MONTE DEI PASCHI DI SIENA
BANK SINCE 1472

Monte dei Paschi di Siena Group

Consolidated Interim Report as at 31 march 2021

Interim Report on Operations
Monte dei Paschi di Siena Group
31 March 2021

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

CONTENTS

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obligation for listed companies to publish interim reports on operations (as at 31 March and as at 30 September) was repealed, allowing issuers to decide on a voluntary basis whether to disclose periodic financial information in addition to the annual and half-yearly reports.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 limited audit requirements, provides a description of the activities and results which largely characterised Montepaschi Group's operations as at 31 March 2021, 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 2021, compared with those for the same period of the previous year and at the end of 2020, respectively. In addition, the key economic and financial indicators [1]are provided, based on accounting data, corresponding to those used in internal performance management and management reporting systems, and consistent with the most commonly used metrics within the banking industry, thereby ensuring the comparability of reported figures.

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

INCOME STATEMENT AND BALANCE SHEET FIGURES			
MONTEPASCHI GROUP			
INCOME STATEMENT FIGURES (EUR mln)	31 03 2021	31 03 2020*	Chg.
Net interest income	279.6	327.1	-14.5%
Net fee and commission income	372.0	369.9	0.6%
Other income from banking business	182.6	38.9	n.m.
Other operating income and expenses	(10.7)	(6.5)	64.6%
Total Revenues	823.5	729.4	12.9%
Operating expenses	(540.4)	(544.0)	-0.7%
Cost of customer credit	(76.7)	(314.5)	-75.6%
Other value adjustments	(3.7)	(1.1)	n.m.
Net operating income (loss)	202.7	(130.2)	n.m.
Net profit (loss) for the period attributable to owners of Parent Company	119.3	(239.0)	n.m.
EARNINGS PER SHARE (EUR)	31 03 2021	31 03 2020*	Chg.
Basic earnings per share	0.123	(0.216)	n.m.
Diluted earnings per share	0.123	(0.216)	n.m.
BALANCE SHEET FIGURES AND INDICATORS (EUR mln)	31 03 2021	31 12 2020*	Chg.
Total assets	146,658.8	150,345.3	-2.5%
Loans to customers	82,259.0	82,632.3	-0.5%
Direct funding	99,053.6	103,719.3	-4.5%
Indirect funding	104,440.5	102,067.3	2.3%
of which: assets under management	62,081.7	60,400.3	2.8%
of which: assets under custody	42,358.8	41,667.0	1.7%
Group net equity	6,005.4	5,771.9	4.0%
OPERATING STRUCTURE	31 03 2021	31 12 2020	Chg.
Total headcount - end of period	21,452	21,432	20
Number of branches in Italy	1,418	1,418	n.m.

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

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

ALTERNATIVE PERFORMANCE MEASURES			
MONTEPASCHI GROUP			
PROFITABILITY RATIOS (%)	31 03 2021	31 12 2020*	Chg.
Cost/Income ratio	65.6	74.9	-9.3
ROE (on average equity)	8.1	(24.0)	32.1
ROA	0.3	(1.1)	1.4
ROTE	8.4	(24.6)	33.0
CREDIT QUALITY RATIOS (%)	31 03 2021	31 12 2020	Chg.
Net non performing loans to customers / Loans to Customers (Net NPL ratio)	2.6	2.6	n.m.
Gross NPL ratio	3.5	3.4	0.1
Rate of change of non performing loans to customers	1.7	(64.8)	66.5
Bad loans to customers/ Loans to Customers	0.7	0.7	n.m.
Loans to customers measured at amortised cost - Stage 2/Performing loans to customers measured at amortised cost	18.5	18.5	n.m.
Coverage of non performing loans to customers	47.4	46.2	1.2
Coverage of bad loans to customers	64.7	62.3	2.4
Cost of customers loans/Customers loans (Provisioning)	0.37	0.90	-0.5
Texas Ratio	52.7	53.9	-1.2

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

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

Return On Equity (ROE)*:* ratio 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 tangible shareholders' equity[2] at the end of period and the shareholders' equity at the end of the previous year.

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

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

Coverage of non-performing loans to customers and coverage of bad loans to customers: the coverage ratio on Non-performing loans 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[2].

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

[3] *EBA GL/2018/10.*

REGULATORY MEASURES			
MONTEPASCHI GROUP			
CAPITAL RATIOS (%)	**31 03 2021**	**31 12 2020**	**Chg.**
Common Equity Tier 1 (CET1) ratio - phase in	12.2	12.1	0.1
Common Equity Tier 1 (CET1) ratio - fully loaded	10.4	9.9	0.5
Total Capital ratio - phase in	15.9	15.8	0.1
Total Capital ratio - fully loaded	14.1	13.5	0.6
FINANCIAL LEVERAGE INDEX (%)	**31 03 2021**	**31 12 2020**	**Chg.**
Leverage ratio - transitional definition	4.6	4.4	0.2
Leverage ratio - fully phased	3.9	3.6	0.3
LIQUIDITY RATIO (%)	**31 03 2021**	**31 12 2020**	**Chg.**
LCR	187.2	196.7	-9.5
NSFR	124.3	123.8	0.5
Encumbered asset ratio	39.1	39.8	-0.7
Loan to deposit ratio	83.0	79.7	3.3
Unencumbered Counterbalancing capacity (bn of Eur)	31.0	33.1	-2.1

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

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

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

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

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

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

Loan to deposit ratio: ratio between 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).

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

[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 2021 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 which, as is well known, also concerned the entire first quarter of 2021.

- **Net Interest Income** amounted to EUR 280 mln, down 14.5% compared to the same period of 2020. The decline was driven (i) primarily by the lower contribution of the non-performing portfolio specifically due to the deconsolidation of the "Hydra M" portfolio in late 2020, as well as (ii) the higher cost of institutional funding linked to the issues carried out in the second half of 2020, (iii) the lower contribution of the BMPS securities portfolio, also following sales made in the course of 2020 which continued in 2021, (iv) the negative contribution of hedging derivatives and (v) the decline in returns due to interest rate trends and the recomposition of exposures, with a reduction in the demand and short-term components and growth in the medium/long-term component. On the other hand, Net Interest Income benefited from the lower cost of commercial funding and the positive effects linked to access to the TLTRO3 auctions for a total of EUR 60 mln, although partially offset by the cost of higher deposits at central banks of approximately EUR 27 mln.

- **Net fee and commission income**, totalling EUR 372 mln, posted an improvement of +0.6% compared to the same period of the previous year. The increase is linked to higher income from asset management (+8.3%), particularly on product placement, and the improvement in other net fee and commission income, due to the elimination of the cost of the state guarantee following the repayment of Guaranteed Government Bonds that took place in 1Q20. Instead, commissions on loans decreased (-12.3%) due to lower fees on brokered loans and commissions from services (-6.1%).

- The **Other revenues from banking business**, equal to EUR 183 mln, increased by EUR 144 mln compared to the corresponding period of the previous year, benefitting from higher profits from the sale of securities. The contribution generated by the partnership with AXA in the Bancassurance area increased compared to the same period of the previous year, as did the results of trading activities, which in 1Q20 were negatively impacted by tensions in the financial markets related to the COVID-19 emergency.

- **Other operating income and expense**, totalling EUR -11 mln, showed a deterioration compared to the result recorded in 1Q20 (equal to EUR -7 mln).

- As a result of the trend in these aggregates, **Total revenues** amounted to EUR 824 mln, up 12.9% compared to those earned in 1Q20.

- **Operating expenses** totalled EUR 540 mln, down 0.7% compared to the same period in the previous year. The **Personnel expenses** aggregate, amounting to EUR 360 mln, increased by 1.0% compared to 1Q20, despite the decline in headcount (linked - primarily - to the 560 terminations relating to the Solidarity Fund recorded between 1 November 2020 and 1 January 2021), in relation to contractual increases deriving from the renewal of the national collective labour agreement and the elimination of savings resulting from the failure to renew the trade union agreement. **Other administrative expenses** amounted to EUR 133 mln, down by 2.6% compared to the same period of the previous year thanks to savings actions put into place. **Net value adjustments to property, plant and equipment and intangible assets** totalled EUR 48 mln, a decrease of -6.9% compared to the same period of the previous year.

