID-19 are granted to offer broad support to all companies and individuals temporarily in difficulty due to the current pandemic, in order to prevent a systemic risk. In particular, since these difficulties are independent of the specific financial situation of each customer, they are not classified as contractual changes, that is, the relative exposures are not identified as forborne.

These contractual changes do not influence the original characteristics and cash flows, hence, they do not result in accounting derecognition and, regardless of the purposes for which they were granted, the gross value is recalculated by determining the present value of cash flows resulting from the change, based on the original rate of the exposure prior to the change. The difference between the carrying amount and the present value of modified cash flows, discounted at the original interest rate, is recorded in the income statement under item 140 “Modification gains/(losses)” (known as “modification accounting”).

In this regard, note that the operating procedures under which the Group will grant COVID-19 suspensions requires the application of interest on the entire residual debt. This approach implies a substantial actuarial neutrality, as envisaged, for that matter, in the government's explanatory report on the “Cura Italia” decree and the EBA statement of 2 April 2020. Therefore, no significant accounting impacts are expected.

At the reference date of this Interim Report on Operations, the Group had received requests for suspension from approximately 62 thousand customers for a residual debt of EUR 6.8 bn, which have not yet been defined and formalised with customers, and for which the Group has proceeded only with freezing the instalments for the month of March. Consequently, as at 31 March 2020, income statement item 140 “Modification gains/(losses)” does not include amounts related to the COVID-19 suspensions.

Classification criteria applied (moratoria, defaults)

The accounting classification criteria for financial assets measured at amortised cost are unchanged with respect to the financial statements as at 31 December 2019, to which reference is made for more details, with the exception of the following.

In particular, given the exceptional nature of the scenario linked to the COVID-19 pandemic and the guidelines from supervisory authorities, aimed at using the flexibility existing in accounting and prudential legislation, during the first quarter of 2020, decisions were made regarding changes to accounting classification, such as:

1) legislative suspensions and other suspensions as well as concessions (reformulation/rescheduling) granted for purposes of COVID-19 credit facilities were not identified as forborne exposures;
2) the automatic default classification triggers in the presence of forbearance measures that were previously active on performing customers originating from a previous non-performing status have

been deactivated in order to avoid, in the event of a past due equal to thirty days, the automatic transfer of the customer to non-performing loans, and recategorised as non-binding parameters with high importance, to monitor, in any case, the riskiness of these positions;

3) in the preliminary assessment for a COVID-19 concession, continuous and material overdrafts for 90 days do not entail automatic classification among past due non-performing exposures. The calculation of days past due is, in fact, suspended for the entire period that the suspension is valid.

Quantification of impairment losses on loans

IFRS 9 staging

The drivers for identifying a significant increase in credit risk (SICR), a necessary and sufficient condition for classifying the financial assets subject to assessment in stage 2, used for the staging allocation at the reference date of this Interim Report on Operations, were unchanged with respect to the financial statements as at 31 December 2019, to which reference is made for more details. In this regard, note that the update of the macroeconomic scenarios (refer to the section "Updating macroeconomic scenarios for purposes of calculating expected loss and staging" below) has resulted in an increase in stage 2 of roughly EUR 1.7 bn, due to the exceeding of the quantitative threshold established by the Group's loan policies and the change in the cumulative forward-looking lifetime PD between the reporting date and the origination date.

With reference to the moratoria granted in the context of the COVID-19 pandemic, ESMA reiterated that these measures are not in themselves representative of an automatic trigger for transfer to stage 2 and that the related presumption of increased risk, if more than thirty days past due, is reasonably rebutted.

Finally, note that the Group is considering supplementing the staging criteria by introducing a specific approach for the sectors that are most exposed to an increase in credit risk in the long term (e.g. transportation, hotel, tourism, culture, recreation and retail). This approach will reasonably result in the transfer to stage 2 of the exposures of borrowers that show a sharp deterioration in the score.

Updating macroeconomic scenarios for purposes of calculating expected loss and staging

The pandemic has led to economic disturbances that must be reflected in the modelling of forward-looking economic scenarios, used for purposes of both defining SICR and quantifying expected loss in accordance with IFRS 9. Due to the pervasive nature of the interruption of commercial and production activities, in addition to updating macroeconomic variables, such as GDP and unemployment rates, it will be necessary to consider the impact of COVID-19 on specific economic sectors. Estimating the impacts that the combination of factors such as GDP, interest rates, government support measures and unemployment rates, with specific sectoral factors - such as the recent significant drop in oil prices - may have on customer solvency is highly challenging and requires a high degree of judgement to be exercised, also considering that the historical data in the current context are of little help.

The Group's accounting policies require macroeconomic scenarios to be updated in order to calculate expected credit loss, at least once a year, when the financial statements are prepared, as well as every time the latest available "base" scenario, shows, compared with the scenario currently in use, a net cumulated change in GDP, over a 3-year period, greater than or equal to 0.5%, in absolute value. The latest available estimates project a variation from the previous estimates that exceeds this threshold. However, the practical application of this criterion to the Interim Report on Operations as at 31 March 2020, due to the considerable uncertainties of the current situation described above, requires particular attention.

The supervisory authorities (ESMA, EBA and ECB) and the standard setters (IASB) have provided instructions on the application of IFRS 9 and, in particular, on the use of forward-looking information in the current context. 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.

In fact, the forecasts for the main macroeconomic figures are currently extremely volatile, with high dispersion, and do not fully incorporate the effects of the relevant government interventions already approved (e.g., Liquidity Decree) or that are under discussion, or the proposals for additional prudential relaxations formulated by the European Commission and the EBA. Similarly, there are considerable uncertainties regarding the duration of the pandemic and the procedures for resuming production activities.

The government interventions implemented are decidedly significant and could introduce a discontinuity in the historical correlations between changes in GDP and default rates; this will require, starting from the second quarter, discussion on the estimate models and, in particular, future default rates, which will contribute to the calculation of the credit cost to be reflected in upcoming financial reports.

At the date of this Interim Report on Operations, the Group used the macroeconomic information provided by a leading external supplier referring to 31 March 2020 to update the forward-looking estimates of expected loss on the performing and non-performing portfolio. The aforementioned information includes an average GDP value over the 2020-2022 period in the "baseline" scenario of -0.7%; in particular, the GDP for 2020 is set at -6.5%.

Updating the "scenario" component of the performing and non-performing portfolio resulted in the recognition, as at 31 March 2020, of additional adjustments for EUR 119 mln and EUR 74 mln, respectively. These adjustments reflect some uncertainties connected both to the scenario and to the application of a model that does not take into account the effects of extraordinary government measures.

The Group will re-assess this approach for the half-yearly financial report at 30 June 2020, in order to also consider the ECB's expected publication on 4 June 2020 of the Eurozone forecasts, based on specific projections of the national central banks at country level and which the authority expects will be used for assessments as at 30 June 2020.

Impacts of customer and bank support measures on ECL calculation

The customer support measures envisaged by the government to mitigate the impact of the economic crisis (e.g., moratoria, unemployment funds, increased unemployment benefits etc.) could, going forward, partially offset the increase in the lifetime default probability used for purposes of both staging and the expected loss calculation.

Instead, issuing public guarantees on loans seeks to facilitate the granting of liquidity at favourable terms by the financial system. In this regard, the Group has made efforts since the end of the first quarter to implement the legislative provisions regarding guarantees for the Central Guarantee Fund, Cassa Depositi e Prestiti (arts. 49 and 57 of the "Cura Italia" decree) and SACE.

Although the issue is not relevant for first quarter reports but is relevant for subsequent ones, the acquisition of these guarantees, based on the provisions of IFRS 9 paragraph B5.5.55, entails that cash flows from the enforcement of these guarantees will affect the measurement of expected losses, as they are not separately recognised and are considered an integral part of the contractual conditions that govern the loans. In relation to the latter aspect and as envisaged by the Transition Resource Group for Impairment in December 2015, ESMA noted that the guarantee does not need to be explicitly established in the contractual clauses: this is the case, for example, of public guarantees provided in conjunction with large-scale legislative debt moratoria or economic support measures. Consequently, the Group will include the cash flows from the enforcement of guarantees in calculating the ECL of the underlying loans.

Exposure At Default (EAD) of credit lines included in the scope of the "Cura Italia" decree

Article 56 of the "Cura Italia" decree envisages, *inter alia*, that credit facilities for amounts outstanding as at 29 February 2020 cannot be revoked until 30 September 2020, in reference to both utilised funds and those yet to be utilised.

The Exposure At Default (EAD) of a commitment to disburse funds represents the expected amount of the credit at the time of default by a counterparty and is determined by adding the current utilised amount to the available margin, multiplied by an appropriate credit conversion factor (CCF), estimated operationally, which reflects the expected drawdown on the facilities until it enters default status. Therefore, EAD is calculated by estimating the relative CCF, which represents the ratio between the unused portion of the credit line that is estimated to be used in the event of default and the currently unused portion (available margin).

In other words, the fact that credit lines cannot be revoked generates an increase in EAD, other things being equal.

The Group estimated the EAD of these credit facilities, as at 31 March 2020, not incorporating the specific features of the "Cura Italia" decree, in consideration of the temporary nature of the legislative measure. However, this assessment is supported by the fact that the uses of credit lines are extremely limited as 31 March 2020.

The Group constantly monitors changes in these aggregates and any variations in the process of estimating the aforementioned commitments will be appropriately considered over the coming months.

Government bonds

The current context of increased volatility of sovereign spreads has had an impact on the measurement of debt securities owned by the Group, which posted significant declines in value as at 31 March 2020. For more details on the Group's exposure to sovereign risk, please refer to the dedicated section of this Interim Report on Operations.

Note that the management of debt securities owned by the Group and classified in "hold to collect" (HTC) and "hold to collect and sell" (HTCS) accounting portfolios continues in line with the decisions made in previous years and changes have not been made to the business models.

Estimation and assumptions on recoverability of deferred tax assets

For prudential purposes, the Group did not recognise the effects of the reassessment of DTAs from tax losses as at 31 March 2020 and therefore did not record income of roughly EUR 22 mln, to take into account the uncertainties of the macroeconomic scenario and the potential effects that may result from the revision of the internal long-term projections. These estimates are expected to be updated for the Half-Yearly Report as at 30 June 2020.

Use of valuation models to measure the fair value of financial instruments not listed in active markets

As at 31 March 2020, the method for determining the fair value of financial instruments and the inputs of the measurement techniques used have not been changed with respect to the financial statements as at 31 December 2019. There were no significant changes in level 3 of the fair value hierarchy.

Going concern

This Interim Report on Operations was prepared based on a going concern assumption.

With regard to the indications contained in Document no. 4 of 3 March 2010, issued jointly by the Bank of Italy, Consob and IVASS, and subsequent amendments, the Group reasonably expects to continue operating in the foreseeable future and has therefore prepared the Interim Report on Operations as at 31 March 2020 under the going concern assumption.

In fact, the Group has a reasonable expectation that it will continue to operate also in the changed macroeconomic scenario, which is heavily penalised by the COVID-19 pandemic. In this regard, despite the expected negative repercussions on the performance of some types of revenues and the cost of credit, it is believed that the Group can maintain its operations for the foreseeable future. This conclusion also takes into consideration the significant government interventions in support of businesses and households, the targeted monetary policy initiatives of central banks, and the measures to temporarily loosen regulatory requirements.

Income statement reclassification principles

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

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

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

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

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

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

- Item "**Net interest income**" was cleared of the negative contribution (equal to EUR -1.5 mln) of the Purchase Price Allocation (PPA), referring to past business combinations, which was reclassified to a specific item.
- Item "**Dividends, similar income and gains (losses) on equity investments**" incorporates item 70 "Dividends and similar income" and the relevant portion of profits from investments in the associate AXA, consolidated using the equity method, equivalent to EUR 11.8 mln, included in item 250 "Gains (losses) on investments". The aggregate was also cleared of dividends earned on equity securities other than equity investments (EUR 0.4 mln), reclassified to item "Net profit (loss) from trading and financial assets/liabilities measured at amortised cost and at fair value through profit and loss".
- Item "**Net profit (loss) from trading and financial assets/liabilities measured at amortised cost and at fair value through profit and loss**" includes item 80 "Net profit (loss) from trading", item 100 "Gains (losses) on disposal/repurchase", cleared of the contribution from loans to customers (EUR +0.3 mln) reclassified in the item "Cost of customer credit", and item 110 "Net profit (loss) from financial assets and liabilities measured at fair value through profit and loss", cleared of the contribution from loans to customers (EUR +2.2 mln) reclassified in the item "Cost of customer credit". In addition, the aggregate incorporates dividends earned on equity securities other than equity investments (EUR 0.4 mln).
- 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 61.9 mln) and net of other expenses recovered, which are posted to "Net value adjustments to property, plant and equipment" (EUR 5.6 mln).
- Item "**Personnel expenses**" includes the balance of item 190a "Personnel expenses" reduced by EUR 0.8 mln, linked primarily to recoveries from INPS relating to provisions recognised for Solidarity Fund departures, reclassified to "Restructuring costs/One-off charges".
- Item "**Other administrative expenses**" includes the balance of income statement item 190b "Other administrative expenses", reduced by the following cost items:
  - expenses, amounting to EUR 58.3 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 17.8 mln (posted to the reclassified item "DTA fee");
- extraordinary charges, relating to initiatives also aimed at complying with the commitments undertaken with DG Comp (also including the closure of domestic and foreign branches), for EUR 0.2 mln, stated under reclassified item "Restructuring costs/One-off charges".

This item includes also the portion of stamp duty and other expenses recovered from customers (EUR 61.9 mln) posted under item 230 "Other operating expenses/income".

- Item "**Net adjustments to (recoveries on) property, plant and equipment/ Net adjustments to (recoveries on)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 -0.2 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 5.6 mln) that was recorded under item 230 "Other operating expenses/income".
- Item "**Cost of customer loans**" 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 +0.3 mln), item 110b "Net profit (loss) from other financial assets measured at fair value as per mandatory requirements" (EUR +2.2 mln), item 130a "Net impairment (losses)/reversals on financial assets measured at amortised cost" (EUR -319.5 mln), item 140 "Modification gains/(losses)" (EUR -1 mln) and item 200a "Net provisions for risks and charges - commitments and guarantees given" (EUR +3.5 mln).
- Item "**Net impairment losses on securities and loans to banks**" includes the portion related to securities and loans to banks in item 130a "Financial assets measured at amortised cost" and item 130b "Net impairment losses/reversals on financial assets measured at fair value through other comprehensive income".
- Item "**Gains (losses) on disposal of investments**" includes the balance of item 250 "Gains (losses) on disposal of investments", cleared of the portion of profit relative to the investments in AXA, consolidated at equity and equivalent to EUR 11.8 mln, reclassified under item "Dividends, similar income and gains (losses) on investments".
- Item "**Restructuring costs/One-off charges**" includes the recoveries from INPS for previous early retirement/solidarity fund manoeuvres equal to EUR 0.8 mln, recognised in the financial statements under item 190a "Personnel expenses", as well as the charges relating to project initiatives, including for the implementation of the commitments undertaken with the DG Comp, amounting to EUR 1.6 mln recorded in the financial statements under item 190b "Other administrative expenses".
- Item "**Risks and charges associated with SRF, DGS and similar schemes**" includes expenses deriving from the EU Deposit Guarantee Schemes Directive (DGSD) and the Bank Recovery and Resolution Directive (BRRD), equivalent to EUR 58.3 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 Law Decree no. 59 of 3 May 2016, converted into Law no. 119 of 30 June 2016, recognised in the financial statements under item 190b "Other administrative expenses", for EUR 17.8 mln.
- Item "**Tax expense (recovery)**" includes the balance of item 300 "Tax expense (recovery) on income from continuing operations" cleared of the theoretical tax component relating to the Purchase Price Allocation (PPA), which was reclassified to a specific item for an amount of EUR 0.6 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 -1.5 mln and "Net value adjustments to property, plant and equipment and intangible assets" for EUR -0.2 mln, net of a theoretical tax burden of EUR +0.6 mln which was added to the item).

Balance sheet reclassification principles

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

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

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

Moreover, note that the data relating to the balance sheet as at 31 March 2019 do not include BMP Belgio S.A. as the transfer of the entire shareholding was finalised in June 2019. The balance sheet figures of the subsidiary as at 31 March 2019 were included in the individual items of the balance sheet, although it was being disposed of at that time.

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 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 "**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**" 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.
- Liability item "**Deposits from customers at amortised cost**", includes item 10b "Financial liabilities measured at amortised cost - deposits from customers".

- Liability item “**Securities issued**” includes item 10c “Financial liabilities measured at amortised cost - Debt securities issued” and item 30 “Financial liabilities measured at fair value”.
- Liability item “**Deposits from central banks at amortised cost**” includes the portion of item 10a “Deposits from banks” related to operations with central banks.
- Liability item “**Deposits from banks**” includes the portion of item 10a “Deposits from banks” related to operations with banks (excluding central banks).
- Liability item “**financial liabilities held for cash trading**” includes the portion of item 20 “Financial liabilities held for trading” net of the amounts relating to derivatives for trading.
- Liability item “**Derivatives**” includes item 40 “Hedging derivatives” and the portion related to derivatives in item 20 “Financial liabilities held for trading”.
- Liability item “**Specific provisions**” includes item 90 “Employee severance pay” and item 100 “Provisions for risks and charges”.
- Liability item “**Other liabilities**” includes item 50 “Change in value of macro-hedged financial liabilities”, item 70 “Liabilities associated with discontinued operations” and 80 “Other liabilities”.
- Liability item “**Shareholders’ equity of the Group**” includes item 120 “Valuation reserves”, item 130 “Redeemable shares”, item 150 “Reserves”, item 170 “Share capital”, item 180 “Treasury shares” and item 200 "Profit (Loss) for the year”.

Reclassified income statement

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

Note that the results of the first quarter of 2020 were affected by the health emergency created by the spread of the COVID-19 virus, starting from the end of February. The aggregates that were most significantly affected were:

- Net fee and commission income, mainly following the sharp reduction in placement flows which took place progressively during March due to the reduced operations of the Network;
- Cost of customer credit, following the effects linked to the revision of the statistical parameters deriving from the changed macroeconomic scenario that emerged following the spread of the pandemic;
- Net profit (loss) from trading, the fair value measurement of assets/liabilities and gains on disposal/repurchase, which reflected tensions in financial markets linked to the COVID-19 emergency;
- Dividends, similar income and gains (losses) on investments, following the lower contribution from AXA-MPS, which, again, reflected the tensions in financial markets linked to the COVID-19 emergency;
- Taxes, following the decision not to recognise, for prudential reasons, the reassessment of DTAs from tax losses for the quarter until long-term projections can be adopted that take into account a reliable and updated economic scenario.

Reclassified Consolidated Income Statement				
			Change	
MONTEPASCHI GROUP	**31 03 2020**	**31 03 2019**	**Abs.**	**%**
Net interest income	327.1	408.9	(81.8)	-20.0%
Net fee and commission income	369.9	358.8	11.1	3.1%
Income from banking activities	**697.0**	**767.7**	**(70.7)**	**-9.2%**
Dividends, similar income and gains (losses) on equity investments	11.8	15.9	(4.1)	-26.0%
Net profit (loss) from trading and financial assets/liabilities measured at amortised cost and maesured at fair value through profit and loss	29.8	28.6	1.2	4.3%
Net profit (loss) from hedging	(2.8)	-	(2.8)	n.m.
Other operating income (expenses)	(6.4)	(8.3)	1.9	-22.7%
Total Revenues	**729.4**	**804.0**	**(74.6)**	**-9.3%**
Administrative expenses:	(493.0)	(508.2)	15.2	-3.0%
a) personnel expenses	(356.7)	(368.6)	11.9	-3.2%
b) other administrative expenses	(136.3)	(139.6)	3.3	-2.4%
Net adjustments to (recoveries on) property, plant and equipment / Net adjustments to (recoveries on) intangible assets	(55.5)	(60.9)	5.4	-8.9%
Operating expenses	**(548.5)**	**(569.1)**	**20.6**	**-3.6%**
Pre-Provision Profit	**180.9**	**234.9**	**(53.9)**	**-23.0%**
Cost of customer loans	**(314.5)**	**(143.9)**	**(170.6)**	**n.m.**
Net impairment (losses)/reversals on securities and loans to banks	**(1.1)**	**(0.1)**	**(1.0)**	**n.m.**
Net operating income	**(134.7)**	**90.9**	**(225.5)**	**n.m.**
Net provisions for risks and charges	*(40.1)*	(39.0)	(1.1)	2.8%
Gains (losses) on investments	0.2	0.9	(0.7)	-77.0%
Restructuring costs / One-off costs	2.6	2.2	0.4	17.1%
Risks and charges related to the SRF, DGS and similar schemes	(58.3)	(60.9)	2.6	-4.3%
DTA Fee	(17.8)	(17.9)	0.1	-0.6%
Gains (losses) on disposal of investments	1.9	0.6	1.3	n.m.
Profit (loss) before tax from continuing operations	**(246.2)**	**(23.3)**	**(222.9)**	**n.m.**
Tax expense (recovery) on income from continuing operations	3.8	56.7	(52.9)	-93.2%
Profit (loss) after tax from continuing operations	**(242.4)**	**33.5**	**(275.8)**	**n.m.**
Net profit (loss) for the period including non-controlling interests	**(242.4)**	**33.5**	**(275.8)**	**n.m.**
Net profit (loss) attributable to non-controlling interests	-	0.2	(0.2)	n.m.
Profit (loss) for the period before PPA	**(242.4)**	**33.3**	**(275.6)**	**n.m.**
PPA (Purchase Price Allocation)	(1.1)	(5.4)	4.2	-78.8%
Net profit (loss) for the period	**(243.5)**	**27.9**	**(271.4)**	**n.m.**

Quarterly trend in reclassified consolidated income statement

MONTEPASCHI GROUP	2020 1°Q 2020	2019 4°Q 2019	3°Q 2019	2°Q 2019	1°Q 2019
Net interest income	327.1	333.4	354.7	404.3	408.9
Net fee and commission income	369.9	371.1	355.9	363.7	358.8
Income from banking activities	**697.0**	**704.5**	**710.6**	**768.0**	**767.7**
Dividends, similar income and gains (losses) on equity investments	11.8	15.3	36.9	27.5	15.9
Net profit (loss) from trading and financial assets/liabilities measured at amortised cost and maesured at fair value through profit and loss	29.8	141.1	102.0	50.5	28.6
Net profit (loss) from hedging	(2.8)	(5.8)	1.8	(0.6)	-
Other operating income (expenses)	(6.4)	2.3	(11.2)	(63.0)	(8.3)
Total Revenues	**729.4**	**857.4**	**840.1**	**782.4**	**804.0**
Administrative expenses:	(493.0)	(524.6)	(491.8)	(509.8)	(508.2)
a) personnel expenses	(356.7)	(352.5)	(354.5)	(357.4)	(368.6)
b) other administrative expenses	(136.3)	(172.1)	(137.3)	(152.4)	(139.6)
Net adjustments to (recoveries on) property, plant and equipment / Net adjustments to (recoveries on) intangible assets	(55.5)	(69.4)	(57.3)	(67.6)	(60.9)
Operating expenses	**(548.5)**	**(594.0)**	**(549.1)**	**(577.4)**	**(569.1)**
Pre-Provision Profit	**180.9**	**263.4**	**291.0**	**204.9**	**234.9**
Cost of customer loans	**(314.5)**	**(191.8)**	**(137.1)**	**(109.9)**	**(143.9)**
Net impairment (losses)/reversals on securities and loans to banks	**(1.1)**	**(2.5)**	**(2.2)**	**(0.5)**	**(0.1)**
Net operating income	**(134.7)**	**69.1**	**151.7**	**94.5**	**90.9**
Net provisions for risks and charges	(40.1)	(85.6)	(11.9)	(19.4)	(39.0)
Gains (losses) on investments	0.2	(9.3)	0.5	2.3	0.9
Restructuring costs / One-off costs	2.6	2.2	(5.5)	0.8	2.2
Risks and charges related to the SRF, DGS and similar schemes	(58.3)	(0.2)	(35.8)	(26.5)	(60.9)
DTA Fee	(17.8)	(17.7)	(17.7)	(17.3)	(17.9)
Gains (losses) on disposal of investments	1.9	1.9	0.4	0.1	0.6
Profit (loss) before tax from continuing operations	**(246.2)**	**(39.6)**	**81.7**	**34.6**	**(23.3)**
Tax expense (recovery) on income from continuing operations	3.8	(1,179.0)	13.3	34.4	56.7
Profit (loss) after tax from continuing operations	**(242.4)**	**(1,218.6)**	**94.9**	**69.0**	**33.5**
Net profit (loss) for the period including non-controlling interests	**(242.4)**	**(1,218.6)**	**94.9**	**69.0**	**33.5**
Net profit (loss) attributable to non-controlling interests	-	-	(0.1)	(0.2)	0.2
Profit (loss) for the period before PPA	**(242.4)**	**(1,218.6)**	**95.0**	**69.2**	**33.3**
PPA (Purchase Price Allocation)	(1.1)	(1.3)	(1.3)	(4.0)	(5.4)
Net profit (loss) for the period	**(243.5)**	**(1,219.9)**	**93.8**	**65.2**	**27.9**

Revenue trends

As at 31 March 2020, the Group achieved total **Revenues** of **EUR 729 mln**, down 9.3% compared to the same period of the previous year, in particular due to the decrease in Net interest income attributable to the drop in interest-bearing commercial assets and the related yields, only partially offset by the increase in Net fee and commission income resulting from higher income from asset management. Other revenues from banking business decreased slightly, due to the decline in results from trading/hedging and the lower contribution from AXA, both negatively impacted by the tensions in financial markets linked to the COVID-19 emergency, only partially offset by higher profit from the sale of securities and the higher contribution of the Net profit (loss) from other financial assets and liabilities measured at fair value. The decrease of EUR 128 mln compared to the previous quarter is principally due to the drop in Other revenues from banking business, which benefited in 4Q19 from the positive effects recorded on assets measured at fair value, attributable, in particular, to the revaluation of securities recognised in assets resulting from the debt restructuring transactions of Sorgenia and Tirreno Power Group. Net interest income and Other operating income/expense also showed a worsening compared to the previous quarter, while Net fee and commission income was essentially stable.

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

SEGMENT REPORTING	**Business Segments**						**Corporate Center**		**Total Montepaschi Group**	
Primary segment	**Retail banking**		**Wealth Management**		**Corporate banking**					
(EUR mln)	31/03/20	Chg % Y/Y	31/03/20	Chg % Y/Y	31/03/20	Chg % Y/Y	31/03/20	Chg % Y/Y	31/03/20	Chg % Y/Y
PROFIT AND LOSS AGGREGATES										
Net interest income	209.1	-23.6%	0.9	-73.5%	101.7	-22.0%	15.5	n.s.	327.1	-20.0%
Net fee and commission income, of which:	292.5	-1.2%	28.8	5.1%	73.7	2.0%	(25.1)	-31.8%	369.9	3.1%
Fee and commission income	*309.3*	-1.8%	*29.1*	4.9%	*86.8*	4.4%	*(2.5)*	-45.6%	*422.8*	*0.4%*
Fee and commission expense	*(16.9)*	-11.0%	*(0.3)*	-9.6%	*(13.1)*	21.0%	*(22.7)*	-29.9%	*(52.9)*	*-15.2%*
Other income	10.0	-23.3%	2.7	-26.7%	(24.9)	n.m	51.0	n.m	38.8	-12.9%
Other operating expenses/income	4.9	63.6%	0.2	n.m.	(0.6)	-81.6%	(10.9)	34.6%	(6.4)	-22.7%
Total Income	516.5	-11.8%	32.6	-5.4%	149.9	-31.1%	30.4	n.m	729.4	-9.3%

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

Net interest income, equal to **EUR 327 mln** as at 31 March 2020, was down by 20.0% compared to the same period of 2019, mainly due to the drop in interest-bearing commercial assets and the related yields. The aggregate also reflects i) the disposals of Unlikely to Pay loans in 2019, ii) the conclusion in June 2019 of the sale of the subsidiary BMP Belgio S.A., which resulted in the deconsolidation of the related loan and deposit volumes, and iii) the increase in the cost of market funding, mainly linked to the return on the market of bond issues that took place in the second half of 2019 and continued in 1Q20. The result of 1Q20 was down also compared to the previous quarter (-1.9%), mainly due to the lower contribution from commercial loans and the higher cost of market funding, in relation to the aforementioned institutional bond issues carried out in January 2020.

Items	31 03 2020	31 03 2019	Chg. Y/Y		1°Q 2020	4°Q 2019	Chg. Q/Q	
			Abs.	%			Abs.	%
Loans to customers measured at amortised cost	386.0	443.0	(57.0)	-12.9%	386.0	377.4	8.5	2.3%
Securiries issued	(82.3)	(65.6)	(16.7)	25.5%	(82.3)	(73.8)	(8.5)	11.5%
Net Differentials on hedging derivatives	1.3	(4.9)	6.2	n.m	1.3	(2.1)	3.5	n.m
Loans to Banks measured at amortised cost	(7.3)	(4.4)	(2.9)	65.9%	(7.3)	(3.2)	(4.1)	n.m
Trading portfolios	9.5	11.7	(2.2)	-18.8%	9.5	9.6	(0.1)	-1.0%
Portfolios measured at fair value	1.0	3.2	(2.2)	-68.8%	1.0	3.5	(2.5)	-71.4%
Financial assets measured at fair value through other comprehensive income	17.1	23.5	(6.4)	-27.2%	17.1	18.6	(1.5)	-8.1%
Other net interest income	1.8	2.4	(0.6)	-25.0%	1.8	3.4	(1.6)	-47.1%
Net interest income	**327.1**	**408.9**	**(81.8)**	**-20.0%**	**327.1**	**333.4**	**(6.3)**	**-1.9%**
of which: interest income on impaired financial assets	44.0	63.3	(19.3)	-30.5%	44.0	45.8	(1.8)	-3.9%

Net fee and commission income, totalling **EUR 370 mln** in the first quarter of 2020, posted an improvement of 3.1% compared to the same period of the previous year. This trend benefited mainly from higher income on asset management, in particular on product placement, earned during the first two months of the year, subsequently offset by the sharp reduction in placement flows which took place progressively during March following the spread of the COVID-19 pandemic. Other net fee and commission income also improved, due to the lower cost of the state guarantee following the repayment of the Guaranteed Government Bonds that took place in 1Q20; instead, commissions on loans decreased due to lower fees on brokered loans and commissions from services.
The same dynamics are evident in the comparison with the previous quarter, which recorded a slight decrease (-0.3%). In fact, there was an improvement in Other net fee and commission income due to the lower cost of the state guarantee following the aforementioned repayment of the Guaranteed Government Bonds and an increase in income earned from asset management, in particular on placed products, despite the effects of COVID-19. Commissions on loans also decreased compared to the previous quarter, due to lower fees on brokered loans, as did commissions from services.

Services/value	31 03 2020	31 03 2019	Change Y/Y		1°Q 2020	4°Q 2019	Change Q/Q	
			abs.	%			abs.	%
Assets under management fee	**173.6**	**155.4**	**18.2**	**11.7%**	**173.6**	**166.0**	**7.6**	**4.6%**
Product placement	63.0	49.3	13.7	27.8%	63.0	53.1	9.9	18.6%
Continuing fees	88.4	85.0	3.4	4.0%	88.4	89.2	(0.8)	-0.9%
Placement of securities	10.4	10.5	(0.1)	-1.1%	10.4	8.8	1.6	18.2%
Sales of Protection	11.8	10.7	1.2	10.8%	11.8	15.0	(3.2)	-21.2%
Fee and commisions from traditional activities	**227.6**	**245.9**	**(18.4)**	**-7.5%**	**227.6**	**260.0**	**(32.4)**	**-12.5%**
Credit fees	106.7	118.7	(12.1)	-10.2%	106.7	125.7	(19.0)	-15.1%
Fees from foreign service	12.7	12.4	0.2	1.9%	12.7	11.5	1.2	10.5%
Other services	108.2	114.8	(6.5)	-5.7%	108.2	122.8	(14.6)	-11.9%
Other fee and commission income	**(31.3)**	**(42.6)**	**11.3**	**-26.6%**	**(31.3)**	**(54.9)**	**23.7**	**-43.1%**
Net fees and commission income	**369.9**	**358.8**	**11.1**	**3.1%**	**369.9**	**371.1**	**(1.2)**	**-0.3%**

Dividends, similar income and gains (losses) on investments totalled **EUR 12 mln** and include the AXA-MPS contribution[13]. This component was down compared to 1Q19 (EUR -4.1 mln) as well as compared to the

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

previous quarter (EUR -3.5 mln), reflecting the tension in financial markets associated with the COVID-19 emergency.

Net profit (loss) from trading, fair value measurement of assets/liabilities and gains on disposal/repurchase at 31 March 2020 amounted to **EUR 30 mln**, an increase compared to the values recorded in the same period of the previous year (+4.3%), but a decline compared to 4Q19, which was influenced by the revaluation of securities recognised in assets resulting from the debt restructuring transactions of Sorgenia and Tirreno Power Group. The analysis of the main aggregates shows the following:

- **Net profit (loss) from trading of EUR -22 mln**, down compared to both 1Q19 and 4Q19, primarily due to lower contribution from the subsidiary MPSCS as a result of the unfavourable performance of financial markets associated with the COVID-19 emergency.
- **Net profit (loss) from financial assets/liabilities measured at fair value through profit and loss was positive for EUR 0.1 mln**, an improvement from the previous year (EUR -13 mln) and down compared to 4Q19, which was heavily affected by the revaluation of securities recognised in assets resulting from the debt restructuring transactions of Sorgenia and Tirreno Power Group.
- **Gains on disposal/repurchase** (excluding loans to customer measured at amortised cost) **was positive for EUR 52 mln**, up compared to EUR 6 mln in the same period of the previous year as well as compared to EUR 8 mln in 4Q19, thanks to gains on sales of securities, in particular Italian government bonds, carried out in the first quarter of the year.