- The **Cost of customer credit**, equal to EUR 77 mln, improved by EUR 238 mln compared to the first quarter of 2020, which included a roughly EUR 193 mln increase in adjustments deriving from the changed macroeconomic scenario triggered by the spread of the COVID-19 pandemic. Excluding this effect, the aggregate was down in any event compared to 1Q20 primarily due to the elimination of adjustments on the positions in the "Hydra M" portfolio, deconsolidated at the end of December 2020. The **Provisioning *Rate***[7] is **37 bps** (90 bps as at 31 December 2020).

- The **Net Operating Income** was EUR 203 mln, compared to a negative value of EUR 130 mln in the same period of the previous year.

- The trend in the aforementioned income statement aggregates also includes positive **Net provisions for risks and charges**, totalling EUR 9 mln (EUR -40 mln in 1Q20), **Other gains (losses) on investments**, equalling EUR -3 mln (EUR +0.2 mln in 1Q20), **Restructuring/One-off costs**, amounting to EUR -0.1 mln (EUR +3 mln in 1Q20), costs associated with **SRF (Single Resolution Fund), DGS (Deposit Guarantee Systems) and similar schemes**, amounting to EUR -68 mln (up compared to the result in 1Q20), the **DTA**

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

fee of EUR -16 mln (EUR -18 mln in 1Q20), the **Net gains (losses) on property, plant and equipment and intangible assets measured at fair value** of EUR -28 mln (EUR +4 mln in 1Q20) and **Gains (losses) on disposal of investments**, equal to EUR +17 mln (EUR +0.2 mln in 1Q20).

- As a result of these trends, together with the positive impact on **Taxes** of **EUR 6 mln** (EUR +2 mln as at 31 March 2020) and the net economic effects of the **PPA**, equal to EUR -0.9 mln (EUR -1.1 mln as at 31 March 2020), the Group posts a **Net Profit of EUR 119 mln**, compared to a loss of EUR -239 mln posted in the same period of 2020.

- **Total Funding** as at 31 March 2021 amounted to approx. **EUR 203.5 bn**, with a decrease in volumes of EUR 2.3 bn compared to 31 December 2020, due to the decrease in Direct Funding (EUR -4.7 bn), only partially offset by the increase in Indirect Funding (EUR +2.4 bn). Direct Funding was down primarily due to the decline in repo transactions (EUR -3.0 bn). The decrease in time deposits (EUR -0.8 bn), current accounts (EUR -0.5 bn), the bond sector (EUR -0.3 bn) and Other forms of funding (EUR -0.1 bn). On the other hand, with respect to Indirect Funding, the increase compared to 31 December 2020 for the Managed component (EUR +1.7 bn), which benefitted from positive net flows and a positive market effect, as well as the component under Custody (EUR +0.7 bn), which benefitted from a positive market effect.

  Total Funding was up compared to 31 March 2020 (EUR +19.0 bn), mainly due to the increase in Indirect Funding (EUR +15.3 bn). In more detail, the increase in Direct Funding (EUR +3.7 bn) is linked to growth in Current Accounts (EUR +8.2 bn), witnessed in light of the spread of the COVID-19 emergency, offset only in part by the decline in repos (EUR -3.0 bn), Time deposits (EUR -1.4 bn) and Other forms of funding (EUR -0.3 bn). The bond segment was up (EUR +0.2 bn). With respect to Indirect Funding, the increase of EUR 15.3 bn compared to 31 March 2020 was due to growth in the Managed component (EUR +7.6 bn) as well as the component under Custody (EUR +7.7 bn), which benefitted from positive net flows and the positive market effect. Last year, indirect funding volumes were influenced by negative financial market trends and the sharp reduction in placement flows taking place progressively in March as a result of the spread of the COVID-19 pandemic. Furthermore, in 1Q20, Assets under Custody were also impacted by the withdrawal of shares deposited with the Parent Company by a large industrial group following that Group's organisational/corporate restructuring (these shares were withdrawn in 1Q20 and deposited again in 2Q20).

- As at 31 March 2021, **Loans to Customers** amounted to approximately **EUR 82.3 bn**, down EUR 0.4 bn compared to the end of December 2020, primarily as a result of the decrease in repo transactions (EUR -1.1 bn). Other loans (EUR -0.7 bn) and current accounts (EUR -0.1 bn) were also down, while mortgages were up (EUR +1.6 bn), also affected by the effect of the disbursements and the extension of moratoria granted under the government decrees issued following the COVID-19 emergency.

  The aggregate was stable compared to 31 March 2020. The growth of EUR 7.2 bn in mortgages, also influenced by the above-mentioned disbursements and moratoria granted in connection with the government decrees issued following the COVID-19 emergency, and the increase in repo transactions (EUR +1.8 bn), were offset by the drop in current accounts (EUR -1.6 bn), Other loans (EUR -3.6 bn) and net non-performing loans (EUR -3.7 bn), the latter primarily due to the deconsolidation of the "Hydra M" portfolio in December 2020.

- As at 31 March 2021, **the non-performing loan coverage ratio** was 47.4%, up compared to 31 December 2020 (equal to 46.2%). Specifically, the non-performing loan coverage ratio rose from 62.3% to 64.7% and that of Unlikely to pay rose from 36.8% to 37.5%. On the other hand, the non-performing past-due loans coverage ratio declined from 27.8% to 25.6%.
  The non-performing loan coverage ratio instead recorded a decline compared to 31 March 2020 of 49.6%, primarily as a result of the deconsolidation of the "Hydra M" portfolio at the end of December 2020.

With regard to capital ratios, as at 31 March 2021 the ***Common Equity Tier 1 Ratio*** stood at **12.2%** (12.1% at the end of 2020) and the ***Total Capital Ratio*** at **15.9%** (compared to 15.8% recorded at the end of 2020).

Reference context

In the early months of 2021, a resurgence in the virus which imposed new restrictions on activities was accompanied by the vaccination campaign and strong support from monetary and fiscal policies. The global economy was experiencing an uneven recovery at both geographical and sector level, highly dependent on the speed of vaccine administration in the various countries. While the United States and the UK benefitted from a vaccination campaign in an advanced phase, the EU was slower, while emerging countries showed a significant delay excluding China where, with the virus basically under control, economic activity levels were higher than those recorded pre-crisis. Services continue to be amongst the sectors most penalised by the pandemic, while manufacturing is experiencing a certain recovery; international trade was recovering, although the new US administration does not seem particularly inclined to roll back protectionist policies. While the increase in vaccine coverage is laying the foundations for a decisive recovery in growth in the coming months, the spread of new variants of the virus is contributing towards maintaining a certain degree of uncertainty.

The first quarter of 2021 showed a substantial recovery in the US growth rate, thanks to the high vaccination numbers reached, which made it possible to lift restrictions early, and the approval by Congress of the American Rescue Plan, a USD 1,900 bn fiscal stimulus plan to be enacted over the next ten years, concentrated especially in the 2021-22 two-year period, promoted by the Biden administration, which adds to the USD 900 bn plan approved by the same government last December. The over USD 2 trillion American Jobs Plan for public investments over an eight-year period and the USD 1,800 bn American Families Plan were also presented. The size of this plan triggered a sudden rise in US long-term interest rates, creating fears of excessive inflationary pressures (the Consumer Price Index rose to 2.6% year-on-year in March 2021), which the Fed however considers to be temporary. The job market continues to improve gradually, although the extensive losses to be recovered remain.

In the Eurozone, economic activity was impacted by the restrictions introduced to limit the new wave of contagion and delays in the vaccination campaign at the start of the year. Optimism on economic outlooks linked to the expected acceleration in vaccinations and the implementation of European support plans are reflected in the recovery in economic indicators, which however remained volatile at both sector and geographical level in the first three months of the year. Alongside the resources set aside by the individual national governments, the EU continues to provide extraordinary support to deal with the crisis and jump start growth. While access to EUR 240 bn in ESM credit lines for healthcare expenses was not requested, roughly EUR 90 bn in loans out of the 100 made available by the SURE (the unemployment support instrument) were approved. Advances are being made for the ratification of the Next Generation EU (NGEU) programme, which provides EUR 750 bn (EUR 390 bn in subsidies plus EUR 360 bn in loans) to support the recovery and which may already transfer roughly EUR 50 bn in subsidies in 2021, as advances on the National Recovery and Resilience Plans, currently being finalised by the individual countries. In the meantime, inflation is back up from the negative values of the last months of 2020 (March CPI +1.3% year-on-year), supported by energy component trends.