Items	31 03 2020	31 03 2019	Chg. Y/Y		1°Q 2020	4°Q 2019	Chg. Q/Q	
			Abs.	%			Abs.	%
Financial assets held for trading	(124.3)	17.5	(141.8)	n.m.	(124.3)	(114.7)	(9.6)	8.4%
Financial trading liabilities	62.4	(22.4)	84.8	n.m.	62.4	72.3	(9.9)	-13.7%
Exchange rate effects	5.2	9.1	(3.9)	-42.9%	5.2	6.3	(1.1)	-17.5%
Derivatives	34.9	31.8	3.1	9.8%	34.9	33.8	1.1	3.3%
Trading results	**(21.8)**	**36.0**	**(57.8)**	**n.m.**	**(21.8)**	**(2.3)**	**(19.5)**	**n.m**
Net profit (loss) from financial assets and liabilities measured at fair value through profit and loss	0.1	(13.0)	13.1	n.m.	0.1	135.5	(135.4)	-99.9%
Disposal / repurchase (excluding loans to customers at amortised cost)	51.5	5.6	45.9	n.m.	51.5	7.9	43.6	n.m.
Net profit (loss) from trading and financial assets and liabilities measured amortised cost and measuerd at fair value through profit and loss	**29.8**	**28.6**	**1.2**	**4.3%**	**29.8**	**141.1**	**(111.3)**	**-78.9%**

The following items also make up Revenues:

- **Net profit (loss) from hedging amounting to EUR -2.8 mln**, an improvement compared to 4Q19 (EUR -5.8 mln) and a decline from 1Q19, when it was essentially zero;
- **Other operating income/expense negative for EUR 6.4 mln**, an improvement compared to the figure recognised in 1Q19 (EUR -8.3 mln) and a deterioration compared to 4Q19 (EUR +2.3 mln).

Operating expenses

Operating expenses totalled **EUR 548.5 mln** as at 31 March 2020, down 3.6% on the previous year. The 1Q20 figure was down 7.7% from 4Q19, with savings of around EUR 46 mln, due mainly to the trend in Other administrative expenses and Net value adjustments to property, plant and equipment and intangible assets. A closer look at the individual aggregates reveals the following:

- **Administrative expenses** were **EUR 493 mln**, down by EUR 15 mln from the same period of the previous year and down EUR 32 mln from 4Q19. A breakdown of the aggregate shows:
  - **Personnel expenses**, equal to **EUR 357 mln**, fell 3.2% compared to the same period of the previous year, benefiting from the lower average workforce (in relation, in particular, to the 750 departures for the Solidarity Fund recorded in 2019 and the deconsolidation of BMP Belgio S.A. in June 2019). This trend was only partially offset by the contractual increases/adjustments related primarily to the effects of the renewal of the National Collective Bargaining Agreement. Instead, compared to 4Q19, the aggregate increased by 1.2%, mainly due to the contractual increases/adjustments mentioned above.
  - **Other administrative expenses** amounted to **EUR 136 mln**, down by 2.4% compared to the same period of the previous year, benefiting from the deconsolidation of BMP Belgio S.A. in June 2019. This aggregate is down 20.8% compared to 4Q19, the latter influenced by the typical acceleration of expenses at year end.
- **Net value adjustments to property, plant and equipment and intangible assets** totalled **EUR 56 mln** as at 31 March 2020, a deterioration of 8.9% compared to the same period of the previous year, principally due to lower amortisation of intangible assets. The aggregate decreased compared to the previous quarter by 20.0% due to the recognition of impairment on real estate and software licenses in 4Q19.

Type of transaction	31 03 2020	31 03 2019	Chg Y/Y		1°Q 2020	4°Q 2019	Chg Q/Q	
			Abs.	%			Abs.	%
Wages and salaries	(254.8)	(264.8)	10.0	-3.8%	(254.8)	(253.4)	(1.4)	0.6%
Social-welfare charges	(69.7)	(72.8)	3.1	-4.3%	(69.7)	(68.8)	(0.9)	1.3%
Other personnel expenses	(32.2)	(31.0)	(1.2)	3.8%	(32.2)	(30.3)	(1.9)	6.2%
Personnel expenses	**(356.7)**	**(368.6)**	**11.9**	**-3.2%**	**(356.7)**	**(352.5)**	**(4.2)**	**1.2%**
Taxes	(59.6)	(59.9)	0.3	-0.5%	(59.6)	(53.9)	(5.7)	10.6%
Furnishing, real estate and security expenses	(19.3)	(22.5)	3.2	-14.2%	(19.3)	(22.6)	3.3	-14.6%
General operating expenses	(55.1)	(52.4)	(2.7)	5.2%	(55.1)	(38.1)	(17.0)	44.6%
Information technology expenses	(27.4)	(32.9)	5.5	-16.7%	(27.4)	(40.5)	13.1	-32.3%
Legal and professional expenses	(21.3)	(20.5)	(0.8)	3.9%	(21.3)	(67.3)	46.0	-68.4%
Indirect personnel costs	(1.6)	(1.5)	(0.1)	6.7%	(1.6)	(2.7)	1.1	-40.7%
Insurance	(9.3)	(8.7)	(0.6)	6.9%	(9.3)	(11.8)	2.5	-21.2%
Advertising, sponsorship and promotions	(1.2)	(1.3)	0.1	-7.7%	(1.2)	(1.6)	0.4	-25.0%
Other	(3.4)	(2.6)	(0.8)	28.9%	(3.4)	3.4	(6.8)	n.m.
Expenses recovery	61.9	62.7	(0.8)	-1.2%	61.9	62.9	(1.0)	-1.6%
Other administrative expenses	**(136.3)**	**(139.7)**	**3.4**	**-2.4%**	**(136.3)**	**(172.1)**	**35.8**	**-20.8%**
Tangible assets	(37.4)	(38.6)	1.2	-3.0%	(37.4)	(46.0)	8.6	-18.6%
Intangible assets	(18.1)	(22.3)	4.2	-18.8%	(18.1)	(23.4)	5.3	-22.6%
Amortization and impairment losses	**(55.5)**	**(60.9)**	**5.4**	**-8.9%**	**(55.5)**	**(69.4)**	**13.9**	**-20.0%**
Operating costs	**(548.5)**	**(569.1)**	**20.6**	**-3.6%**	**(548.5)**	**(594.0)**	**45.5**	**-7.7%**

As a result of these trends, the Group's **Gross Operating Income** totalled **EUR 181 mln** (EUR 235 mln as at 31 March 2019), down EUR 82 mln compared to the previous quarter.

Cost of customer loans

In 1Q20, the Group recognised a **Cost of customer credit** equal to **EUR 315 mln**, an increase of EUR 171 mln compared to the corresponding period of the previous year (EUR 144 mln).
The Cost of customer credit in 1Q20 includes EUR 193 mln for increases in adjustments on positions measured statistically, linked to the revision of the valuation parameters deriving from the changed macroeconomic scenario that emerged following the spread of the COVID-19 pandemic. Further details are provided in the section "Use of estimates and assumptions in preparing the Interim Report on Operations in the context of the COVID-19 pandemic", to which reference should be made.
Excluding the effects related to the updated macroeconomic scenario from both 1Q20 and 1Q19 (equal to approx. EUR 193 mln euro in 1Q20 and approx. EUR 37 mln in 1Q19), the Cost of customer credit shows, in any case, an increase Y/Y mainly due to the lower contribution from customer care, which was influenced, in March, by the lockdown imposed following the spread of the pandemic.

Excluding the component linked to the update of the scenario, the aggregate is down compared to 4Q19, mainly as a result of lower default flows.

- The ratio between the Cost of customer credit for the quarter, annualised linearly, and Loans to customers as at 31 March 2020 reflects a **Provisioning Rate of 153 bps** (73 bps as at 31 December 2019). The Provisioning Rate is equal to 83 bps including the EUR 193 mln increase in adjustments linked to the scenario update as a one-off effect solely for 1Q20.

	31 03 2020	31 03 2019	Chg. Y/Y		1°Q 2020	4°Q 2019	Chg. Q/Q	
			Abs.	%			Abs.	%
Loans to customers measured at amortised cost	(319.5)	(162.7)	(156.8)	96.4%	(319.5)	(242.8)	(76.7)	31.6%
Modification gains/(losses)	(1.0)	(1.5)	0.5	-33.3%	(1.0)	(0.7)	(0.3)	42.9%
Gains/(losses) on disposal/repurchase of loans to customers measured at amortised cost	0.3	5.9	(5.6)	-94.9%	0.3	4.7	(4.4)	-93.6%
Net change of Loans to customers measured at fair value mandatory	2.2	(7.4)	9.6	n.m	2.2	0.9	1.3	n.m
Net provision for risks and charges on commitments and guarantees issued	3.5	21.8	(18.3)	-83.9%	3.5	46.1	(42.6)	-92.4%
Cost of customers loans	**(314.5)**	**(143.9)**	**(170.6)**	**n.m**	**(314.5)**	**(191.8)**	**(122.7)**	**64.0%**

The Group's **Net Operating Income** was **negative for approximately EUR 135 mln**, compared to a positive value of EUR 91 mln in the same period of the previous year.

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

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

- **Net provisions for risks and charges** in the amount of **EUR -40 mln**, mainly attributable to legal risks and, in part, to the requests for indemnity linked to loan disposal transactions. As at 31 March 2019, the balance was negative for EUR 39 mln, mainly attributable to provisions for commitments assumed by the Parent Company against the compensation relating to transactions in diamonds.
- **Gains on investments** of approx. **EUR 0.2 mln**, against a gain of EUR 1 mln in the same period of the previous year and a loss of EUR 9 mln recorded in 4Q19, primarily due to the change in the value of certain equity investments.
- **Restructuring costs/One-off charges**, amounting to **EUR 3 mln**, include, in particular, the positive effects linked to the definition of the price adjustment on the sale of BMP Belgio S.A.
- **Risks and charges associated with SRF, DGS and similar schemes**, amounted to **EUR -58 mln**, represented by the Group's contribution to the Single Resolution Fund (SRF). The figure for 1Q19 (EUR -61 mln) included the annual contribution to the Single Resolution Fund (SRF) and the loss on the exposure to the IDPF Voluntary Scheme (for the Carige intervention).
- **DTA fee**, amounting to **EUR -18 mln**. This amount, determined according to the criteria set forth in Law Decree 59/2016, converted into Law no. 119 of 30 June 2016, represents the fee as at 31 March 2020 on DTA (Deferred Tax Assets) that can be converted into a tax credit.
- **Gains (losses) on disposal of investments** of **EUR 2 mln** related to the sale of property. As at 31 March 2019, the aggregate was positive for EUR 1 mln.

Due to the changes discussed above, the Group's **Profit before tax from continuing operations** stood at **EUR -246 mln**, down with respect to the levels as at 31 March 2019, which recorded a loss of EUR -23 mln.

Tax expense (recovery) on income from continuing operations provided a positive contribution of **EUR 4 mln** (EUR +57 mln in 1Q19). Note that until long-term projections can be adopted that take into consideration a reliable and updated macroeconomic scenario, it was decided, for prudential reasons, to not recognise proceeds of roughly EUR 22 mln connected with the reassessment of DTAs from tax losses for the first quarter of the year.

Considering the net effects of the PPA (EUR -1 mln), the **Group's consolidated loss** amounted to EUR 244 mln, compared to a profit of EUR 28 mln in the same period of 2019.

Reclassified balance sheet

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

Note that the first quarter of 2020 was affected by the health emergency created by the spread of the COVID-19 virus, starting from the end of February. With reference to the balance sheet aggregates, note the reduction in Indirect Funding, which reflected the negative performance of financial markets and the widening of the spread on Italian debt, as well as the sharp reduction in placement flows which took place progressively during March due to the reduced operations of the Network.

Reclassified Balance Sheet

Assets	31 03 2020	31 12 2019	Chg abs.	Chg %
Cash and cash equivalents	611.2	835.1	(223.9)	-26.8%
Loans to central banks	8,109.5	9,405.4	(1,295.9)	-13.8%
Loans to banks	4,938.8	5,542.7	(603.9)	-10.9%
Loans to customers	82,206.1	80,135.0	2,071.1	2.6%
Securities assets	26,006.3	24,185.1	1,821.2	7.5%
Derivatives	3,233.8	3,041.2	192.6	6.3%
Equity investments	892.0	931.0	(39.0)	-4.2%
Property, plant and equipment / Intangible assets	2,870.5	2,909.2	(38.7)	-1.3%
of which:				
a) goodwill	*7.9*	*7.9*	-	0.0%
Tax assets	2,763.6	2,763.0	0.6	0.0%
Other assets	2,636.9	2,448.3	188.6	7.7%
Total assets	**134,268.7**	**132,196.0**	**2,072.7**	**1.6%**

Liabilities	31 03 2020	31 12 2019	Chg abs.	Chg %
Direct funding	95,367.1	94,217.3	*1,149.8*	*1.2%*
a) Deposits from customers at amortised cost	83,680.4	80,063.2	3,617.2	4.5%
b) Securities issued	11,686.7	14,154.1	*(2,467.4)*	*-17.4%*
Deposits from central banks at amortised cost	15,997.9	16,041.5	(43.6)	-0.3%
Deposits from banks at amortised cost	4,752.1	4,136.6	615.5	14.9%
Financial liabilities held for cash trading	2,407.1	2,436.0	(28.9)	-1.2%
Derivatives	3,174.4	2,762.5	*411.9*	*14.9%*
Provisions for specific use				
a) Provisions for staff severance indemnities	166.4	178.7	(12.3)	-6.9%
b) Provisions related to guarantees and other commitments given	155.3	158.8	(3.5)	-2.2%
c) Pensions and other post-retirement benefit obligations	35.2	36.1	(0.9)	-2.5%
d) Other provisions	953.4	1,014.9	(61.5)	-6.1%
Tax liabilities	3.3	3.4	(0.1)	-2.9%
Other liabilities	3,327.8	2,929.3	398.5	13.6%
Group net equity	7,927.0	8,279.1	(352.1)	-4.3%
a) Valuation reserves	(41.5)	66.4	(107.9)	n.m.
d) Reserves	(1,802.9)	(769.2)	(1,033.7)	n.m.
f) Share capital	10,328.6	10,328.6	-	0.0%
g) Treasury shares (-)	(313.7)	(313.7)	-	0.0%
h) Net profit (loss) for the period	(243.5)	(1,033.0)	789.5	-76.4%
Non-controlling interests	1.7	1.8	(0.1)	-5.6%
Total Liabilities and Shareholders' Equity	**134,268.7**	**132,196.0**	**2,072.7**	**1.6%**

Reclassified Balance Sheet - Quarterly Trend					
Assets	**31 03 2020**	**31 12 2019**	**30 09 2019**	**30 06 2019**	**31 03 2019**
Cash and cash equivalents	611.2	835.1	675.8	650.1	609.1
Loans to central banks	8,109.5	9,405.4	7,275.7	6,932.3	5,772.8
Loans to banks	4,938.8	5,542.7	5,577.2	4,776.8	4,571.0
Loans to customers	82,206.1	80,135.0	81,642.2	80,385.8	81,900.5
Securities assets	26,006.3	24,185.1	24,646.6	24,859.6	25,749.4
Derivatives	3,233.8	3,041.2	3,374.1	3,462.5	3,288.6
Equity investments	892.0	931.0	1,053.4	958.2	901.7
Property, plant and equipment / Intangible assets	2,870.5	2,909.2	2,921.8	2,943.1	2,992.6
of which:					
a) goodwill	*7.9*	*7.9*	*7.9*	*7.9*	*7.9*
Tax assets	2,763.6	2,763.0	3,913.6	4,065.7	4,062.6
Other assets	2,636.9	2,448.3	2,794.8	2,504.8	2,274.0
Total assets	**134,268.7**	**132,196.0**	**133,875.2**	**131,538.9**	**132,122.3**

Liabilities	31 03 2020	31 12 2019	30 09 2019	30 06 2019	31 03 2019
Direct funding	95,367.1	94,217.3	92,246.3	92,215.9	92,686.1
a) Deposits from customers at amortised cost	83,680.4	80,063.2	79,263.3	80,639.8	80,728.1
b) Securities issued	11,686.7	14,154.1	12,983.0	11,576.1	11,958.0
Deposits from central banks at amortised cost	15,997.9	16,041.5	16,561.7	16,566.8	16,694.4
Deposits from banks at amortised cost	4,752.1	4,136.6	4,484.9	4,570.5	5,475.8
Financial liabilities held for cash trading	2,407.1	2,436.0	1,777.7	1,525.5	1,041.3
Derivatives	3,174.4	2,762.5	3,346.6	2,665.7	2,480.9
Provisions for specific use					
a) Provisions for staff severance indemnities	166.4	178.7	184.7	182.8	182.1
b) Provisions related to guarantees and other commitments given	155.3	158.8	205.0	208.1	220.6
c) Pensions and other post-retirement benefit obligations	35.2	36.1	35.9	36.6	37.2
d) Other provisions	953.4	1,014.9	991.6	1,035.0	1,073.7
Tax liabilities	3.3	3.4	3.9	3.8	30.8
Other liabilities	3,327.8	2,929.3	4,448.0	3,189.9	3,108.3
Group net equity	7,927.0	8,279.1	9,587.0	9,336.3	9,088.6
a) Valuation reserves	(41.5)	66.4	153.0	(15.1)	(123.7)
d) Reserves	(1,802.9)	(769.2)	(767.8)	(756.6)	(830.5)
f) Share capital	10,328.6	10,328.6	10,328.6	10,328.6	10,328.6
g) Treasury shares (-)	(313.7)	(313.7)	(313.7)	(313.7)	(313.7)
h) Net profit (loss) for the period	(243.5)	(1,033.0)	186.9	93.1	27.9
Non-controlling interests	1.7	1.8	1.9	2.0	2.4
Total Liabilities and Shareholders' Equity	**134,268.7**	**132,196.0**	**133,875.2**	**131,538.9**	**132,122.3**

Customer funding

The Group's **Total funding** as at 31 March 2020 amounted to **EUR 184.5 bn**, down EUR 7.8 bn with respect to 31 March 2019 and by EUR 11.5 bn compared to 31 December 2019, mainly due to the decrease in Indirect Funding, which reflected the negative performance of the market, only partly offset by the increase in Direct Funding.