Amongst the emerging countries, China, whose growth was back in line with pre-crisis levels already in late 2020, demonstrated further acceleration in the first quarter of the year (+18.3% on an annual basis from +6.5% in the previous quarter). The aggravation of the health situation in several emerging economies, such as Brazil and India, and the repercussions on domestic currencies that may derive from a crisis in confidence linked to the pandemic are causing concern.

In Italy, following a new increase in contagion, economic activity reduced in the winter with impacts on trends in early 2021. Due to a slow launch in the vaccination campaign, weakness continues in services, a segment highly penalised by the restrictions, while the industrial sector is seeing stability in the manufacturing component, although it has not yet returned to pre-pandemic levels. In the first quarter of 2021, confidence indicators improved, except for consumption; the activity rate is down and unemployment is up; inflation is positive once again. In response to the continuation of the pandemic emergency and in light of the ensuing restrictions on economic activity, in March 2021 the government issued the "Sostegni" ("Support") Law Decree containing additional actions, mostly temporary in nature, intended on one hand to mitigate the economic and social repercussions of the health emergency on households and businesses and on the other hand to reinforce actions geared towards combating the pandemic from the public health perspective. The measure caused an increase of nearly EUR 32 bn in net debt in 2021, compared to its tendential value. The executive asked the Parliament for authorisation to further increase the deficit (EUR 40 bn for 2021) and provided an updated snapshot of the public accounts in the Economy and Finance Document. As part of the European Next Generation EU Programme, the government defined the National Recovery and Resilience Plan, which will be presented to the EU Commission by the end of April. The resources available to fund the investments and reforms set forth in the NRRP will amount to nearly EUR 192 bn from the EU (around EUR 123 bn in the form of loans) in addition to national resources that will allow the total Plan funds to reach almost EUR 250 bn. 13% of the Plan value may be disbursed by way of pre-financing subsequent to approval by the EU Council.

Stock prices remain volatile as a result of the evolution of the health situation and concerns that the Biden administration's new massive fiscal stimulus plan and the potential risks of inflation may trigger a reaction on the part of the Fed, a possibility which the Authority has however excluded. In any event, prices closed the first quarter of 2021 in positive territory. Since the start of the year, the S&P500 gained almost 6%; the Nikkei was also positive (with more than 6% growth); the Euro Stoxx (roughly +10%) and the FTSE Mib (around +11%) posted brilliant performance, with the Italian index benefitting from the newfound confidence of operators in the new government and good banking sector share performance. The Chinese Shenzhen recently declined, triggering a decrease for the quarter (-3%).

Long-term rate yields in less risky countries increased considerably in the first quarter of the year. This phenomenon especially concerned the US 10-year Treasury Bond, which returned to early 2020 levels seen prior to the outbreak of the pandemic. The increase in the US ten-year bond is in large part linked to the inflation risk premium component and, after the recent approval of the new fiscal stimulus plan, the real yield component associated with the upwards revision of US growth forecasts. As at 31 March 2021, the US ten-year reached 1.75%, up by more than 80 basis points since the end of 2020; the German rose to -0.29%, recovery just under 30 points from the -0.57% recorded last 31 December; the Italian ten-year bond reached 0.67% from 0.54% at the end of the year. The yield spread between the BTP and the ten-year Bund declined further, benefitting from renewed operator confidence: as at 31 March 2021, the spread was 96 basis points compared to 110 at the end of 2020. The Central Banks continue to maintain an extremely accommodating stance to deal with the health emergency, with extraordinary actions taken in terms of speed, size and extent. The expectations concerning US inflation, up now since last August, are directing market attention towards the possibility of an early increase in policy rates by the Fed. The words of Chairman Powell after the FOMC (Federal Open Market Committee) meeting in mid-March 2021 averted fears concerning upcoming reductions in bond buying or an increase in benchmark rates. The Fed believes the increase in inflation is temporary, concentrated within the current year and not such so as to require restrictive measures, also thanks to the margins permitted by the new monetary policy strategy and due to the weakness in the job market, which guarantees a recovery in production capacity without excessive price tensions. In its last meeting, the ECB did not announce substantial amendments in the expansionary measures currently in place to combat the effects of the pandemic: the Pandemic Emergency Purchase Programme (PEPP) and the Expanded Asset Purchase Programme, the TLTROs, current policy rate levels and the reinvestment of maturing bonds were all confirmed. However, to offset the risk that an increase in returns observed since the start of the year in the international markets may cause a premature deterioration in the Eurozone's lending conditions, the Authority increased the intensity of monthly PEPP purchases in the second half of March, confirming that it will maintain that higher pace compared to the initial months of the year in the second quarter of 2021 as well. Furthermore, the ECB did not bring up any downsizing of the PEPP pandemic programme, confirming that its pace is data dependent rather than time dependent. The programme will continue to be used flexibly and decisively to maintain favourable lending conditions and combat the repercussions of the pandemic on inflation; the Authority's new estimates have revised pricing levels upwards. On 24 March 2021, the seventh auction of the third series of targeted longer-term refinancing transactions (TLTRO3) was settled, assigning EUR 331 bn to Eurozone counterparties, of which 77 Italian.

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

COVID-19, as the first global pandemic in more than a century, continues to significantly influence the markets in which the Montepaschi Group operates. Governments all over the world on one hand have enacted a series of specific measures to limit the epidemic, including business closures, restrictions on movement and quarantines, and on the other hand are seeking avoid an economic slowdown and favour a rapid recovery once the health crisis has been resolved. This situation has caused and continues to cause greater volatility and uncertainty in the financial sector and in the markets, which is also reflected in key areas for the determination of estimates.

In response to this uncertainty, monetary and fiscal authorities have put in place strong expansionary measures to support household and business income as well as provide credit to the economy and liquidity in the markets. In parallel, the European regulatory and supervisory bodies, as well as standard setters, have adopted a series of documents to support banks in mitigating the economic impact of the COVID-19 pandemic. The regulatory and supervisory interventions taking place in 2020 are described in detail in the 2020 Financial Statements, which should be referred to for the relative information. The main new elements in the first three months of 2021 are described below.

Regulatory interventions

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

Communications from authorities and standard setters in the accounting field

In the course of 2020, in line with the evolution of the health and economic situation, a range of regulatory interventions were issued over time, primarily interpretative in nature and also providing support to the application of accounting standards in light of the impacts of COVID-19. In particular, these interventions, essentially aiming to clarify the treatment of moratoria, specify the minimum prerequisites for clear financial reporting and uniformly guide the definition of forward-looking scenarios and allow for flexibility in the definition of credit valuations, gradually strengthened and adapted to the evolution of the situation the regulatory framework that began to emerge already in the early months of 2020 and which was progressively laid out in greater detail throughout last year. This being said, in the first quarter of 2021, there were no new accounting regulations within the specific context of the pandemic; as a result, the classifications and valuations were made in continuity with the 2020 Financial Statements, to which reference should be made for a detailed examination of the regulatory interventions, as well as how the Group applied them.

Monetary policy interventions

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

Government interventions

As regards the European context of State aid and Italian government decrees, there were no new elements in the first quarter of 2021, except for what is set forth below.

On 1 March 2021, the conversion law of the **Milleproroghe** Law Decree (Law no. 21/2021, converting Law Decree no. 183/2020), in force as of 2 March, was published in Official Gazette no. 51. Insofar is of specific interest here, the measure lays out the following provisions:

- article 3, paragraph 6-bis, which defers from 31 December 2020 to 30 June 2021 the SACE extraordinary guarantee ("Italy Guarantee") on debt security issues by companies struck by the effects of the pandemic, to which a rating equal to at least BB- or equivalent has been assigned;
- article 3, paragraph 8, which extends the block on attachments with respect to National Health Service entities;
- article 13, paragraph 13, which extends the suspension on the enforcement of evictions due to default, as well as enforcement procedures on first homes;
- article 16, paragraph 2, which extends the operations of the Fund segments for granting guarantees and interest contributions on banking system loans to meet liquidity requirements, managed on behalf of the State by the Istituto per il Credito Sportivo;
- article 17, paragraphs 1-bis and 1-ter, which extends to 31 December 2022 the possibility to use subsidised loans in favour of agricultural and agro-industrial companies impacted by the 2012 earthquake in the Emilia-Romagna, Lombardy and Veneto regions.

On 22 March 2021, the **"Sostegni" Decree** (Law Decree no. 41/2021), which entered into force on 23 March, was published in Official Gazette no. 70. As regards the economic measures, the main provisions set forth in the measure are listed below:

- art. 1, paragraphs 1-9, recognises a grant (due within the limits of the Temporary framework for State aid), in favour of VAT registered operators, resident or established in the territory of the State, who carry out business, artistic or professional activities or generate farming income;
- art. 1, paragraphs 13-17, lays out specific procedural rules on State aid, to be applied to i) measures on grants for VAT registered operators (pursuant to art. 1, paragraphs 1-9), ii) the tax reduction on the radio broadcasts subscription fee for hotels and cafes (art. 6, paragraphs 5 and 6) and iii) specific support measures established by the 2020 law decrees no. 34 (Rilancio (Relaunch)), no. 104 (Agosto (August)), no. 137 (Ristori (Relief)) and no. 172 (Covid), as well as the 2021 Budget Law (Law no. 178 of 2020);
- art. 4, extending the period of suspension of the activities of the Collection Agent and cancellation of unpaid tax charges;
- art. 5, paragraphs 1-11, contains the facilitated settlement of amicable notices for holders of VAT numbers struck by the pandemic;
- art. 5, paragraph 21, extends to 31 March 2021 the deadline for external entities (including banks) to send to the Tax authorities the data needed for the preparation of pre-completed tax returns;
- art. 8, enables private employers who suspend or reduce work activities due to events linked to the pandemic to submit, for workers on the payroll at the date of 23 March 2021, a request to grant ordinary unemployment benefits pursuant to arts. 19 and 20 of the "Cura Italia" Law Decree (Law Decree no. 18/2020), for a maximum duration of 13 weeks in the period between 1 April and 30 June 2021;
- art. 28, amends arts. 54-61 of the Rilancio (Relaunch) Law Decree (Law Decree no. 34/2020), which allowed the regions, other local entities and Chambers of Commerce to adopt business aid systems according to the maximums and methods defined by the Temporary Framework, to adjust them to the fifth amendment of the Temporary Framework of 28 January 2021, which raises the limits on aid and extends the duration of validity to 31 December 2021;
- art. 37 calls for the allocation of EUR 200 mln for granting loans to ensure the business continuity of large companies that are in a temporary situation of financial difficulty. The provision (which does not apply to companies in the banking, financial and insurance sector) complements the framework of emergency measures to handle the ongoing epidemic, by combining traditional instruments which allow for the possibility of granting public guarantees, with additional operating methods, consisting of direct lending.

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

Occupational safety

Again in the first quarter of 2021, the initiatives at Group level intended to guarantee the protection of occupational health and safety, the prevention of the risk of contagion and business continuity continued, always in compliance with the Governmental Authority provisions in force over time.

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

The main updates regard:

- **the contagion prevention initiatives undertaken with respect to the Network structures:** currently, **weekly shifts** between two teams are set up for the **branches that have more than 10 resources** in the **red and "reinforced orange" zones**. The two teams are strictly separated in order to reduce the possibility of contact and consequent contagion.

- **responses to employees***:* ***infocovid19@mps.it*** is a team of 16 resources, which provides continuous support activities to handle requests for clarification and specific details from colleagues throughout the Montepaschi Group; the teams respond on an ongoing basis, even after business hours, until 10:30 p.m. and on holidays. Since the start of the pandemic, around **55,000 requests** have been managed.
  The organisation of this activity is currently evolving; a **sharepoint dashboard** has been developed where colleagues can enter their requests in a guided manner. The dashboard includes fields to be completed which make it possible to immediately register all information required, allowing for a more rapid intervention in the event of an emergency.
- **control of company provisions:** constant monitoring is enacted on respect for company provisions. Any reports of non-compliance with the provisions are investigated and analysed; if necessary, the **disciplinary measure** process is activated. Warning letters were delivered to 5 resources, one of which was subjected to the assessment of the Disciplinary Affairs Commission. An additional 6 warning letters are being finalised.

- **the process of managing "company outbreaks":** it is activated in the case of the presence of multiple positive cases within the same Branch or the same office, in order to gather evidence concerning respect for the provisions of the Contagion Prevention Protocol (PPE, plexiglass, cleaning, etc.) and information on events and conduct with the support of the Health and Safety Supervisor (Branch Manager, Service Manager, etc.). After this investigation, mitigating actions, corrective actions and, if necessary, disciplinary measures may be taken.

Commercial activities

Commercial activities continued in the first three months of 2021 with the initiatives launched in the course of 2020 and described, in detail, in the 2020 Financial Statements.

Credit

In the first quarter of 2021, the Group's **support for households and businesses** already activated in the course of 2020 and which last year required a significant effort in terms of the adaptation of processes, methodologies, internal rules and systems, continued (for more details, please refer to what is set forth in the "Consolidated Report on Operations of the Consolidated Financial Statements of the MPS Group for 2020").

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

The Group has identified a scope to be prioritised of roughly 25 thousand customers for EUR 12 bn in exposures: the most risky and most significant counterparties are managed directly by the Chief Lending Officer Department; the less significant risky counterparties maintained network management with the support of the High Risk credit structure for the activation of specific strategies/credit actions.

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

For **Business** counterparties, strategies were developed based on the impacts generated by the economic situation, not only in the economic sector to which the company belongs, but also on the company's quality in terms of resilience to the crisis. The scenarios considered are based on an estimated reduction in GDP of roughly 9.6%, in line with those defined in the RAS. The methodology calls for the breakdown of companies into 4 clusters: each was associated with a predominant strategy which goes from ordinary growth, intended for customers not in difficulty, to selective management for customers with a high level of risk, moving through all of those intermediate situations where the intervention of the Parent Company is weighted on the basis of the cluster to which the customer belongs. Individual counterparties have the same strategic policy at Group level.

In order to promptly take into account any signs of a further deterioration (or recovery), the strategies have been rendered dynamic: for transfers to High Risk, rating changes and/or changes in the CGS impact[8], the strategy is indeed reverified and brought into line with the company's new credit status.

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

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

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

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

As at 31 March 2021, the performing exposures concerned by **active moratorium measures** amounted to roughly EUR 7.1 bn (of which around EUR 4.8 bn subject to the second extension pursuant to the "Cura Italia" Decree) - equal to roughly 9% of the Group's performing loan portfolio - and are linked in 98% of the cases to moratoria falling within the definition of EBA Compliant General Payment Moratoria (of which around 83% referring to the measures laid out in the legislative decrees) and, for the residual part - roughly 2% - to measures at the Group's initiative subject to one to one assessments on the state of financial difficulty of the requesting counterparty.

The active moratoria are around 50% classified under stage 2 exposures, as they fall within the High Risk management scope (particularly due to the application of forbearance detection rules) and/or based on the analysis of the significant increase in credit risk.

[8] *CGS Impact* is an external indicator that establishes the credit standing of a company in light of the impact of the crisis; the indicator, already adopted in the 2020 strategies, is dynamically used in the new strategies with a quarterly informational update.

It should be noted that, as at 31 March 2021, there are also roughly EUR 6.8 bn in performing moratoria with a *grace period* that has reached its expiry ("expired"), of which around EUR 4.1 bn concerned by the resumption of payment plans.

The default rate in the first quarter of 2021 on the total performing portfolio concerned by the suspension measures, both active and expired, is equal to around 0.6% on a quarterly basis.

The total amount of performing moratoria requested as at 31 March 2021, both active and expired, includes exposures of roughly EUR 116 mln referred to customers with the presence of overdrafts beyond the tolerance thresholds set forth by the new DoD. The total exposures of these customers – classified ad default – amount to approximately EUR 176 mln and represents 1% of the total of exposures referring to customers with moratoria.

Non-performing exposures with active moratoria amount to around EUR 286 mln at 31 March 2021.

In terms of the actions taken in application of the "Liquidity Decree", in line with its credit policy guidelines, the Group has continued to accelerate the deployment of **guaranteed support measures**. In the first quarter of 2021, additional loans of roughly EUR 2 bn were disbursed, for a total amount of loans guaranteed by the Central Guarantee Fund, Ismea or Sace equal to around EUR 8.3 bn. Approximately 24% of the latter amount is characterised by exposures classified as stage 2, mostly referring to disbursements made pursuant to letter E of the Liquidity Decree, the latter amounting to a total of EUR 2.7 billion as at 31 March 2021. Lastly, it should be noted that the guarantee coverage ratio, compared to the total disbursed is roughly 88%, basically unchanged compared to the end of 2020.

Business Continuity Management

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

Logical Security and Physical Security Management

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

Shareholders

As at 31 March 2021, the Parent Company Banca Monte dei Paschi di Siena's share capital amounted to EUR 9,195,012,196.85, broken down into 1,002,405,887 ordinary shares, of which 2.988% treasury shares (3.619% as at 31 December 2020).