Background

In 1Q20, the uncertainty that already characterised the market scenario increased immensely at the end of February, with the outbreak of the pandemic and the effects of the consequent health emergency. For savers and investors, risk aversion and a preference for financial assets that were considered more secure ("flight to quality") increased, while the production sector suffered the closure of many businesses. The available data show only a part of the evidence of the economic and financial upheavals that resulted from it. Bank deposits posted significant growth, around 5% on an annual basis. In fact, the need to maintain a significant portion of savings in liquid forms remained high and, in March, this aggregate may also have been affected by the increase in savings and the reduction in advisory activities after the lockdown. Current accounts are the driving force for total deposits, but also time deposits and deposits redeemable at notice. Instead, the downturn in bank bonds has resumed, after certain positive signs in the second half of 2019; issues progressively decreased until they essentially disappeared in March.

Interest rates on deposits of non-financial companies and households are essentially stable, around 0.36%; in fact, interest rate on current accounts fell to levels that are difficult to compress (0.04%), while on time deposits, it remained just above 1%. The rate on the stock of bonds continued its downward trend, decreasing by a few basis points compared to 2.15% at the end of 2019. The financial markets have recorded an increase in bond yields and CDS premiums related to banks beginning in the second half of February, which the new refinancing operations adopted by the ECB subsequently mitigated.

For asset management, net funding from mutual funds was negative in the first two months for nearly EUR 4 bn and total assets fell by 2% compared to the end of 2019, reflecting the downturn in financial markets that began in the last ten days of February. Net flows on retail individual asset management, on the other hand, remained positive for around EUR 900 mln, while the stock decreased by more than 3% compared to December. Instead, the new production of "savings" policies shows a substantial positive trend, resulting in an 18% annual increase; the restructuring of the business mix continues in favour of multi-line products, which accounted for almost 40% of the flows.

Customer Funding				Chg Q/Q		Chg Y/Y	
	31 03 2020	31 12 2019	31 03 2019	Abs.	%	Abs.	%
Direct funding	95,367.1	94,217.3	92,686.1	1,149.8	1.2%	2,681.0	2.9%
Indirect funding	89,139.5	101,791.5	99,638.0	(12,652.1)	-12.4%	(10,498.5)	-10.5%
Total funding	**184,506.6**	**196,008.8**	**192,324.1**	**(11,502.3)**	**-5.9%**	**(7,817.5)**	**-4.1%**

Volumes of **Direct Funding**, which came to **EUR 95.4 bn**, posted an increase of EUR 2.7 bn compared to the value at the end of March 2019, (EUR +3.6 bn, excluding the deconsolidation of BMP Belgio S.A.), with growth in Current Accounts (EUR +4.6 bn) and Repurchase Agreements (EUR +1.6 bn). Decreases were recorded in other forms of funding (EUR -3.3 bn) and bonds (EUR -0.3 bn), mainly as a result of the effects from the repayment of the Guaranteed Government Bonds, partially offset by the initiatives envisaged by the Funding Plan (in particular, the issues of senior and subordinated bonds made in the second half of 2019 that continued in 1Q20). The aggregate was up by EUR 1.1 bn compared to the end of December 2019 due to the increase in Current Accounts (EUR +3.3 bn) and Repurchase Agreements (EUR +3.3 bn). Moreover, decreases were recorded with respect to 31 December 2019 for other forms of funding (EUR -2.8 bn) and bonds (EUR -2.5 bn) mainly as a result of the aforementioned effects from the repayment of the Guaranteed Government Bonds, partially offset by the issues of bonds made in 1Q20.

The Group's market share[14] on Direct Funding was 3.75% (figure updated in January 2020), an improvement compared to December 2019 (3.70%).

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

Direct funding							
				Change Q/Q		Change Y/Y	
Type of transaction	31 03 2020	31 12 2019	31 03 2019	Abs.	%	Abs.	%
Current accounts	59,299.3	56,045.6	54,652.0	3,253.7	5.8%	4,647.3	8.5%
Time deposits	9,449.4	9,594.2	9,441.4	(144.8)	-1.5%	8.0	0.1%
Reverse repurchase agreements	9,515.5	6,173.7	7,943.4	3,341.8	54.1%	1,572.1	19.8%
Bonds	11,686.7	14,154.0	11,958.0	(2,467.3)	-17.4%	(271.3)	-2.3%
Other types of direct funding	5,416.2	8,249.8	8,691.3	(2,833.6)	-34.3%	(3,275.1)	-37.7%
Total	**95,367.1**	**94,217.3**	**92,686.1**	**1,149.8**	**1.2%**	**2,681.0**	**2.9%**

Indirect Funding stood at **EUR 89.1 bn**, down compared to 31 March 2019 (EUR -10.5 bn) and compared to 31 December 2019 (EUR -12.7 bn), influenced by the negative performance of the market and reflected in both the Assets under Management and Assets under Custody components. The latter was also impacted by the withdrawal of shares in deposit at the Parent Company by a large industrial group, put in place as part of its organisational/corporate restructuring. Lastly, in comparison with 31 March 2019, the trend was also influenced by the loss of the contribution of BMP Belgio S.A.

In detail, **Assets under Management**, amounting to **EUR 54.4 bn**, was down by EUR 3.2 bn compared to March 2019, primarily in the funds and wealth management segments, while the bancassurance segment recorded an increase. The aggregate was also down compared to 31 December 2019 (EUR -4.9 bn), showing a reduction in all segments.

Indirect Funding							
				Change Q/Q		Change Y/Y	
	31/03/20	31/12/19	31/03/19	Abs.	%	Abs.	%
Assets under management	54,436.0	59,302.0	57,642.3	(4,865.9)	-8.2%	(3,206.3)	-5.6%
Mutual Funds/Sicav	*23,859.3*	*27,181.4*	*27,117.5*	*(3,322.2)*	*-12.2%*	*(3,258.2)*	*-12.0%*
Individual Portfolio under Management	*4,601.5*	*5,103.1*	*5,151.4*	*(501.5)*	*-9.8%*	*(549.9)*	*-10.7%*
Insurance Products	*25,975.2*	*27,017.4*	*25,373.4*	*(1,042.2)*	*-3.9%*	*601.8*	*2.4%*
Assets under custody	34,703.5	42,489.6	41,995.7	(7,786.1)	-18.3%	(7,292.2)	-17.4%
Government bonds	*12,777.4*	*13,567.3*	*12,868.4*	*(789.9)*	*-5.8%*	*(91.0)*	*-0.7%*
Others	*21,926.1*	*28,922.2*	*29,127.2*	*(6,996.2)*	*-24.2%*	*(7,201.2)*	*-24.7%*
Total funding	**89,139.5**	**101,791.5**	**99,638.0**	**-12,652.1**	**-12.4%**	**-10,498.5**	**-10.5%**

Loans to customers

Loans to customers stood at roughly **EUR 82.2 bn** as at 31 March 2020, up EUR 0.3 bn compared to the end of March 2019 (EUR +1.0 bn net of the deconsolidation of BMP Belgio S.A.), due to the increase in Repurchase Agreements (EUR +1.7 bn), Mortgages (EUR +0.7 bn) and Other loans (EUR +0.1 bn). There was a drop in Current accounts (EUR -0.4 bn) and Net non-performing loans, which declined by EUR 1.7 bn, benefiting from the sales of UTP and bad loans, in particular during the second half of 2019. The aggregate was also up compared to 31 December 2019 (EUR +2.1 bn), principally due to more transactions in Repurchase Agreements (EUR +1.3 bn) as well as growth in Mortgages (EUR +0.5 bn) and Other loans (EUR +0.6 bn) Instead, non-performing loans were down (EUR -0.3 bn), influenced by an increase in average coverage following the higher adjustments linked to the revision of the statistical valuation parameters deriving from the changed macroeconomic scenario that emerged following the spread of the COVID-19 emergency.

Background

In the first two months of the year, the dynamics of bank lending remained weak, consistent with the developments in the real economy. The annual growth of loans to the private sector, adjusted for disposals, was around 0.5%, in line with the trend recorded in 2019. Offer policies were characterised by bank interest rates on loans that continued at historically low levels. Loans to businesses confirmed a decrease on an annual basis (around -1.2%); the reduction continued to be concentrated among companies with low creditworthiness, while growth for more solid and larger companies continued. Loans to households continued to grow at an annual rate of around 2.5%, with a more dynamic trend in consumer credit than in the purchase of real estate. With the intensification of the COVID-19 contagion, the ECB and the national government took significant measures to support credit and address the impact of the lockdown and its economic and financial consequences. In particular, since March, the government has launched a complex set of measures aimed at preventing any restrictions on lending and tensions regarding temporary liquidity from translating into a long-lasting decline in production activities. In particular, the new rules seek to provide support for loans to households and businesses, including through the use of the Central Guarantee Fund for SMEs, SACE and Cassa Depositi e Prestiti. Moreover, the rules include provisions blocking the revocation of some types of loans, extending and suspending the repayment terms on existing loans, such as first home loans, as well as loans to self-employed workers who record a sharp drop in turnover and to SMEs. The objective of the interventions is also to limit the development of non-performing loans by mitigating the increase in the rate of deterioration which, in 2019, had reduced to a level around 1.3%, a historic low. In March, the annual growth of bank loans would have risen above 1%, due to the measures taken and the greater use of credit lines. Surveys of companies conducted by Istat and Bank of Italy during March did not show significant signs of deterioration in the conditions of access to credit compared to previous quarters.

With regard to interest rates, there was a further correction both for loans to businesses, whose rate has fallen below 2%, and those to households, with the rate remaining just below 3%; the overall rate on the stock of loans fell to 2.46%. On new transactions, loans to non-financial companies were placed at around 1.2% (from 1.32% in the last quarter of 2019) and home mortgage loans at around 1.40% (-2 bps compared to the last three months of the prior year).

The reduction in bad loans continued, which, in February, were down by approx. EUR 700 mln compared to the end of the previous year and down 28% on a trend basis; net of the disposals, the aggregate increased, but less than the 4% annual rate that was recorded in the final months of 2019. The effect of the weakness in the economic cycle on the emergence of new non-performing loans was limited by low interest rates, a factor that supports the capacity to repay debt. According to ABI, the impact of bad loans, net of loss provisions, on bank loans fell to around 1.5% (from an average of 1.9% in the initial months of 2019).

The Group's market share[15] stood at 4.89% (last available figure from January 2020), slightly down compared to the end of 2019.

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

Loans to customers							
Type of transaction	31/03/20	31/12/19	31/03/19	Change Q/Q		Change Y/Y	
				Abs.	%	Abs.	%
Current accounts	4,552.2	4,626.0	4,997.0	(73.8)	-1.6%	(444.8)	-8.9%
Mortgages	49,548.5	49,046.0	48,878.2	502.5	1.0%	670.3	1.4%
Other forms of lending	16,549.6	15,921.2	16,457.9	628.4	3.9%	91.7	0.6%
Repurchase agreements	5,722.8	4,434.0	4,033.4	1,288.8	29.1%	1,689.4	41.9%
Non performing loans	5,833.0	6,107.8	7,534.0	(274.8)	-4.5%	(1,701.0)	-22.6%
Total	**82,206.1**	**80,135.0**	**81,900.6**	**2,071.1**	**2.6%**	**305.5**	**0.4%**
Stage 1	*63,694.9*	*62,402.3*	*61,948.2*	*1,292.6*	*2.1%*	*1,746.7*	*2.8%*
Stage 2	*12,524.2*	*11,475.3*	*12,270.3*	*1,048.9*	*9.1%*	*253.9*	*2.1%*
Stage 3	*5,768.3*	*5,933.7*	*7,263.5*	*(165.4)*	*-2.8%*	*(1,495.2)*	*-20.6%*
Performing loans measured at fair value	*154.0*	*149.6*	*148.1*	*4.4*	*2.9%*	*5.9*	*4.0%*
Non performing loans measured at fair value	*64.7*	*174.1*	*270.6*	*(109.4)*	*-62.8%*	*(205.9)*	*-76.1%*

In 1Q20, the medium/long-term component recorded new disbursements of EUR 2.3 bn, a decrease compared to 4Q19 (EUR -0.5 bn) and an increase compared to 1Q19, despite the substantial slowdown in operations caused by the spread of the COVID-19 emergency.

Loans to customers measured at amortised cost		Stage 1	Stage 2	Stage 3	**Total**
31 03 2020	Gross exposure	63,772.1	13,001.7	11,372.3	**88,146.1**
	Provisions	77.2	477.5	5,604.0	**6,158.7**
	Net exposure	63,694.9	12,524.2	5,768.3	**81,987.4**
	Coverage ratio	*0.12%*	*3.67%*	*49.28%*	***7.0%***
	% on Loans to customers measured at amortised cost	*77.69%*	*15.28%*	*7.04%*	***100.0%***

Loans to customers measured at amortised cost		Stage 1	Stage 2	Stage 3	**Total**
31 12 2019	Gross exposure	62,465.9	11,885.5	11,479.8	**85,831.2**
	Provisions	63.6	410.2	5,546.1	**6,019.9**
	Net exposure	62,402.3	11,475.3	5,933.7	**79,811.3**
	Coverage ratio	*0.10%*	*3.45%*	*48.31%*	***7.0%***
	% on Loans to customers measured at amortised cost	*78.19%*	*14.38%*	*7.43%*	***100.0%***

Loans to customers measured at amortised cost		Stage 1	Stage 2	Stage 3	**Total**
31 03 2019	Gross exposure	62,023.5	12,839.1	15,336.7	**90,199.3**
	Provisions	75.3	568.9	8,073.2	**8,717.4**
	Net exposure	61,948.2	12,270.3	7,263.5	**81,481.9**
	Coverage ratio	*0.12%*	*4.43%*	*52.64%*	***9.7%***
	% on Loans to customers measured at amortised cost	*76.03%*	*15.06%*	*8.91%*	***100.0%***

The process of constant improvement in the quality of the loan portfolio by developing customers with good credit standing and deleveraging those with low credit standing, enabled the increase in loans classified in stage 1 (with gross exposure equal to EUR 63.8 bn as at 31 March 2020, an increase of EUR 1.7 bn over 31 March 2019). The positions classified in stage 2 also increased modestly (with gross exposure of EUR 13.0 bn as at 31 March 2020, an increase of EUR 0.2 bn compared to 31 March 2019), reflecting the deterioration in macroeconomic forecasts following the spread of the COVID-19 emergency, which led to the classification in this stage of approx. EUR 1.7 bn loans during the course of 1Q20. The improvement in the portfolio quality is also demonstrated by the constant reduction in the flow of defaults, which originates mainly from loans classified in the second stage.

Non-performing exposures of loans to customers

As at 31 March 2020, the Group's **Total non-performing loans to customers** totalled **EUR 11.6 bn**, down compared to 31 March 2019 (EUR -4.5 bn) due to the disposals of UTP and Bad Loans carried out, in particular, in the second half of 2019. The aggregate was also down compared to the end of December 2019 (EUR -0.3 bn), primarily attributable to the deconsolidation process of positions classified under Assets held for sale as at 31 December 2019.

In particular, the gross exposure to Bad Loans was down EUR 2.1 bn compared to 31 March 2019 and EUR 0.2 bn compared to 31 December 2019, mainly due to the above-mentioned disposals and debt collection, in part offset by new positions transferred to that category during the period. The exposure of Unlikely to Pay also decreased by EUR 2.4 bn compared to 31 March 2019 and EUR 0.2 bn compared to 31 December 2019, mainly following disposals/reductions, management, and transfer to Bad Loans recorded during the period. Gross non-performing past due loans decreased compared to 31 March 2019 and increased compared to 31 December 2019.