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 2021, directly and/or indirectly hold ordinary shares representing a shareholding exceeding 3% of the share capital of the Issuer and which do not fall under the cases of exemption set forth in art. 119-bis of the Issuers' Regulations are as follows:

BMPS main shareholders as at 31 March 2021

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

* Shares held through subsidiary companies based on the notification received on 28 November 2017, in accordance with current legislation.

Information on the BMPS share

Share price and trends

Increasing confidence in the vaccination plan, as a solution for the crisis generated by the spread of Covid-19, was the primary growth driver that favoured widespread rallies across nearly all global indexes during the quarter. In the US, the continuation of the population immunisation process in line with objectives provided a strong drive to the economy, also strengthened by the Biden plan for the relaunch of consumption, contributing to the fourth consecutive positive quarter for the S&P 500 index, which closed the first three months of the year at +5.8%. The Asian markets were also positive, especially Japan, with the Nikkei index recording growth of +7.8% while China, which registered good data at the end of 2020, stabilised with -0.9% for the Shanghai index (SHCOMP).

Even in Europe, optimism concerning a speedy return to normal prevailed against an emergency situation that is still in the midst of developing. Great Britain, in a reorganisation phase post-Brexit, is the country that has made the most progress in its vaccination plan, but has achieved the lowest growth amongst the main continental indexes, with the London UKX index at +3.9%. More significant rises were seen in Frankfurt (DAX) +9.4%, Paris (CAC40) +9.3% and Madrid (IBEX) +6.3%.

The Milan index (FTSE MIB) also closed up at +10.9%. In particular, there was positive performance for the Italian banking security index (IT8300 "All Italian Banks") which achieved growth of +18.1%, partly fuelled by renewed rumours and assumptions concerning sector consolidation. In Italy, the quarter was characterised by the resolution of the political crisis, which led to a new government with Prof. Mario Draghi at the helm, who encountered market confidence, favouring a significant decline in the spread.

The BMPS share confirmed the positive sector trend, closing the quarter at a value of EUR 1.14, with growth of +9.7% in the quarter. The average volume of shares traded every day came to 4.6 million, a figure aligned with the previous quarter.

SHARE PRICE SUMMARY STATISTICS (from 31/12/2020 to 31/03/2021)	
Average	1.17
Minimum	1.03
Maximum	1.38

Rating

The ratings assigned by the rating agencies are provided below:

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

During the first quarter of 2021, there were no rating actions from the three agencies. A summary of the most recent actions carried out by the rating agencies is provided below:

- On 21 December 2020, Fitch Ratings revised the “rating watch” from “evolving” to “negative” on the Bank’s long-term ratings.
- On 16 December 2020, Moody's Investors Service announced that it had extended the Bank’s rating review period. Please note that on 21 July 2020 the agency had placed the Baseline Credit Assessment standalone rating (“b3”) and the long-term ratings of BMPS, including the Long-Term Bank Deposits rating (“B1”) and the Long-Term Senior Unsecured rating (“Caa1”), under review for a possible upgrade, amending the long-term outlook from "Developing" to "Rating under Review".
- On 19 November 2020, DBRS Morningstar changed its long-term outlook to “stable” from “negative”. All BMPS ratings were confirmed, including the Long-Term Issuer Rating at “B (high)”, the Long-Term Senior Debt at “B (high)” and the Long-Term Deposits at “BB (low)”.

Significant events in the first three months of 2021

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

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

Significant events after 31 March 2021

There were no significant events after 31 March 2021.

2017-2021 Restructuring Plan

The 2017-2021 Restructuring Plan is subject to formal monitoring by the European Commission, through a Monitoring Trustee[9]. This monitoring assumes formal relevance in verifying compliance with the commitments only at specific deadlines agreed with the European Commission. With reference to some of the main *commitments* of the Restructuring Plan, pursuant to art. 114, paragraph 5 of Italian Legislative Decree 58/1998, the relative implementation status as at 31 March 2021 is described below:

- Exposure to sovereign debt:
  - financial assets measured at fair value through other comprehensive income (FVTOCI) are down by around EUR 0.8 bn compared to the end of 2019, mainly in reference to Italian government debt securities.
- Transfer of foreign banks:
  - in line with the objectives of Commitment no. 14, the entire shareholding in Banca Monte dei Paschi Belgio S.A. (BMPB) was sold on 14 June 2019, and subsequently on 23 March 2020, the procedure for calculating the price adjustment was completed through the intervention of an independent expert;
  - the Parent Company, as envisaged in Commitment no. 14 of the Restructuring Plan, approved the orderly winding-down procedure of the subsidiary Monte Paschi Banque S.A. (MPB), which consists of limiting the subsidiary's activities strictly to those targeted at the deleveraging of loans, excluding the development of new business. This procedure became necessary after attempts at disposal were unsuccessful with the timing set forth in the commitment. In this context, MPB has focused its efforts on existing customers and activities: the performance for the first quarter of 2021 is in line with the objectives of the subsidiary's orderly winding down plan.
- Closure of foreign branches:
  - in 2020, activities were completed for the closure of the Hong Kong branch (the London and New York branches were closed in 2019);
  - an important further step was made towards the streamlining of the Representative Offices Abroad, with the closure of the Guangzhou (China) Office in the first quarter of 2021 with the return of the Banking Activity Licence to the local authority which formally confirmed receipt, and the definitive transfer of the Office's functions to the Tunis, Algiers and Casablanca representative offices. Commercial developments of Italian customers in the Canton zone were guaranteed by the Shanghai Branch and by the Beijing Representative Office, used to support Italian customers for bureaucratic issues taking place in the capital.
- Cost reduction measures:
  - termination, through the activation of the Solidarity Fund, of 3,110 resources between 2017 and 2020;
  - from 2017 to 2020, 614 branches were closed, achieving the overall target set for the period. Of these, 4 branches were closed in 2020, of which 2 in the last quarter.
- 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

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

the approval of the Plan (4 July 2017) as at 31 March 2021, the Group sold real estate assets for a value of roughly EUR 315.7 mln, including a significant portion of properties included in the portfolio to be transferred to Ardian (including the prestigious offices in via S. Margherita in Milan and via Corso 232 in Rome). In addition, preliminary sale contracts were signed for real estate properties corresponding to EUR 73.0 mln in book value as at 31 March 2021; also in this case, there are some properties relating to the sale with Ardian (including the one in Rome, via del Corso 518/520), most of which is expected to be completed by the end of 2021.

- Strengthening of the capital position:
  - in January 2020, a subordinated Tier 2 bond was issued for EUR 400 mln, thereby completing the plan for the issue of this type of instrument laid out in the Restructuring Plan and subject of a specific commitment with DG Comp;
  - in 2020, an additional Tier 2 issue was carried out for the amount of EUR 300 mln. The issue is functional to the AMCO partial demerger and meets, in particular, one of the conditions set forth by the ECB in the transaction authorisation, as set forth in the Final Decision of 2 September 2020.
- Disposal of the equity investment by the MEF:
  - the commitments required by DG Comp envisage, among other things, that the MEF divest its shareholding in the Parent Company by the end of the Restructuring Plan. Thus, the MEF should have submitted to the European Commission by the end of 2019 a plan to sell its stake in the Parent Company's capital. On 30 December 2019, the MEF communicated that, in agreement with the services of the European Commission, the presentation of the plan to sell the equity investment in MPS was postponed, pending the completion of the Parent Company's derisking transaction (the "Hydra" transaction). This transaction was designed and then planned also with the goal of creating the conditions for the sale of the equity investment. To that end, the Parent Company engaged Mediobanca and Credit Suisse as financial advisors in order to evaluate the alternative strategies available. On 16 October 2020, by Prime Ministerial Decree, the MEF was authorised to proceed with extraordinary transactions functional to the disposal of the equity investment. In particular, the disposal of the equity investment held by the MEF in Banca MPS was authorised, which may be carried out in one or more phases through individual or joint recourse to: a public sale offer to investors in Italy and/or Italian and international institutional investors, direct negotiations to be carried out through transparent and non-discriminatory competitive procedures and one or more extraordinary transactions including a merger transaction.