As at 31 March 2020, the Group's **Net exposure in terms of non-performing loans to customers** totalled **EUR 5.8 bn**, down compared to 31 March 2019 (EUR -1.7 bn), mainly as a result of the disposals of UTP and Bad Loans carried out, in particular, in the second half of 2019. This figure was also down compared to 31 December 2019 (EUR -0.3 bn), due to the deconsolidation of positions previously classified under Assets held for sale at 31 December 2019, as well as the increase in average coverage following the higher adjustments linked to the revision of the statistical valuation parameters deriving from the changed macroeconomic scenario that emerged following the spread of the COVID-19 emergency. In particular, net exposure to Bad Loans declined compared to 31 March 2019 (EUR -0.4 bn) as well as 31 December 2019 (EUR -0.1 bn). The net exposure of Unlikely to Pay also fell by EUR -1.2 bn with respect to 31 March 2019 and EUR -0.2 bn with respect to 31 December 2019. Net non-performing past due loans decreased compared to 31 March 2019 and increased compared to 31 December 2019.

The ratio between net non-performing loans and net loans to customers as at 31 March 2020 was 7.1%, down compared to March 2019 (equal to 9.2%) and compared to December 2019 (7.6%). During the quarter, incidence of Unlikely to Pay decreased (from 3.8% in December 2019 to 3.5% in March 2020), as did that of Bad Loans (from 3.7% in December 2019 to 3.5% in March 2020). The incidence of non-performing past due loans was stable.

Loans to customers		Bad loans	Unlikely to pay	Non-performing Past due	**Non-performing exposures**	Perfoming exposures	**Total**
31 03 2020	Gross exposure	6,264.8	5,182.2	125.4	**11,572.4**	76,927.8	**88,500.2**
	Provisions	3,412.2	2,295.1	31.9	**5,739.2**	554.7	**6,293.9**
	Net exposure	2,852.6	2,887.1	93.5	**5,833.2**	76,373.1	**82,206.3**
	Coverage ratio	*54.5%*	*44.3%*	*25.4%*	***49.6%***	*0.7%*	***7.1%***
	% on Loans to customers	*3.5%*	*3.5%*	*0.1%*	***7.1%***	*92.9%*	***100.0%***
31 12 2019	Gross exposure	6,423.5	5,386.1	98.3	**11,907.9**	74,501.0	**86,408.9**
	Provisions	3,441.5	2,335.5	23.1	**5,800.1**	473.8	**6,273.9**
	Net exposure	2,982.0	3,050.6	75.2	**6,107.8**	74,027.2	**80,135.0**
	Coverage ratio	*53.6%*	*43.4%*	*23.5%*	***48.7%***	*0.6%*	***7.3%***
	% on Loans to customers	*3.7%*	*3.8%*	*0.1%*	***7.6%***	*92.4%*	***100.0%***
31 03 2019	Gross exposure	8,365.3	7,556.4	199.4	**16,121.1**	75,010.8	**91,131.9**
	Provisions	5,130.9	3,421.0	34.8	**8,586.7**	644.3	**9,231.0**
	Net exposure	3,234.3	4,135.4	164.6	**7,534.4**	74,366.5	**81,900.9**
	Coverage ratio	*61.3%*	*45.3%*	*17.4%*	***53.3%***	*0.9%*	***10.1%***
	% on Loans to customers	*3.9%*	*5.0%*	*0.2%*	***9.2%***	*90.8%*	***100.0%***

As at 31 March 2020, the **coverage** of Total non-performing loans to customers stood at 49.6%, an increase compared to 31 December 2019 (48.7%), including following the higher adjustments on statistically measured positions linked to the revision of the valuation parameters deriving from the changed macroeconomic scenario that emerged following the spread of the COVID-19 emergency. Conversely, the coverage is down compared to 31 March 2019 (53.3%), in particular, the coverage on Bad Loans fell to 54.5% (61.3% as at 31 March 2019). This trend is influenced by the deconsolidation of positions subject to disposal transactions carried out during 2019 that, in reference to Bad Loans, mainly involved unsecured loans characterised by higher coverage percentages.

Change in gross exposures

abs/%		Bad loans	Unlikely to pay	Non performing past due	**Non performing exposures**	Performing exposures	**Total**
Q/Q	abs.	(158.7)	(203.9)	27.1	**(335.5)**	2,426.8	**2,091.3**
	%	-2.5%	-3.8%	27.6%	**-2.8%**	3.3%	**2.4%**
Y/Y	abs.	(2,100.5)	(2,374.2)	(74.0)	**(4,548.7)**	1,917.0	**(2,631.7)**
	%	-25.1%	-31.4%	-37.1%	**-28.2%**	2.6%	**-2.9%**

Changes in coverage ratios

	Bad loans	Ulikely to pay	Non performing past due	**Non performing exposures**	Performing exposures	**Total**
Q/Q	*0.89%*	*0.93%*	*1.94%*	***0.89%***	*0.09%*	***-0.15%***
Y/Y	*-6.87%*	*-0.98%*	*7.99%*	***-3.67%***	*-0.14%*	***-3.02%***

	1°Q 2020		31 12 2019		4°Q 2019		31 03 2019		Chg. 1°Q 2020/4°Q2019 Non-performing exposures		Chg. Y/Y Non-performing exposures	
	Non-performing exposures	*of which Bad loans*	Non-performing exposures	*of which Bad loans*	Non-performing exposures	*of which Bad loans*	Non-performing exposures	*of which Bad loans*	Abs.	%	Abs.	%
Gross exposure, opening balance	**11,907.9**	***6,423.5***	**16,719.0**	***8,565.4***	**11,785.4**	***6,404.8***	**16,719.0**	***8,565.4***	**122.5**	**1.0%**	**(4,811.1)**	**-28.8%**
Increases from performing loans	288.1	*23.9*	1,272.4	*234.5*	442.6	*140.7*	282.7	282.7	(154.5)	-34.9%	5.4	1.9%
Transfers to performing loans	(79.5)	*(0.2)*	(710.2)	*(0.7)*	(391.2)	*0.1*	*(154.8)*	*(154.8)*	311.7	-79.7%	75.3	-48.6%
Collections	(263.6)	*(109.0)*	(1,973.5)	*(651.5)*	(719.6)	*(277.5)*	(322.6)	(322.6)	456.0	-63.4%	59.0	-18.3%
Write-offs and loss on disposal	(168.9)	*(135.3)*	(480.6)	*(188.4)*	124.7	*323.3*	(92.9)	(92.9)	(293.6)	n.m.	(76.0)	81.8%
+/- Other changes	(111.6)	*61.9*	(2,919.2)	*(1,535.8)*	666.0	*(167.9)*	(310.3)	87.5	(777.6)	n.m.	198.7	-64.0%
Gross exposure, closing balance	**11,572.4**	***6,264.8***	**11,907.9**	***6,423.5***	**11,907.9**	***6,423.5***	**16,121.1**	***8,365.3***	**(335.5)**	**-2.8%**	**(4,548.7)**	**-28.2%**
Opening balance of overall adjustments	**(5,800.1)**	***(3,441.5)***	**(8,906.1)**	***(5,341.4)***	**(7,606.9)**	***(4,988.5)***	**(8,906.1)**	***(5,341.4)***	**1,806.8**	**-23.8%**	**3,106.0**	**-34.9%**
Adjustments / write-backs	(227.7)	*(128.4)*	(810.6)	*(350.5)*	(241.5)	*(36.9)*	(157.3)	*(39.7)*	13.8	-5.7%	(70.4)	44.7%
+/- Other changes	288.6	*157.7*	3,916.6	*2,250.4*	2,048.4	*1,584.0*	476.7	*250.2*	(1,759.8)	-85.9%	(188.1)	-39.5%
Closing balance of overall adjustments	**(5,739.2)**	***(3,412.2)***	**(5,800.1)**	***(3,441.5)***	**(5,800.1)**	***(3,441.5)***	**(8,586.7)**	***(5,130.9)***	**60.9**	**-1.0%**	**2,847.5**	**-33.2%**
Net exposure closing balance	**5,833.2**	***2,852.6***	**6,107.8**	***2,982.0***	**6,107.8**	***2,982.0***	**7,534.4**	***3,234.3***	**(274.6)**	**-4.5%**	**(1,701.2)**	**-22.6%**

Other financial assets/liabilities

As at 31 March 2020, the Group's **Securities assets** totalled **EUR 26.0 bn**, up EUR 1.8 bn compared to 31 December 2019, principally as a result of the growth in Financial assets held for trading (EUR +2.4 bn) attributable in particular to MPS Capital Services, for lower transactions in Italian government securities. Instead, Financial assets measured at fair value through other comprehensive income declined (EUR -0.6 bn), referring, in particular, to the Parent Company for sales and maturities only partially offset by purchases in the quarter.

The aggregate was up slightly compared to 31 March 2019 (EUR +0.3 bn) due to the net transactions of securities purchases and sales, classified under both Financial assets measured at fair value through other comprehensive income and Loans to customers at amortised cost, only partially offset by the increase in the trading component referring specifically to the subsidiary MPS Capital Services. Note that the market value for the securities in Loans to customers at amortised cost is EUR 9,194.9 mln (with implicit capital losses of around EUR 11 mln).

On-balance-sheet financial liabilities held for trading as at 31 March 2020 were essentially stable compared to the end of December 2019, while they were up by EUR 1.4 bn compared to 31 March 2019.

As at 31 March 2020, the **Net position in derivatives** posted a drop compared to both 31 December 2019 (EUR -0.2 bn) as well as 31 March 2019 (EUR -0.7 bn).

Items	31 03 2020	31 12 2019	31 03 2019	Chg. Q/Q		Chg. Y/Y	
				Abs.	%	Abs.	%
Securities assets	26,006.3	24,185.1	25,749.4	1,821.2	7.5%	256.9	1.0%
Financial assets held for trading	*9,383.3*	*6,934.3*	*7,299.0*	*2,449.0*	35.3%	*2,084.3*	28.6%
Financial assets measured at fair value mandatory	*537.4*	*440.2*	*283.4*	*97.2*	22.1%	*254.0*	89.6%
Financial assets measured at fair value through other comprehensive income	*6,094.0*	*6,726.8*	*9,388.3*	*(632.8)*	-9.4%	*(3,294.3)*	-35.1%
Loans to customers measured at amortised cost	*9,206.1*	*9,309.5*	*8,025.3*	*(103.4)*	-1.1%	*1,180.8*	14.7%
Loans to banks measured at amortised cost	*785.5*	*774.3*	*753.4*	*11.2*	*1.4%*	*32.1*	*4.3%*
Financial liabilities held for cash trading	(2,407.1)	(2,436.0)	(1,041.3)	28.9	-1.2%	(1,365.8)	131.2%
Net positions in Derivatives	59.4	278.7	807.7	(219.3)	-78.7%	(748.3)	-92.6%
Other financial assets and liabilities	**23,658.6**	**22,027.8**	**25,515.8**	**1,630.8**	**7.4%**	**(1,857.2)**	**-7.3%**

Items	31 03 2020		31 12 2019		31 03 2019	
	Securities assets	Financial liabilities held for cash tradig	Securities assets	Financial liabilities held for cash tradig	Securities assets	Financial liabilities held for cash tradig
Debt securities	25,525.2	-	23,663.1	-	25,247.8	-
Equity instruments and Units of UCITS	481.1	-	522.0	-	501.6	-
Loans	-	2,407.1	-	2,436.0	-	1,041.3
Total	26,006.3	2,407.1	24,185.1	2,436.0	25,749.4	1,041.3

Interbank position

As at 31 March 2020, the Group's **net interbank position** stood at **EUR 7.7 bn** in funding, EUR 4.1 bn lower than the balance as at 31 March 2019 due to the increase in ECB deposits and the decrease in funding from banks. Instead, net interbank fund increased EUR 2.5 bn compared to December 2019 mainly as a result of the reduction in ECB deposits.

Interbank balances							
				Change Q/Q		Change Y/Y	
	31 03 2020	31 12 2019	31 03 2019	Abs.	%	Abs.	%
Loans to banks	4,938.8	5,542.7	4,571.0	(603.9)	-10.9%	367.8	8.0%
Deposits from banks	4,752.1	4,136.6	5,475.8	615.5	14.9%	(723.7)	-13.2%
Net position whit banks	**186.7**	**1,406.1**	**(904.7)**	**(1,219.4)**	**-86.7%**	**1,091.4**	**-120.6%**
Loans to Central banks	8,109.5	9,405.4	5,772.8	(1,295.9)	-13.8%	2,336.7	40.5%
Deposits from Central banks	15,997.9	16,041.5	16,694.4	(43.6)	-0.3%	(696.5)	-4.2%
Net position whit Central banks	**(7,888.4)**	**(6,636.1)**	**(10,921.6)**	**(1,252.3)**	**18.9%**	**3,033.2**	**-27.8%**
Net interbank position	**(7,701.7)**	**(5,230.0)**	**(11,826.3)**	**(2,471.7)**	**47.3%**	**4,124.6**	**-34.9%**

As at 31 March 2020, the operational liquidity position showed an **unencumbered Counterbalancing Capacity of approx. EUR 21.7 bn**, down by EUR 3.0 bn compared to 31 December 2019, mainly due to the repayment of securities with government guarantees in January and March 2020.

Shareholders' equity

As at 31 December 2020, the **Shareholders' equity of the Group and non-controlling interests** was roughly **EUR 7.9 bn**, down EUR 0.4 bn compared to 31 December 2019, reflecting the decline in reserves and the dynamic of the result for the year.

This figure was also down compared to 31 March 2019 (-12.8%), mainly due to the loss realised in the last quarter of 2019.

Reclassified Consolidated Balance Sheet

Equity	31 03 2020	31 12 2019	31 03 2019	Chg Q/Q		Chg Y/Y	
				Abs.	%	Abs.	%
Group net equity	7,927.0	8,279.1	9,088.6	(352.1)	-4.3%	(1,161.6)	-12.8%
a) Valuation reserves	(41.5)	66.4	(123.7)	(107.9)	n.m	82.2	-66.5%
d) Reserves	(1,802.9)	(769.2)	(830.5)	(1,033.7)	n.m	(972.4)	n.m
f) Share capital	10,328.6	10,328.6	10,328.6	-	n.m	-	n.m
g) Treasury shares (-)	(313.7)	(313.7)	(313.7)	-	n.m	-	n.m
h) Net profit (loss) for the period	(243.5)	(1,033.0)	27.9	789.5	-76.4%	(271.4)	n.m
Non-controlling interests	1.7	1.8	2.4	(0.1)	-5.6%	(0.7)	-29.2%
Total Group Shareholder's Equity and Non-controlling interests	**7,928.7**	**8,280.9**	**9,091.0**	**(352.2)**	**-4.3%**	**(1,162.3)**	**-12.8%**

Capital adequacy

Regulatory capital and statutory requirements

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

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

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

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

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

- CET1 Ratio of 8.83%
- Tier 1 Ratio of 10.89%
- Total Capital Ratio of 13.64%

These ratios include, in addition to the P2R, 2.5% for the Capital Conservation Buffer, 0.13% for the O-SII Buffer, and 0.01% for the Countercyclical Capital Buffer[16].

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

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

Categories / Values	31 03 2020	31 12 2019	Chg. 31 12 2019	
			Abs.	%
OWN FUNDS				
Common Equity Tier 1 (CET1)	8,049.2	8,620.3	(571.1)	-6.63%
Tier 1 (T1)	8,049.2	8,620.3	(571.1)	-6.63%
Tier 2 (T2)	1,555.5	1,154.3	401.2	34.76%
Total capital (TC)	9,604.7	9,774.6	(169.9)	-1.74%
RISK ASSETS	-	-	-	
Credit and Counterparty Risk	45,700.1	45,236.1	464.0	1.03%
Credit valuation adjustment risk	383.6	356.4	27.2	7.63%
Market risks	2,795.1	2,646.3	148.8	5.62%
Operational risk	10,379.2	10,320.3	58.9	0.57%
Risk-weighted assets	**59,258.0**	**58,559.1**	**698.9**	**1.19%**
CAPITAL RATIOS				
CET1 capital ratio	**13.58%**	**14.72%**	**-1.14%**	
Tier1 capital ratio	**13.58%**	**14.72%**	**-1.14%**	
Total capital ratio	**16.21%**	**16.69%**	**-0.48%**	

Compared to 31 December 2019, CET1 decreased by a total of EUR -571 mln, essentially due to the following phenomena:

- reduction in the balance of the Other Comprehensive Income reserve for EUR -108 mln (EUR -61 mln considering the corresponding reduction in deductions on significant financial investments);
- loss for the period amounting to EUR -244 mln;
- increase in deductions associated with DTAs (EUR -17 mln) and prudential filters (EUR -38 mln, primarily due to the prudent valuation), partially offset by the decrease in deductions associated with intangible assets (EUR +8 mln), as well as the decline in non-exempt deductions relating to significant financial investments (EUR +4 mln);
- decline in the neutralisation of the impact of IFRS 9 connected to the first-time adoption of the accounting standard as set forth in Regulation (EU) 2017/2935 (inclusive of the positive effect of the relative DTAs), equal to a total of EUR -176 mln.