2021-2025 Group Strategic Plan

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

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

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

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

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

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

In relation to the main economic and financial objectives of the Plan for this year, the degree to which they were achieved as at 31 March 2021 is described below:

2021-2025 STRATEGIC PLAN TARGET			
MONTEPASCHI GROUP			
INCOME STATEMENT FIGURES (EUR mln)	31 03 2021	FY 2021 Plan	% Annual target
Total Revenues	824	2,895	28%
Operating exepenses	(540)	(2,156)	25%
Cost of customer credit	(77)	(750)	10%
Net profit (loss)	119	(562)	n.m
CAPITAL RATIOS	31 03 2021	FY 2021 Plan*	Chg.
Common Equity Tier 1 (CET1) ratio - phase in	12.2	12.1	0.1
Common Equity Tier 1 (CET1) ratio - fully loaded	10.4	10.9	-0.5

** The FY2021 Plan indicators are calculated assuming capital strengthening of EUR 2.5 bn.*

* * *

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

Despite the initial forecasts of negative impacts triggered by the COVID-19 emergency on the cure rate and transfers from NPE exposures, monitoring showed how the trend of these aggregates has remained consistent with the new objectives established within the RAS. Thanks to the new customer clustering/guidelines based on the new strategies, it was possible to contain the default flow, making it possible to maintain the risk objectives on the various portfolio segments. With a view to limiting the default flow, the Parent Company also took action, starting in the first quarter of 2021, to dialogue with customers who benefited from the measures referred to above, activating proactive management which will make it possible to maintain effective oversight of the cliff effect when payments resume.

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

- **raising the service level offered through the Group's Advisory services,** to guarantee unique advisory content, increasing interaction with the Network and consolidation of the relationship of trust between customers and relationship managers;

- **proposing investment solutions carried out and managed** within the Group and intended to meet the most sophisticated customer requirements, also thanks to more intensification of relationships with the main investment firms;
- ***improving the customer experience and continuing the digital transformation***, through: i) the management of monthly contact initiatives finalised at implementing a targeted commercial proposal on possible requirements of each customer according to predictive behavioural models (next best product), as well as the optimisation of the exchange with the customer and at the same time promoting knowledge of products/services offered; ii) the launch of customer journeys designed for improving commercial proposition activities through the establishment of logical omnichannel contact paths, particularly with reference to new customers or those with the risk of abandonment; iii) the search for a superior digital experience for retail customers, with a focus on remote sales, thanks to SPID identification and mobile payments, such as Google Pay and Apple Pay; iv) upgrading of the branch technology platform and the optimisation of media centre activities and remote customer service. The activities for the digitalisation of the processes relating to the range of investment services and products (GPs and Policies) and the creation of the digital pathway of Out-of-Office Offerings also continued, with a goal of completion in the first few months of 2021;
- ***activating a new Wealth Management Platform:*** starting in July 2020, the new Wealth Management Platform named "MPS Athena" was activated, on which the process of migration from "MPS Advice" is continuing in 2021, with additional releases of Basic Advisory functions and the launch of Advanced Advisory functions which will gradually expand the use of the MPS Athena Platform to the entire Network, while guaranteeing an "advanced", functional and modern advisory approach, based on innovative technology and digitalised processes capable of guaranteeing high Advisory Customer Journey levels;
- ***strengthening the advisory offering*** within a particularly complex market environment characterised by excess unremunerated liquidity and negative or highly limited yields in the traditional bond sector, with a view to accompanying customers towards flexible and dynamic forms of asset management, which make it possible to take advantage of return opportunities, in keeping with the customer's risk profile and consistent with customer needs and requirements;
- ***reviewing commercial processes from a customer centricity perspective***, by optimising them with the use of renewed instruments to guide planning through the use of "air & ground" campaigns and the resulting commercial proposition activity, the specialisation of employees in the various areas of customer needs (with particular reference to the Value segment) and a well-developed caring programme and targeted actions for potential customers, particularly with reference to former customers;
- ***optimising the allocation of commercial resources,*** by updating the service models for the commercial management of customers, differentiated by type and economic return in a manner consistent with the available staff;
- ***defining a new value proposition in the agrifood sector***, by establishing the first 12 Specialised Centres, meant to broker an innovative offer of products by exploiting the opportunities of the government decrees to reignite the economy, particularly as concerns the "farm to fork" and "green deal" programmes;
- ***accelerating growth in Bancassurance***, through interventions on the layout of branches and updates of the operating and commercial model, which generated an increase in the scope by an additional 308 branches in the course of 2020, which joined the other 86 from the pilot phase in 2019, all with training already completed. With regard to branding, in the first quarter only exterior work continued with a further 5 branches branded at the end of January 2021 (due to the COVID-19 protocol, it was not yet possible to carry out interior interventions), which are added to the 69 completed in 2020 and the 52 completed in 2019 (the latter with complete branding). In the first quarter of 2021, also given the pandemic context, layout design activities focused exclusively on the Tuscany Area branches where upcoming activities will be concentrated in order to complete the target branches with full branding (interior/exterior) by the end of June. In February 2021, the new "MPS DIGITAL AUTO" motor TPL

policy was launched, structured through the partnership with Quixa, an Axa Group company. The product is proposed in fully digital mode and MPS is the first bank in Italy to enter the aggregator channel with its own Montepaschi brand. The new offer will allow the Parent Company to increase the penetration of motor policies, meeting the needs of customers more geared towards online purchases and also acquiring new customers. The new policy has already met with significant interest, including on the part of "non-customers", confirming the distinctiveness of the Bank's brand.

In the course of 2020, restyling also involved 55 large/highly visible branches in order to improve commercial proactivity with a focus on the Value line. These interventions act on the following performance drivers: increasing the privacy of workstations, improving the usability of spaces, appearance and brand identity. In 2021, a further 80 interventions are expected to be carried out in synergy with other projects.

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

With reference to funding, 2020 came to an end with a particularly robust liquidity position, with LCR/NSFR indicator levels that are significantly higher than regulatory and operational limits. The maturities in the 2021-2023 three-year period are represented primarily by the TLTROIII auctions, to which the Parent Company had access until 31 December 2020, for a total of EUR 24 bn: EUR 4 bn maturing in 2022; EUR 20 bn maturing in 2023.

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

With reference to the TLTROIIIs, in light of the monetary policy decisions taken by the ECB in December 2020, which called for a further increase in the maximum amount available to banks and even more favourable access conditions, the Group participated in the March 2021 TLTROIII for EUR 2.5 bn, bringing its total exposure to the ECB to EUR 26.5 bn. Any additional recourse to the TLTRO III may be made with respect for the overall maximum.

The amount of the institutional bonds maturing in the 2021-2023 three-year period is equal to a total of EUR 2.3 bn, of which EUR 0.5 bn in senior securities maturing in 2022 and EUR 1.75 bn covered by the CB1 programme, maturing in 2021 for EUR 1 bn and in 2022 for EUR 0.75 bn.

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

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

Given its potential impacts on banks' sources of liquidity, the health crisis could affect the expected development of the regulatory liquidity indicators (LCR and NSFR). In this regard, the central bank has communicated the possibility for banks to temporarily operate below the minimum threshold of 100%, with particular reference to the LCR. Considering the solid liquidity position established in previous years and the satisfactory levels of its indicators (at 31 March 2021, LCR equal to 187.2% and NSFR equal to 124.3%), the Parent Company expects to be able to keep its targets higher than the minimum threshold, with an adequate buffer.

Explanatory Notes

The Interim Report on Operations of Monte dei Paschi di Siena Group as at 31 March 2021, approved by the Board of Directors on 6 May 2021, was prepared in consolidated format by applying the recognition and measurement criteria envisaged in IAS/IFRS international accounting standards issued by the International Accounting Standards Board (IASB) and the related interpretations by the IFRS Interpretations Committee, as endorsed by the European Commission and effective at the time this interim report was prepared, pursuant to EC Regulation no. 1606 of 19 July 2002.

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

With reference to the classification, recognition, valuation and derecognition of the various asset and liability entries, as well as the methods for recognising revenue and costs, the accounting principles used for the preparation of this Interim Report on Operations have been updated with respect to those adopted for the Consolidated Financial Statements as at 31 December 2020, due to the voluntary change in the method for valuing property assets owned by the Group. Please refer to the section "Modification of the property valuation approach: property for business use (IAS 16) and property held for investment purposes (IAS 40)" for further details.