Tier 2 marked an increase of EUR 401 mln compared to the end of December 2019, equal to the issue of subordinated T2 bonds (EUR 400 mln nominal value), concluded in January 2020.

Hence, the Total Capital Ratio reflects an overall decrease in own funds of EUR -170 mln.

RWAs recorded an overall increase of EUR 699 mln, due to higher RWAs relating to credit and counterparty risk (EUR +464 mln), CVA risk (EUR +27 mln), market risk (EUR +149 mln), and operational risk (EUR +59 mln).

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

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

Disclosure on risks

Main risks and uncertainties

The information on the risks and uncertainties to which the Group is exposed are detailed in the Report on Operations and in the Notes to the Consolidated Financial Statements as at 31 December 2019, to which reference is made.

With regard to the risks and uncertainties resulting from the COVID-19 pandemic, the Group maintains that the current macroeconomic scenario will lead to a deterioration in credit quality which, at present, it is not possible to reliably quantify.

In fact, the Group observes that the lockdown imposed at a global level will lead to a reduction in revenues for a large number of business customers and an increase in costs linked to the actions necessary to contain and prevent the spread of the virus, with repercussions on the payment capacity of the outstanding debt flows and on current employment levels.

Therefore, a gradual deterioration of the probability of default will become evident on performing loans, with a resulting increase in loans classified in stage 2 and a continual growth in the flow of defaults. Similarly, on loans already classified as non-performing, there will be a gradual increase in the average collections times for bad loans (attributable, for example, to closure of the courts) and a necessary revision of the existing restructuring agreements on loans classified as unlikely to pay, whose probability of management could suffer a sharp reduction. These effects may lead to a progressive increase in the cost of credit and in the NPE stock, which would only be mitigated in the medium to long term. Consequently, there will be an increase of the RWAs on capital requirements, due to the deterioration in the probability of default.

However, the actions taken by the Italian government should lead to a marked reduction in both the deterioration in the quality of performing loans as well as RWAs.

On the deterioration in quality, the moratoria envisaged by the law decree, the new concessions with a time horizon of 6 years, and the unemployment funds should enable a greater realignment of future cash flows with the rescheduling of the debt, with a resulting substantial reduction in possible future past due/overdrafts. On the RWAs and cost of credit, the guarantees issued by SACE and the Central Guarantee Fund will instead lead to a considerable drop in both the expected and unexpected loss, with the resulting mitigation of the impact expected from the deterioration in the parameters of internal models.

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

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

In this situation, the potential risks for business continuity to which the Group is exposed also increase, in relation to the increased dependence on infrastructure and network equipment to ensure user access to the information system. Although these measures have been taken to protect customers and employees, the continuation of the emergency and lockdown could exacerbate exposure to these risks.

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

Exposure to sovereign debt risk

Below is a breakdown of the Group's exposure to sovereign debt risk in government bonds, loans and credit derivatives as at 31 March 2020.

The exposures are broken down by accounting categories.

COUNTRY	DEBT SECURITIES					LOANS	CREDIT DERIVATIVES
	Financial assets measured at fair value through profit and loss		Financial assets measured at fair value through other comprehensive income		Financial assets measured at amortised cost	Financial assets measured at amortised cost	Financial assets held for trading
	Nominal	Fair value=book value	Nominal	Fair value=book value	Book value	Book value	Nominal
Argentine	0.3	-	-	-	-	-	-
Azerbaijan	-	-	-	-	0.6	-	-
France	-	-	10.0	10.2	-	-	38.3
Germany	0.1	0.2	-	-	-	-	22.8
Italy	5,886.9	5,730.2	5,268.1	5,274.9	5,644.7	1,932.5	3,166.2
Portugal	-	-	15.0	17.4	-	-	22.8
Spain	14.4	16.0	10.0	10.1	1,115.9	-	5.3
Other Countries	0.1	0.1	-	-	0.1	-	-
Total 31 03 2020	**5,901.8**	**5,746.5**	**5,303.1**	**5,312.6**	**6,761.3**	**6,761.3**	**6,761.3**
Total 31 12 2019	**3,400.1**	**3,302.5**	**5,861.6**	**5,940.3**	**6,701.0**	**6,701.0**	**6,701.0**

As at 31 March 2020, the residual duration of the exposure to sovereign debt was 3.8 years.

Main types of legal, employment and tax risks

The ongoing health emergency related to COVID-19 and the resulting provisions on the suspension of the activities of the courts contained in the "Cura Italia" Decree have led to the postponement of all hearings scheduled during the period, although this has not had significant effects on developments of criminal disputes and employment law disputes pending for the Group.

The most significant events in the first quarter of 2020 are shown below. For more details on legal, employment and tax disputes, please refer to the "Report and Consolidated Financial Statements as at 31 December 2019".

Legal disputes and out-of-court claims

As at 31 March 2020, the following were pending:

- legal disputes with a total amount claimed, where quantified, of approximately EUR 4.8 bn. In particular:
  - approx. EUR 2.2 bn in claims regarding disputes for which there is a "probable" risk of losing the case, for which provisions of EUR 0.5 bn have been allocated;
  - approx. EUR 1.7 bn in claims attributable to disputes for which there is a "possible" risk of losing the case;
  - approx. EUR 0.9 bn in claims attributable to the remaining disputes, for which there is a "remote" risk of losing the case;
- out-of-court claims totalling, where quantified, approximately EUR 0.9 bn. In particular:
  - approx. EUR 0.6 bn in claims for which there is a "probable" risk of losing the case;
  - approx. EUR 0.3 bn in claims for which there is a "possible" risk of losing the case.

Dispute regarding bankruptcy rescindments

The provisions for risks recognised for this type of dispute amounted to EUR 30.4 mln as at 31 March 2020 (total claim of EUR 146.4 mln), compared to EUR 31.1 mln as at 30 June 2019 (against a claim of EUR 150.7 mln).

Dispute with purchasers of subordinated bonds issued by Group companies

The total claim for these disputes is EUR 57.8 mln as at 31 March 2020, up EUR approx. 8 mln compared to 31 December 2019. The focus of the opposing claims is concentrated on the lack of disclosure and/or in any case violations of specific regulations on financial intermediation.

As at 31 March 2020, the provisions recognised amounted to EUR 34.9 mln (up by approx. EUR 8 mln compared to 31 December 2019).

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

As at 31 March 2020, the total relief sought for this type of dispute amounted to EUR 1.8 bn, subdivided as follows (data in EUR mln).

Type of dispute	31/03/20	31/12/19
Civil dispute *	795	883
Filed civil claim cp 29634/14	137	137
Filed civil claim cp 955/16	95	95
Out-of-court claims **	809	858
Total claims	**1,836**	**1,973**

(*) The decrease in total claims of the civil dispute compared to 31 December 2019 is mainly due to the transactions that took place during the first quarter of the year, referenced herein.
(**) The decrease in claims from out-of-court proceedings of EUR 49 mln compared with the end of 2019 refers, for EUR 41 mln, to the 2008-2011 share capital increase and, for EUR 8 mln, to the 2014-2015 share capital increases. This decrease is mainly due to the quantification of the civil parties involved in the criminal proceedings 29634/14 and 955/16.

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

In relation to capital increases and the allegedly incorrect financial information contained in the prospectuses and/or in the financial statements and/or in the price sensitive information for the period 2008-2011, as at 31 March 2020, the Parent Company has received 970 out-of-court claims for a total of EUR 589 mln in quantified claims. As at 31 March 2020, the residual claims of the plaintiffs who did not file civil suits amounted to EUR 551 mln.

Another 413 out-of-court claims relating to the share capital increases in 2014-2015 must be added to the ones indicated above, for a claim amount of approximately EUR 272 mln (EUR 258 mln considering only the plaintiffs who did not file civil suits).

The grand total amount claimed as at 31 March 2020 is therefore around EUR 809 mln.

Settlement agreements for civil disputes related to share capital increases

As at 31 March 2020, settlement agreements were reached, involving the closure of 3 disputes against a total claim of approx. EUR 90 mln. The outlays made following the above transactions did not have a negative impact on the income statement for the period.

Employment law disputes

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

For the dispute related to the sale of the business unit, effective 1 April 2020, the Parent Company executed the unfavourable decisions, readmitting the relevant employees who had obtained favourable judgements in the first and/or second instance, without renouncing the appeals filed against these rulings. At the same time as the re-admission in service, these workers were seconded to Fruendo. It is also specified that for a portion of them (about 100), the secondment posting will cease no later than 30 June 2020.

As part of this operation, negotiations are under way with Fruendo, as well as all workers who have not contested the sale of the business unit, in order to prevent further disputes from arising.

As regards the "double remuneration" dispute, note that as at 31 March 2020, the claims concern 101 employees while the out-of-court claims concern 222 employees.

Compensation for transactions in diamonds

As at 31 March 2020, provisions for risks and charges recognised against the compensation initiative launched by the Parent Company amounted to EUR 68.5 mln. In the first three months of the year, transactions with customers were carried out amounting to EUR 29.4 mln.

Market risks

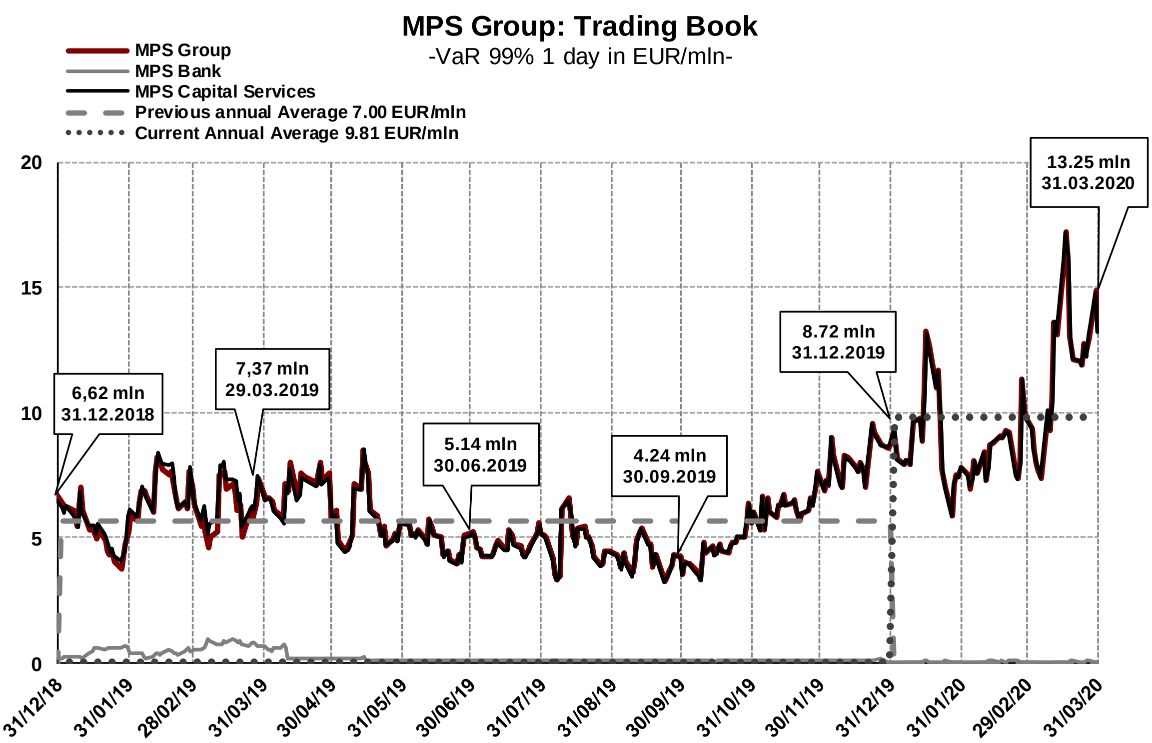
At the end of the first quarter of 2020, the market risks of the Group's Regulatory Trading Book, measured as VaR, showed an increase from the end of December 2019 amounting to EUR 13.3 mln, reflecting, in particular, the dynamics of the market.

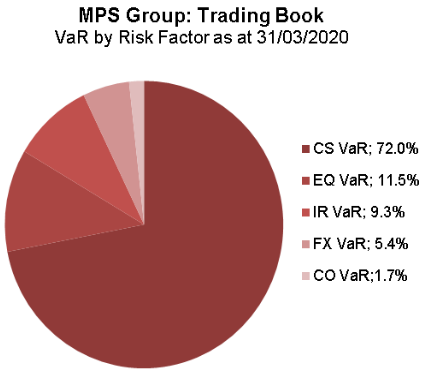
During the quarter, the market risks of the Group's Regulatory Trading Book showed, in terms of VaR, a performance influenced by the subsidiary MPS Capital Services, mainly for own trading activities in the Credit Spread – Interest Rate segment (auction transactions in Italian government bonds and long 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.

The first quarter of 2020 was heavily impacted by the crisis in the markets triggered by the outbreak of the COVID-19 pandemic, with particular effect on the VaR model due to the extreme variations recorded in most market parameters during March, predominantly affecting the primary dealer activities on Italian government bonds of the subsidiary MPS Capital Services. As part of this activity, including due to the recent auctions, the subsidiary's portfolios recorded an average holding in Italian government bonds that was higher than the previous year (approx. EUR 4.9 bn average exposure in nominal terms in the first quarter of 2020, with an overall duration of less than one year).

In particular, the increase in the Italian Credit Spread in March caused a considerable increase in the VaR measure, due to the occurrence of especially negative scenarios ("tail events"), consisting mainly of extreme and sudden daily increases in the yields of Italian government bonds in the short portion of the curve.

The VaR under current conditions shows a notable sensitivity to changes in the short-term exposure on the Italian credit spread, given that it incorporates both the scenarios of the recent crises, characterised by a substantial parallel widening along the entire yield curve for Italian government bonds, as well as scenarios recorded in May 2018, characterised instead by a widening of yields that was more significant on the short-term than the long-term component (i.e. increase in yields with flattening of the curve).





The breakdown of the VaR shows that the Credit Spread is the main risk factor, accounting for 72.0% of the TB Gross VaR of the Group, while the EQ accounts for 11.5%, IR for 9.3%, FX for 5.4% and CO for 1.7%.

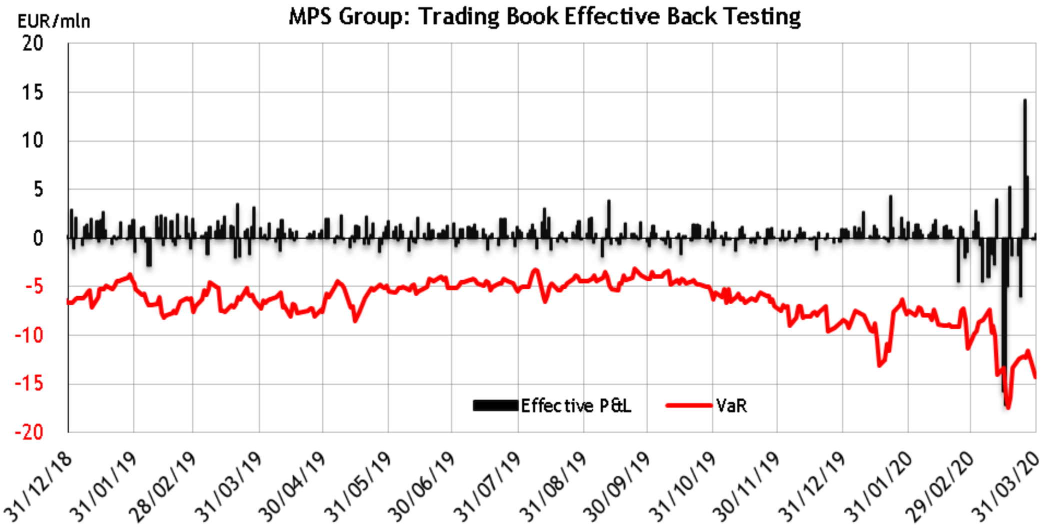
MPS Group: Trading Book
VaR 99% 1 day in EUR/mln

	VaR	Date
End of Period	13.25	31/03/2020
Min	5.87	27/01/2020
Max	17.21	17/03/2020
Average	9.81	

In 2020, the Group's VaR in the Regulatory Trading Book ranged between a minimum of EUR 5.87 mln on 27 January 2020 and a maximum of EUR 17.21 mln on 17 March 2020, recording an average value of EUR 9.81 mln. The Regulatory Trading Book VaR as at 31 March 2020 amounted to EUR 13.25 mln.