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

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

- *Modification/Derecognition*

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

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

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

- *Hedge accounting*

In the second phase of the project, the IASB analysed the impact on hedging relationships deriving from the modifications caused by the IBOR reform on financial instruments that are part of the hedging relationship and which may constitute potential new triggers for the discontinuation of hedging, establishing several exceptions to IAS 39 (and IFRS 9 for those who have also adopted it for hedging) which make it possible to not to discontinue following the updating of the documentation on the hedging relationship (due to the modification of the hedged risk, the hedged underlying asset or the hedging derivative or the method for checking the effectiveness of the hedge). Any effect of ineffectiveness must in any event be recognised in the income statement. Modifications have also been introduced on the designation of separately identifiable risk components. When a hedging relationship is modified as a result of the reform or new hedging relationships are designated, an alternative interest rate designated as a non-contractually specified risk component may not meet the "separately identifiable requirement", due to the fact that the alternative interest rate market may not be sufficiently developed at the designation date. In this regard, it was established that an alternative interest rate meets this requirement if the entity reasonably expects it to become separately identifiable within 24 months of designation.
The modifications introduced by the IASB therefore aim not to discontinue hedging relationships in place as a result of the reform; therefore, no impacts are expected for the Group.

- *Disclosure*

An additional enhancement of disclosure is planned, beyond the additions to IFRS 7 already implemented as part of the phase 1 modifications, with the integration of qualitative and quantitative disclosures to be provided in the financial statements on the nature and risks linked to the IBOR Reform, the management of such risks and progress in the process of transitioning to the new rates.

The amendments became effective on 1 January 2021, without prejudice to the early application option, which the Group did not make use of.

On 16 December 2020, Regulation (EU) 2020/2097 - "Extension of the Temporary Exemption from Applying IFRS 9" - Amendments to **IFRS 4** "**Insurance contracts**" was published. The amendments to IFRS 4 aim to address the temporary accounting consequences of the different effective dates of IFRS 9 "Financial Instruments" and the forthcoming IFRS 17 "Insurance Contracts". In particular, the amendments to IFRS 4 extend the expiry date of the temporary exemption from applying IFRS 9 until 2023 in order to align the effective date of IFRS 9 with the new IFRS 17. The above-mentioned amendments apply as of 1 January 2021. For the Group, no direct impacts are expected as it does not perform insurance activities.

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

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

The Interim Report as at 31 March 2021 is supplemented by the certification of the Financial Reporting Officer, pursuant to art. 154-bis, paragraph 2 of the Consolidated Law on Finance.

Estimates and assumptions when preparing the interim report on operations

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

With particular regard to determining the expected loss on loans, securities, guarantees issued and commitments, this, pursuant to the provisions of IFRS 9, also depends on forward-looking information such as, specifically, the evolution of the macroeconomic scenarios used in calculating impairment. The evolution and the weighting of those scenarios are periodically assessed, on quarterly basis, making any resulting updates.

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

Quantification of impairment losses on loans and IFRS 9 staging

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

Despite expectations of an improvement in the overall economic situation in the course of 2021, uncertainty continues to characterise short-term economic outlooks, particular as regards COVID-19 pandemic trends and the speed of the vaccination campaigns. The resumption in demand at global level and the additional budgetary measures are supporting global and Eurozone activity. However, the continuation of high contagion rates, the spread of virus variants, as well as the extension and exacerbation of the ensuing containment measures are impacting economic activity in the Eurozone in the short term. Looking to the future, ongoing vaccination campaigns, along with the gradual expected relaxation of the containment measures, are fuelling expectations of a significant recovery in economic activity in 2021.

This assessment is substantially confirmed in the base scenario of macroeconomic projections from March 2021 formulated by the ECB's experts for the Eurozone. Projections are pointing to annual GDP growth in real terms equal to 4.0% in 2021, 4.1% in 2022 and 2.1% in 2023. With respect to the analysis performed by Eurosystem experts in December 2020, outlooks for economic activity are basically unchanged.

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

In January 2021, the Parent Company approved an update of the base scenario, developed in the course of December 2020 by a leading external provider, which for Italy expects a better GDP trend in 2020 and a worse trend in 2021 due to the resurgence of contagion which will defer the recovery to the spring. The use of the funds made available for Italy by European countries (Next Generation EU) will allow for more sustained GDP growth in the medium term, so much so that pre-COVID levels are expected to be reached in early 2023. Specifically, the update expects a lower contraction in 2020 (-9.1% compared to -10.0% in the previous base scenario), followed by a recovery in subsequent years (2021: +4.8% and 2022: +4.1%, 2023: 1.8%), basically analogous to that of the previous scenario but distributed differently over the years (2021: 5.3%, 2022: 2.7%, 2023: 1.8%).

The updated information results in the surpassing of the above-mentioned threshold. However, given the current pandemic situation and the repeated periods of closure of many economic activities, as well as considering the most recent Bank of Italy forecasts published on 15 January 2021 (see Economic Bulletin no. 1/2021), still in line with those used for the 2020 Financial Statement estimates and more conservative than those provided by the provider in January 2021, the Group decided, on a prudent basis, not to update the forward-looking estimates of the expected loss of the performing and non-performing portfolio.

$$$$

The absence of additional new regulations in the first quarter of 2021 left the overall regulatory framework described in the 2020 Financial Statements unchanged; as a result, for the Interim Report on Operations as at 31 March 2021, the Group deemed it appropriate to confirm the approaches previously taken in loan valuation and staging criteria as at 31 March 2021. This framework may be summarised, in brief, as follows:

- macroeconomic scenario for the calculation of the ECL (loan valuation) and the SICR, aligned with the instructions provided by the Bank of Italy in January 2021;
- adoption of management overlays for the inclusion of ad hoc corrections, not captured by modelling, to better reflect the specific impacts of COVID-19 in the valuation of loans. Considering the continuation of the justifications underlying the introduction of these specific approaches, the corrections identified and applied in the 2020 Financial Statements, to which reference is made for a more detailed discussion, therefore remain confirmed. In summary:
    - o treatment to include with greater granularity the impacts of the current scenario on micro-sectors, through the development of a management overlay to include several ad hoc corrections based on bottom-up analyses deriving from credit strategies and which take into account the sensitivity to the

scenario of the forward-looking financial statements of counterparties belonging to the various micro-sectors;

- use of the 2020-2022 three-year period for the application of the forward-looking information on probabilities of default, given the delay (estimated at 12 months) in the observation of insolvency rates and, in general, of the deterioration of creditworthiness in the current context of systemic support to customers, in difficulty due to the pandemic.

Contractual changes and forbearance

As at 31 March 2021, the moratoria in place, granted as a result of the COVID-19 pandemic, are equal to approximately EUR 7.4 bn and represent approximately 9% of the total exposure in loans to customers. At the same date, income statement item 140 "Modification gains/(losses)" includes a loss related to the COVID-19 suspensions finalised for roughly EUR 3.2 mln.

Please note that the accounting classification criteria for loans subject to moratoria are unchanged with respect to the Consolidated financial statements as at 31 December 2020, to which reference is made for more details. In particular, the instructions of the Supervisory Authority pursuant to the EBA guidelines of April 2020, as amended over time, are confirmed. Therefore, the counterparties that have benefited from moratoria granted since December 2020 and by 31 March 2021 were subject to the assessment of the 9-month time limit imposed by the EBA to be able to benefit from the terms allowed under the "general payment moratoria", while they were classified as forborne in all cases of suspension lasting more than 9 months (also including any pre-existing suspension).

The moratoria granted after 31 March 2021, in the absence of additional instructions from the Supervisory Authorities, were included in the ordinary assessment of forborne.

New Definition of Default

As already referred to above, please note that as of 1 January 2021 the Group adopted the New Definition of Default; the regulatory change was accompanied by an overall revision of processes and instruments, as well as organisational and training support activities. In detail, the primary changes introduced with respect to regulations previously in force pertain to the following areas:

1. new definition of past due:
   - lowering of the "relative" materiality threshold from 5% to 1% (threshold calculated as the ratio between the amount past due and the customer's total exposure, both determined at Banking Group level, with no offsetting with any available margins on other lines of credit);
   - introduction of an "absolute" materiality threshold differentiated by type of counterparty (retail/non retail);
   - classification of a borrower in a default state (NPE) upon exceeding both materiality thresholds for 90 consecutive days;
2. introduction of a probation period of at least 3 months prior to the reclassification to Performing status for borrowers previously classified as in default (NPE) who normalise their position;
3. classification of a debtor in default status uniformly at Banking Group level, or across all active credit obligations with Group companies;
4. classification of the borrower in a default status in the event that the distressed restructuring likely implies a Diminished Financial Obligation (i.e., Δ NPV) > 1%);
5. introduction of new contagion rules/assessment of the contagion of the default status of a position based on the existing link with other positions transferred to a non-performing status.