VaR model backtesting

The chart below shows the actual backtesting results of the internal Market Risks model in relation to the Group's Regulatory Trading Book for 2019 and the first three months of 2020:



Two exceptions were recorded in the first quarter of 2020, referring almost entirely to the risk exposure of the subsidiary MPSCS. These exceptions were recorded on 16 and 17 March, as a result of the extreme increase in volatility on the markets following the health emergency linked to the spread of the COVID-19 pandemic.

The days past due recorded simultaneous tension scenarios on all the main risk factors, with particular pressure in terms of P&L on the positions in Italian government securities (temporary widening of the Italian short-term credit spread, which for the most part had reversed by the end of the quarter due to effect of the ECB's new Quantitative Easing programme to cope with the economic emergency triggered by the pandemic) and on corporate and financial securities.

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.

The Parent Company's structure envisages the implementation of a specialised commercial organisational model with three Departments (Network, Markets and Products and Wealth Management).

Based on the Group's reporting criteria, which also take into account organisation structures, the following operating segments were identified:

- **Retail Banking**, which includes the sales activities of Retail customers (Value, Premium and Small Business segments) and Banca Widiba S.p.A. (Financial Advisor Network and self-service channel);
- **Corporate Banking**, which includes the sales activities of Corporate customers (SME, Institutions and Key Clients segments), Large Groups Area, Foreign Branches and the subsidiaries MPS Capital Services, MPS Leasing & Factoring and the foreign bank MP Banque;
- **Wealth Management**, which includes the sales activities of Private Banking customers (Private Banking and Family Office segments) and the subsidiary MPS Fiduciaria;
- **Corporate Centre**, which in addition to cancellations of intragroup entries, incorporates the results of the following business centres:
  - service operations supporting the Group's business, dedicated in particular to the management and development of IT systems (Consorzio Operativo Gruppo MPS);
  - companies consolidated at equity and held for sale;
  - operating units, such as proprietary finance, treasury and capital management.

The income statement results for each identified operating segment are shown in the following paragraphs. Note that:

- the 2019 income statement data of the subsidiary BMP Belgio S.A. are included in the individual income statement items of the Corporate Banking operating segment, rather than in the item "Profit (loss) after tax from assets held for sale and discontinued operations", although it was sold on 14 June 2019. Similarly, the subsidiary's data as at 31 March 2019 were included in the individual balance sheet items of the Corporate Banking operating segment;
- starting from 2020, the income statement and balance sheet are presented according to the new reclassification principles described in the sections "Income statement reclassification principles" and "Balance sheet reclassification principles". The values for 2019 have been restated, hence the comparison with the previous year is homogeneous;
- starting from 2020, the financial results of Banca Widiba SpA are included under Retail Banking. The values for the previous year have been restated so that the comparison is homogeneous;
- the results for the first quarter of 2020 were affected by the health emergency created by the spread of the COVID-19 virus, starting from the end of February. The aggregates that were most significantly affected were:
  - Net fee and commission income, mainly following the sharp reduction in placement flows which took place progressively during March,
  - Cost of customer credit, following the effects linked to the revision of the statistical parameters deriving from the changed macroeconomic scenario that emerged following the spread of the pandemic,
  - Other revenues from banking business, following the decline in the net result of trading activities and the lower contribution from AXA-MPS, which were affected by tensions in the financial markets linked to the COVID-19 emergency.

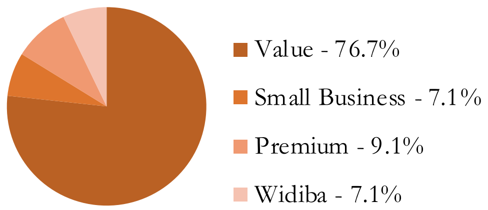
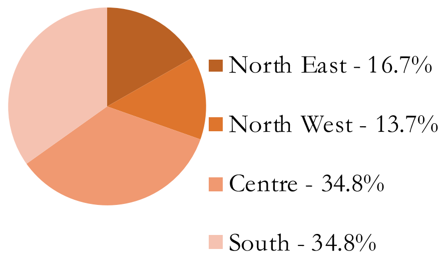
Results in brief

The following table reports the main income statement and balance sheet items that characterised the Group's Operating Segments as at 31 March 2020:

SEGMENT REPORTING	Business Segments						Corporate Center		Total MPS Group	
Primary segment	Retail banking		Wealth Management		Corporate banking					
(EUR mln)	31 03 2020	Chg % Y/Y	31 03 2020	Chg % Y/Y	31 03 2020	Chg % Y/Y	31 03 2020	Chg % Y/Y	31 03 2020	Chg % Y/Y
PROFIT AND LOSS AGGREGATES										
Total Income	516.5	-11.8%	32.6	-5.4%	149.9	-31.1%	30.4	n.m.	729.4	-9.3%
Operating expenses	(404.8)	-6.0%	-26.6	5.8%	-100.9	-13.9%	(16.2)	n.m.	(548.5)	-3.6%
Pre Provision Profit	111.7	-28.1%	6.0	-35.8%	49.0	-51.1%	14.2	n.m.	180.9	-23.0%
Cost of customer loans/Net impairment (losses)-reversals on securities and loans to banks	(159.3)	87.7%	-0.5	65.1%	-156.5	n.m.	0.7	-69.4%	(315.6)	n.m.
Net Operating Income	(47.6)	n.m.	5.4	-39.4%	-107.5	n.m	15.0	n.m.	(134.7)	n.m
BALANCE SHEET AGGREGATES										
Gross Interest-bearing loans to customers	41,216.3	2.3%	545.9	3.6%	31,797.7	-6.8%	8,675.6	10.4%	82,235.4	-0.6%
Direct funding	45,477.7	5.3%	3,348.0	8.0%	17,356.5	-6.7%	29,184.8	5.0%	95,367.1	2.9%
Indirect Funding	48,130.7	-7.8%	14,085.2	-8.7%	11,046.9	-32.4%	15,876.7	1.5%	89,139.5	-10.5%
Assets under management	40,041.2	-5.6%	10,684.9	-4.0%	1,331.0	-9.9%	2,378.9	-9.8%	54,436.0	-5.6%
Assets under custody	*8,089.5*	*-17.6%*	*3,400.3*	*-20.9%*	*9,715.9*	*-34.7%*	*13,497.7*	*3.8%*	*34,703.5*	*-17.4%*

(*) The value shown in the Group as well as that for 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
• 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 536 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>The number of Retail Banking customers was roughly 4.6 mln and includes 325,700 Widiba customers, of which around 155,500 in the Financial Advisor Network channel, 78,600 in the self-service channel, and 91,600 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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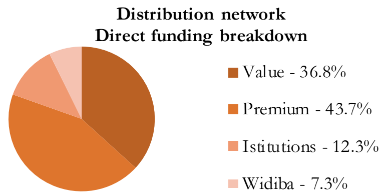
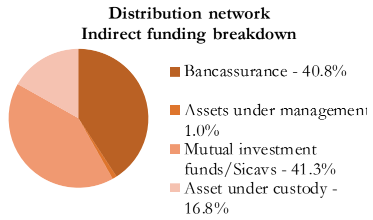
Income statement and balance sheet results

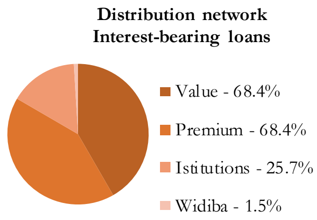
As at 31 March 2020, **Total Funding** for Retail Banking amounted to approximately **EUR 93.6 bn**, down by roughly EUR 4.2 bn from the end of 2019 and EUR 1.8 bn compared to the levels at March 2019. More specifically:

- **Direct Funding** was **EUR 45.5 bn**, up by approx. EUR 0.5 bn compared to 31 December 2019, mainly due to the demand components (EUR +0.7 bn), while medium/long-term components decreased (EUR -0.2 bn). The aggregate increased by EUR 2.3 bn compared to 31 March 2019, in particular for demand (EUR +2.4 bn) and medium/long-term (EUR +0.5 bn) forms, while short-term deposits were down by EUR -0.6 bn.
- **Indirect Funding**, amounting to approx. **EUR 48.1 bn**, decreased compared to 31 December 2019 by EUR 4.6 bn, in both the Assets under Management (EUR -3.8 bn) and Assets under Custody (EUR -0.9 bn) components, mainly due to the negative market effect. Compared to the March 2019 levels, the aggregate recorded a decrease (EUR -4.1 bn) in both Assets Under management (EUR -2.4 bn) and Assets under Custody (EUR -1.7 bn).
- **Gross interest-bearing loans to Retail Banking customers** were **EUR 41.2 bn**, an increase compared to December 2019 (EUR +0.2 bn) and March 2019 (EUR +0.9 bn).

RETAIL BANKING - BALANCE SHEET AGGREGATES							
(Eur mln)	31/03/20	31/12/19	31/03/19	Chg Abs Q/Q	Chg % Q/Q	Chg Abs Y/Y	Chg % Y/Y
Direct funding	**45,478**	**45,016**	**43,185**	**462**	**1.0%**	**2,293**	**5.3%**
Assets under management	*40,041*	*43,810*	*42,394*	*-3,769*	*-8.6%*	*-2,353*	*-5.6%*
Assets under custody	*8,090*	*8,945*	*9,820*	*-856*	*-9.6%*	*-1,730*	*-17.6%*
Indirect Funding	**48,131**	**52,755**	**52,214**	**-4,625**	**-8.8%**	**-4,083**	**-7.8%**
Total Funding	**93,608**	**97,771**	**95,399**	**-4,163**	**-4.3%**	**-1,791**	**-1.9%**
Gross interest-bearing loans to customers	**41,216**	**41,011**	**40,271**	**206**	**0.5%**	**945**	**2.3%**







With regard to profit and loss for 1Q19, Retail Banking achieved total **Revenues** of approx. **EUR 516 mln**, down 11.8% compared to the same period of last year. A breakdown of the aggregate shows:

- Net Interest Income was approximately EUR 209 mln, down 23.6% on an annual basis due to the lower contribution from deposits and the drop in yields on commercial assets;
- Net Fee and Commission Income totalled approximately EUR 292 mln, down 1.2% from the previous year's level, principally due to the effect of the reduction in commissions on utilised credit lines; instead, product commissions were higher.

Considering the impact of Operating Expenses, which decreased by 6.0% Y/Y, Retail Banking generated **Gross Operating Income** of about EUR **112 mln** (-28.1% Y/Y). Cost of credit totalled **EUR -159 mln** (EUR -85 mln compared to 1Q19).

The **Net Operating Income** for the year is **negative for approximately EUR 48 mln**.

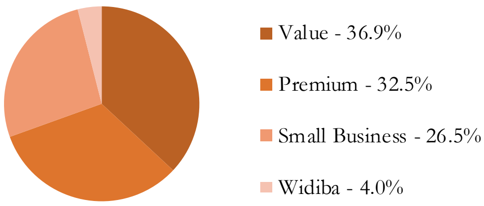
The non-operating components amounted to roughly EUR -7 mln, a decline compared to the same period of the previous year (EUR -35 mln) due mainly to the reduction in Other net provisions.

The **Result before tax from continuing operations** was **EUR -55 mln** (EUR +36 mln as at 31 March 2019).

The **cost-income ratio** of the Operating Segment is **78.4%** (73.5% in 1Q19).

RETAIL BANKING - PROFIT AND LOSS AGGREGATES				
			Chg. Y/Y	
(EUR mln)	31/03/20	31/03/19	Abs.	%
Net interest income	*209.1*	*273.8*	*-64.7*	*-23.6%*
Net fee and commission income	*292.5*	*295.9*	*-3.5*	*-1.2%*
Other income	*10.0*	*13.0*	*-3.0*	*-23.3%*
Other operating expenses/income	*4.9*	*3.0*	*1.9*	*63.6%*
Total Income	**516.5**	**585.8**	**-69.3**	**-11.8%**
Operating expenses	*(404.8)*	*(430.4)*	*25.6*	*-6.0%*
Pre Provision Profit	**111.7**	**155.4**	**-43.7**	**-28.1%**
Cost of customer loans/Net impairment (losses)-reversals on securities and loans to banks	(159.3)	(84.9)	-74.4	87.7%
Net Operating Income	**(47.6)**	**70.5**	**-118.1**	**n.m.**
Non-operating components	**(7.1)**	**(34.6)**	**27.4**	**-79.4%**
Profit (loss) before tax from continuing operations	**(54.7)**	**36.0**	**-90.7**	**n.m.**

Consumer banking - Distribution network
Breakdown of revenues



Results for the subsidiary

Banca Widiba SpA: as at 31 March 2020 Widiba's **Total Funding** amounted to about **EUR 7.7 bn**, down EUR 0.5 bn as compared to 31 December 2019 and EUR 0.1 bn compared to 1Q19, due to the difficult scenario in financial markets following the spread of COVID-19, which led to significant effects on the value of the Indirect Funding volumes, in particular on the Assets under Management component, despite the EUR 140 mln of net positive flows in Total Funding during the quarter.

With regard to profit and loss, as at 31 March 2020 Widiba achieved total **Revenues** of approx. **EUR 20.6 mln**, up 23.2% compared to the first quarter of the previous year, primarily for the growth in Net Interest Income and Net Fee and Commission Income.

The **Gross Operating Income** therefore amounted to **EUR 4.7 mln**, with a notable increase from the same period in the previous year (EUR +3.9 mln) and, due to the Cost of credit that was up EUR 0.8 mln compared to 1Q19, the **Net Operating Income** was **EUR 3.5 mln** (EUR +3.1 mln compared to 1Q19).

As a result of the lower incidence of the non-operating components (EUR -0.2 mln compared to EUR -1.3 mln in the previous year), the **Result before tax from continuing operations** was **EUR 3.3 mln**.

Wealth Management

<table>
<tr><th>Business areas</th><th>Customers</th></tr>
<tr><td rowspan="3">

Funding, lending, provision of insurance products, financial and non-financial services to private banking 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).

</td><td>There are around 37 thousand private customers.</td></tr>
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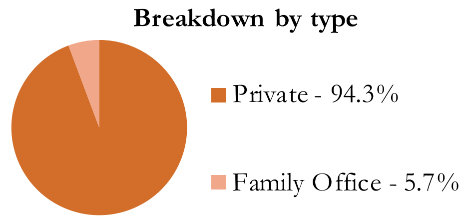

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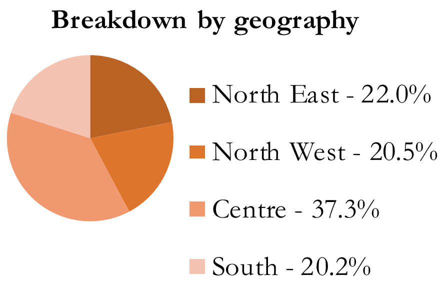

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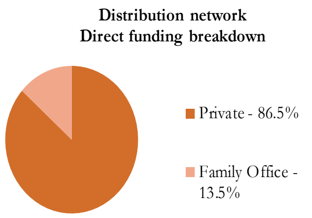
</table>

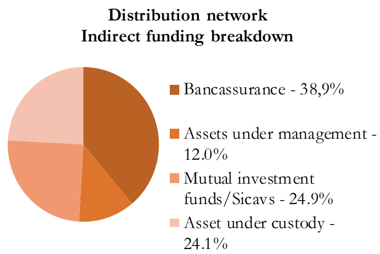
Income statement and balance sheet results

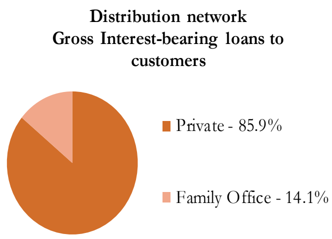
As at 31 March 2020, **Total Funding** for Wealth Management amounted to approximately **EUR 17.4 bn**, down compared to the end of the year (EUR -1.4 bn) and against 31 March 2019 (EUR -1.1 bn). More specifically:

- **Direct Funding** came to **EUR 3.3 bn**, a decrease from 31 December 2019 (EUR -0.1 bn) but an improvement compared to March 2019 (EUR +0.2 bn);
- **Indirect Funding**, amounting to about **EUR 14.1 bn**, was down by EUR 1.2 bn compared to the end of the year and by EUR 1.3 bn compared to 31 March 2019, also in this case penalised by the negative market effect;
- **Gross interest-bearing loans to Wealth Management customers** were essentially in line with both December 2019 and 31 March 2019, amounting to roughly **EUR 0.5 bn**.

WEALTH MANAGEMENT - BALANCE SHEET AGGREGATES							
(EUR mln)	31/03/20	31/12/19	31/03/19	Chg Abs Q/Q	Chg % Q/Q	Chg Abs Y/Y	Chg % Y/Y
Direct funding	**3,348**	**3,496**	**3,099**	**-148**	**-4.2%**	**249**	**8.0%**
Assets under management	*10,685*	*11,482*	*11,134*	*-797*	*-6.9%*	*-449*	*-4.0%*
Assets under custody	*3,400*	*3,846*	*4,301*	*-445*	*-11.6%*	*-900*	*-20.9%*
Indirect Funding	**14,085**	**15,328**	**15,434**	**-1,243**	**-8.1%**	**-1,349**	**-8.7%**
Total Funding	**17,433**	**18,824**	**18,533**	**-1,391**	**-7.4%**	**-1,100**	**-5.9%**
Gross interest-bearing loans to customers	**546**	**499**	**527**	**47**	**9.4%**	**19**	**3.6%**







With regard to profit and loss in 1Q20, Wealth Management achieved total **Revenues** of approx. **EUR 33 mln**, down 5.4% compared to the same period of last year. A breakdown of the aggregate shows:

- Net Interest Income amounted to approx. EUR 1 mln, down EUR 2 mln compared to the same period of the previous year, impacted by the lower contribution from Direct Funding;
- Net Fee and Commission income totalled approximately EUR 29 mln, up compared to 1Q19 (+5.1%) mainly in the product segment, for the continuing operations and placement components.

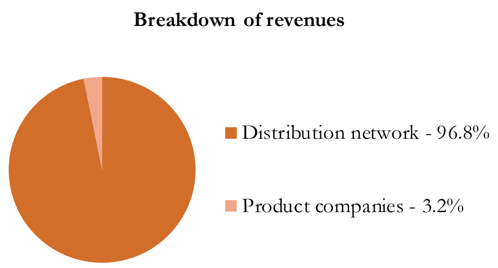
Considering the impact of Operating Expenses, which were up by 5.8% Y/Y, Wealth Management generated **Gross Operating Income** of about **EUR 6 mln** (EUR -3.3 mln Y/Y). Including Cost of credit equal to EUR -0.5 mln, the **Net Operating Income** totalled roughly **EUR 5 mln**.

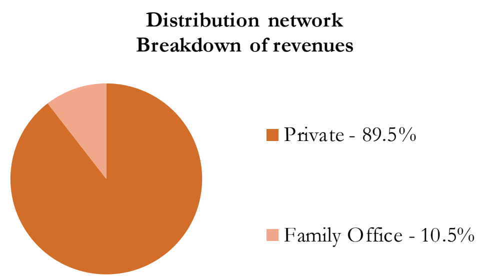
The non-operating components amounted to roughly EUR -13 mln, an increase of EUR 8 mln compared to the same period of the previous year due mainly to the higher Other net provisions.

The **Result before tax from continuing operations** was **EUR -8 mln** (EUR +3 mln as at 31 March 2019).

The **cost-income ratio** of the Operating Segment is **81.7%** (73.0% at the end of March 2019).

WEALTH MANAGEMENT - PROFIT AND LOSS AGGREGATES				
			Chg. Y/Y	
(EUR mln)	31/03/20	31/03/19	Abs.	%
Net interest income	*0.9*	*3.4*	*-2.5*	*-73.5%*
Net fee and commission income	*28.8*	*27.4*	*1.4*	*5.1%*
Other income	*2.7*	*3.7*	*-1.0*	*-26.7%*
Other operating expenses/income	*0.2*	*0.0*	*0.2*	*n.m.*
Total Income	**32.6**	**34.4**	**-1.9**	**-5.4%**
Operating expenses	*(26.6)*	*(25.1)*	*-1.5*	*5.8%*
Pre Provision Profit	**6.0**	**9.3**	**-3.3**	**-35.8%**
Cost of customer loans/Net impairment (losses)-reversals on securities and loans to banks	(0.5)	(0.3)	-0.2	65.1%
Net Operating Income	**5.4**	**9.0**	**-3.5**	**-39.4%**
Non-operating components	**(13.3)**	**(5.6)**	**-7.7**	**n.m.**
Profit (loss) before tax from continuing operations	**(7.9)**	**3.3**	**-11.2**	**n.m.**





Results for the subsidiary

- **MPS Fiduciaria**: profit for the period of approximately EUR 0.1 mln, in line with 1Q19.

Corporate Banking

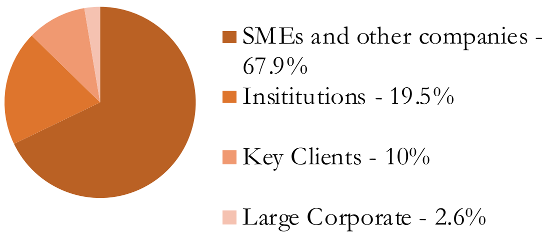
Business areas

- 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).

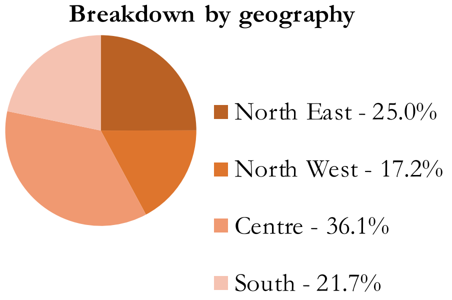
Customers

About 42,300 Corporate and Large Group customers of the Parent Company, directly followed by Corporate Banking.

Breakdown by type



Breakdown by geography

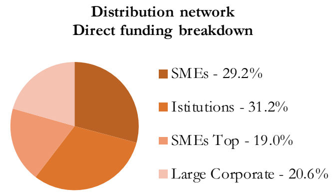


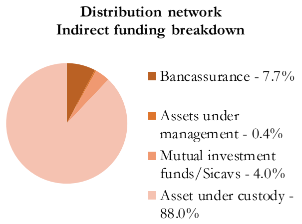
Income statement and balance sheet results

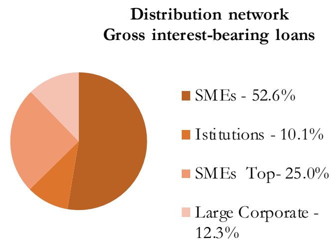
Corporate Banking **Total Funding** recorded a decrease of approx. EUR 5.7 bn, from EUR 34.1 bn in December 2019 to EUR 28.4 bn as at 31 March 2020. This trend in the aggregate is primarily due to the drop in indirect funding (EUR -5.8 bn) recorded in Assets under Custody, partly due to the withdrawal of shares in deposit at the Parent Company by a large industrial group, put in place as part of its organisational/corporate restructuring, and partly to the negative market effect. The aggregate also shows a decrease of EUR 6.5 bn compared to 31 March 2019, mainly due to drop in indirect funding (EUR -5.3 bn).

With regard to lending, as at 31 March 2020, **Gross interest-bearing loans to Corporate Banking customers** stood at approximately **EUR 31.8 bn** (EUR +1.0 bn on 31 December 2019 and EUR -2.3 bn compared to 31 March 2019).

CORPORATE BANKING - BALANCE SHEET AGGREGATES							
(EUR mln)	31/03/20	31/12/19	31/03/19	Chg Abs Q/Q	Chg % Q/Q	Chg Abs Y/Y	Chg % Y/Y
Direct funding	**17,356**	**17,230**	**18,595**	**126**	**0.7%**	**-1,239**	**-6.7%**
Assets under management	*1,331*	*1,324*	*1,476*	*7*	*0.6%*	*-145*	*-9.9%*
Assets under custody	*9,716*	*15,500*	*14,873*	*-5,784*	*-37.3%*	*-5,157*	*-34.7%*
Indirect Funding	**11,047**	**16,824**	**16,349**	**-5,777**	**-34.3%**	**-5,302**	**-32.4%**
Total Funding	**28,403**	**34,054**	**34,945**	**-5,650**	**-16.6%**	**-6,541**	**-18.7%**
Gross interest-bearing loans to customers	**31,798**	**30,758**	**34,111**	**1,040**	**3.4%**	**-2,314**	**-6.8%**







For profit and loss aggregates, Corporate Banking **Revenues** came to approx. **EUR 150 mln** in 1Q20 (-31.1% Y/Y). A breakdown of the aggregate shows:

- Net Interest Income was approximately EUR 102 mln, down 22.0% annually due to the decrease in returns on commercial assets and the lower contribution of direct funding;
- Net Fee and Commission Income increased by 2.0% YoY, amounting to approximately EUR 74 mln, mainly due to growth in commissions from granting loans;
- Other Revenue from Banking and Insurance Business amounted to approx. EUR -25 mln (EUR 18 mln in 1Q19), attributable to trading activities by MPS CS, whose results were penalised by tensions in financial markets during March.

Considering the impact of Operating Expenses, down by 13.9% compared to 1Q19, **Gross Operating Income** came to about **EUR 49 mln** (-51.1% Y/Y).

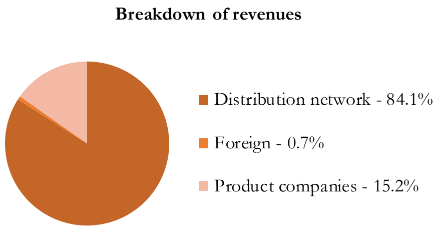
Net Operating Income amounted to **EUR -107 mln** (EUR 39 mln in the same period of the previous year), for which the deterioration in the Cost of credit was a factor, which stood at EUR -157 mln.

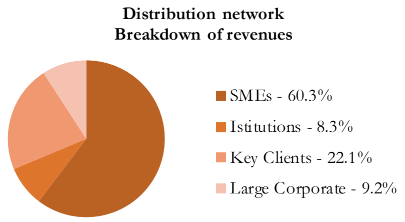
The non-operating components amounted to roughly EUR -28 mln, an increase of EUR 14 mln compared to the same period of the previous year due mainly to the Other net provisions.

The **Result before tax from continuing operations** was **EUR -135 mln** (EUR +25 mln as at 31 March 2019).

The Corporate Banking **cost-income ratio** stands at **67.3%** (53.9% as at 1Q19).

CORPORATE BANKING - PROFIT AND LOSS AGGREGATES				
			Chg. Y/Y	
(EUR mln)	31/03/20	31/03/19	Abs.	%
Net interest income	*101.7*	*130.4*	*-28.7*	*-22.0%*
Net fee and commission income	*73.7*	*72.3*	*1.4*	*2.0%*
Other income	*(24.9)*	*18.0*	*-42.9*	*n.m.*
Other operating expenses/income	*(0.6)*	*(3.2)*	*2.6*	*n.m.*
Total Income	**149.9**	**217.5**	**-67.6**	**-31.1%**
Operating expenses	*(100.9)*	*(117.3)*	*16.3*	*-13.9%*
Pre Provision Profit	**49.0**	**100.3**	**-51.2**	**-51.1%**
Cost of customer loans/Net impairment (losses)-reversals on securities and loans to banks	(156.5)	(61.2)	-95.3	n.m.
Net Operating Income	**(107.5)**	**39.1**	**-146.6**	**n.m.**
Non-operating components	**(28.0)**	**(14.3)**	**-13.6**	**95.1%**
Profit (loss) before tax from continuing operations	**(135.5)**	**24.7**	**-160.2**	**n.m.**





Results of the main subsidiaries

- **MPS Capital Services:** result before tax of EUR -36.5 mln and loss for the period of EUR 34.1 mln, down EUR 68.5 mln compared to the 1Q19 result, mainly due to the reduction in Other revenues from banking business.
- **MPS Leasing & Factoring:** result before tax of EUR -10.3 mln and net loss for the period of EUR -10.0 mln, compared to profit of EUR 6.4 mln in 1Q19.
- **Foreign banks[17]: MP Banque** recorded a loss for the period of EUR 1.1 mln compared to profit of EUR 0.5 mln in the same period of the previous year.

[17] The profit reported for foreign subsidiaries is that determined on an operational basis. Please recall that in 2018 the Parent Company approved the run-off of MP Banque.

Corporate Centre

The Corporate Centre includes:

- head office units, particularly with regard to governance and support functions, proprietary finance, the "asset centre" of divisionalised entities, which comprises in particular: proprietary finance activities, treasury and capital management;
- business service and support units, particularly with regard to the development and management of information systems (Consorzio Operativo di Gruppo).

Furthermore, the Corporate Centre includes the cancellations of intragroup entries and the results of the companies consolidated under the equity method and those held for sale.

With regard to Finance activities, note that in 1Q20 securities in the Parent Company's portfolio were sold, in particular the Italian government bonds, which generated profits of roughly EUR 50 mln.

Prospects and outlook on operations

The impact of the COVID-19 pandemic on international growth will be highly significant, with global GDP possibly experiencing a substantial contraction in 2020 (-3% according to estimates by the International Monetary Fund[18]). However, continued uncertainty about the extent, spread and containment of the epidemic makes it extremely complex to quantify its impact on growth, with the risk that the global recession may be much worse. Asynchronous contagion cycles among countries could impact recovery capacities, even in economies where the health emergency should end earlier. The shock under way seems to be asymmetrical, penalising the service sector rather than manufacturing, especially the catering, entertainment and hospitality segments. Thus, with respect to the consumption of goods, which could only be delayed, the reduction in the demand for these services could persist due to restrictions on individual's mobility. The differences by which various sectors contribute to the growth of GDP will also affect the distribution of the economic impact of the crisis among countries. In the medium term, a quick return to growth will depend on the effectiveness of economic policies in preventing the effects of the crisis from intensifying, generating bankruptcies and destroying the value chains. The recovery capacity could also be reduced by tensions in financial markets and the risk that the deterioration in consumer confidence, the loss of income and jobs, and the possible exit of companies from the market could lead to a structural weakening of the economy.

In this context, the Italian economy, with a production structure that is more affected than others by the pandemic and despite the fiscal measures undertaken by the government, will post a contraction in GDP in 2020 that is expected to be the most significant recession of the post-World War II period. In the short term, tensions on Italian government bonds should not be excessive thanks to the policies implemented by the ECB, but fiscal policy will be limited in supporting the recovery, in a context in which public debt will quickly exceed 150% of GDP.

The outlook for the Italian banking system in 2020[19] appears to be considerably jeopardised by the effects of the recession on the interest rate structure and asset quality. The ECB's support measures for liquidity (TLTRO III and LTRO) and the value of the securities in the portfolio (PEPP) are intended to limit the damage, as well as the relaxation in the SSM's prudential rules and the interventions envisaged by the Italian government to support credit to companies that may limit the development of non-performing loans, at least for the current year. However, if provisions may be limited by moratoria and SSM measures in 2020, it is likely that they will rise again in the coming years. In a scenario impacted by the effects of the pandemic and uncertainties on future prospects for recovery, the return of economic margins could suffer a further setback.

On the offer side, government measures will limit the drop in credit with respect to that which is implicit in the severity of the crisis, nevertheless the volumes of loans to households and businesses will contract in 2020, and will begin to grow, at modest rates, when the recession ends in the medium term. Lending policies should remain relaxed due to the monetary measures adopted which guarantee ample availability of liquidity and a low funding cost, contributing to keeping interest rates on loans stable.

Funding in 2020 is expected to increase significantly in the more liquid components, due to a reduction in both the propensity to consume with the consequent increase in savings, and due to lower risk aversion. Deposits, especially current accounts, will grow, with bond issues and foreign funding which should decrease against the increase in liquidity from TLTRO III. In all likelihood, funding will continue to increase also in the medium term driven by deposits; only later will there be a positive annual flow toward bond issues, largely subordinated bonds to align with the MREL requirement.

The ECB's ultra-expansive monetary policy is confirmed and no changes in the deposit rate with the monetary authority are expected in the medium term; the fundamentally flat market rate curve is accompanied by a similar one in both rates on loans and in the average rate on deposits, while the rate on bonds should increase in line with a rise in Italian government bonds.

The deterioration in the scenario caused by the spread of the epidemic throughout Italy may have economic and financial consequences for the Group despite the measures adopted by the government and European institutions. In the absence of additional regulatory measures, it is realistic to assume an increase in the stock of non-performing loans in the short/medium term, also due to the closure of the NPL market and the "under performing" cases that will be reflected in customer management rates for loans classified as past due and unlikely to pay, with a resulting increase in the cost of credit (also affected by higher default flows in the medium term). With regard to revenues, the increased preference for liquidity may lead to lower commissions for asset management, particularly in the first part of the year. Other fees will be adversely affected by the halt/slowdown

[18] World Economic Outlook, International Monetary Fund, April 2020

[19] Prometeia, Forecast Report - March 2020

in commercial activities and by the lower propensity to consume (fewer transactions on payment systems and reduction of consumer credit flows). Net interest income may be affected by the slowdown in loans, despite the measures implemented by the government and an interest rate scenario that remains at current levels.

The COVID situation may have significant effects on the Group's liquidity position during 2020. In order to manage the potential impact on liquidity, the Parent Company will be able to benefit from the significant funds made available by the ECB through the TLTRO auctions. This tool will be essential to pursue liquidity objectives, maintaining adequate levels for both the LCR and NSFR. With regard to institutional funding, it is likely that access to the institutional funding market will be reduced, or completely unavailable, during 2020.

With regard to capital adequacy, the aforementioned effects relating to income impacts will entail a reduction in own funds, while the increase in capital absorption could be mitigated by the impact of government guarantees linked to the recent "Cura Italia" and Liquidity decrees. In any case, there are no signs of tension on the capital indicators.

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 31 March 2020 corresponds to the underlying documentary evidence and accounting records.

Siena, 7 May 2020

Signed by

the Financial Reporting Officer

Nicola Massimo Clarelli