Estimation and assumptions on recoverability of deferred tax assets

As at 31 March 2021, the Group assessed DTAs in continuity with the corresponding assessments performed in the 2020 Consolidated Financial Statements, considering that in the meantime there were no substantial changes in the scenario.

Specifically, taxable income for future years was estimated on the basis of the same income projections used for the 2020 Financial Statements, as the new 2021-2025 Strategic Plan, approved by the Board of Directors on 17

December 2020, has not yet been approved by the competent authorities. For more information, please refer to par. 11.8 “Other information” in the Notes to the consolidated financial statements - Part B of the MPS Group’s 2020 Consolidated Financial Statements.

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

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

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

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

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

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

The Group, taking into account what has been specified by the Authorities[10], defined its accounting policy which refers to the accounting rules laid out in IFRS 9, applying provisions compatible with the characteristics of the transaction and considering that, substantially, these credits are equivalent to financial assets.

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

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

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

As at 31 March 2021, the Group finalised 128 purchase transactions, of which roughly 74% with private parties, for a nominal value of EUR 2.8 mln, of which EUR 2.6 mln usable starting from the current year and EUR 0.2 mln starting from 2022. The carrying amount of the above-mentioned receivables recognised in the item “Other Assets” is equal to EUR 2.3 mln as at 31 March 2021. It should also be noted that, as of 29 April 2021, the Group has received requests for the sale of these receivables for a total amount of approximately EUR 0.5 bn, which are currently being verified/processed.

[10] On 5 January 2021, the Bank of Italy, Consob and IVASS published the document “Accounting treatment of tax credits linked to the “Cura Italia” and “Rilancio” (Relaunch) Law Decrees acquired following assignment by the direct beneficiaries or previous purchasers”.

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

The Group, also following business combinations carried out over an extensive period of time, holds property assets inclusive of land and real estate the carrying amount at the date of 31 December 2020 was EUR 1,792 mln, of which EUR 1,542 mln for business use (IAS 16) and EUR 250 mln held for investment purposes (IAS 40).

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

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

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

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

In light of what is set forth above, as of 31 March 2021, limited to the property assets, the Group opted to modify the valuation approach subsequent to initial recognition. Specifically, on 22 April 2021, the Banca MPS Board of Directors decided to:

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

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

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

- the greater alignment of financial reporting with future Group property asset management strategies;
- a more immediate understanding of the economic and financial impacts of the actions laid out in the Group Plan;
- constant alignment of the carrying amounts of property assets with values identifiable in the market;
- greater uniformity of comparison, of both the financial position and profit and loss between subsequent years, as recognition in current values improves the relevance and quality of information, especially due to its periodic re-estimation.

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

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

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

In this regard, note that the unit of measurement used to determine the above-mentioned impacts is represented by the individual property, considering the land component and the building component jointly as they cannot be sold individually. The breakdown of the property value into the two components - land and building - is instead relevant for disclosure purposes and for the calculation of depreciation, due to the different useful life of the two components. Starting from 31 March 2021, the restated value of the assets in question will represent the new depreciable amount, to be broken down on a straight-line basis over the expected economic life; for the first quarter of 2021, it was instead not necessary to restate depreciation calculated on the basis of the previous cost approach.

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

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

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

To determine the market value (fair value) of these assets, specific appraisals are prepared by independent expert appraisers. To prepare the property appraisals, the lease payments, sale prices, discounting rates and capitalisation rates were estimated. In more detail, these appraisals, on the basis of the relevance of the individual property unit, were conducted in two different alternative manners:

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

The valuation methodologies applied by the appraiser in the appraisal are aligned with international IVS (International Valuation Standards) practices and with what is set forth in the Red Book of the Royal Institute of Chartered Surveyors (RICS) and are classified into three methods:

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

With reference to properties for business use (IAS 16), the impact of the restatement of the values as at 31 March 2021 was positive on the whole for EUR 214.3 mln gross of taxation. This impact was recognised:

- in item "120. Valuation reserves" for EUR 244.4 mln gross of taxation (EUR 164.6 mln net of taxation);
- as an offsetting entry to income statement item "260. Net gains (losses) on property, plant and equipment and intangible assets measured at fair value" in the negative amount of EUR 30.1 mln.

As concerns investment properties, the impact of the fair value measurement is negative on the whole for EUR 16.1 mln gross of tax effects (EUR 10.8 mln net of taxation). This impact was recognised through a modification of the initial opening shareholders' equity balances as at 1 January 2021, specifically in item "150. Reserves".

Aside from the above-mentioned impacts, the application of the fair value approach means that depreciation is no longer recognised for investment property which, for the first quarter of 2021, would have amounted to EUR 1.5 mln.

The main items of the accounts

The accounting policies applied as of 31 March 2021 are described below with exclusive reference to the balance sheet item “Property, plant and equipment”, revised with respect to the version published in the Consolidated Financial Statements as at 31 December 2020, Notes to the financial statements - Part A Accounting policies, following the change in the method for valuing property assets adopted by the Group.

6 Property, plant and equipment

a) classification criteria

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

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

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

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

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

b) recognition criteria

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

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

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

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

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

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

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

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

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

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

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

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

c) measurement criteria and revenue recognition criteria

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

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

The Group revalues properties for business use with a predefined multi-year frequency on the basis of appraisals prepared by independent experts.

The appraisal can be carried out in two alternative manners:

- "full" appraisals based on on-site inspection of the property assets, as well as a detailed analysis of the available documentation;
- "desk top" appraisals based only on examination of the documentation, without a physical inspection of the property.

Full appraisals are conducted on all relevant properties and, on a rotating basis, on all properties (taking into account geographical location, intended use, etc.) as an alternative to desk top appraisals.

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

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

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

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

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

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

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

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

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

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

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

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

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

d) derecognition criteria

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

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

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

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

Going concern

This Interim Report on Operations as at 31 March 2021 was prepared based on a going concern assumption.

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

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

Compared to estimates formulated in previous months, which showed a shortfall in the first quarter of 2021 with an increase to EUR 1.5 bn as at 1 January 2022, attention is drawn to the fact that as at 31 March 2021 no capital shortfall occurred and it is expected that 12 months after the reference date, i.e. as at 31 March 2022, the shortfall could be below EUR 1 billion, including the effect of the update of internal models as per EBA Guidelines. The decrease in the expected shortfall derives from the effects of the capital management actions already carried out and of the evolution of capital and risk-weighted assets. Moreover, the capital shortfall concerns Tier 1 and, to a lesser extent, Total Capital, while no shortfall is expected on Common Equity Tier 1. The shortfall is estimated using the same assumptions underlying the Strategic Plan, taking into account the first quarter 2021 results and excluding the capital strengthening transaction.

Despite the reduced expected shortfall, capital strengthening estimates of EUR 2.5 billion have not been revised for the time being, pending the outcome of the stress tests to be announced to the market in July

The requirement to strengthen the capital position by EUR 2.5 bn, if confirmed, is significant and therefore determines potential uncertainty on the use of the going concern assumption. This uncertainty is mitigated by the possible scenario of the "structural solution" and by the full support of the controlling shareholder.

In regard to the "structural solution", it should be noted that the Decree of the Prime Minister issued on 16 October 2020 has authorised the disposal of the equity investment held by the MEF in the Parent Company Banca MPS, this may be carried out in one or more stages, with sale procedures and techniques used in the markets, through individual or joint recourse to a public offer to investors in Italy, including personnel of the MPS Group, and/or Italian and international investors, through direct negotiations to be carried out with transparent and non-discriminatory competitive procedures and through one or more extraordinary transactions, including a merger.

In addition, Budget Law no. 178 of 30 December 2020, art. 1, paragraphs 233-243, has provided for the conversion into tax credits of the recognised and unrecognised DTAs deriving from tax losses and ACE surpluses in the event of business combinations (mergers, spin-offs or business transfers) completed in 2021. The net incentive for the potential buyer of MPS, assuming this is the party with higher assets, can be estimated at approx. EUR 2.2 bn: this would be added to the contribution of badwill, which may be fully included in the capital of the aggregating entity in the light of the "Guide on the supervisory approach to consolidation in the banking sector" published by the ECB in January 2021. The business combination could be preceded by a capital strengthening action that is expected to be easily approved by DG Comp.

The Parent Company has set up the virtual data room for the due diligence activities of potential investors and partners. In this regard, it should be noted that the Apollo fund, which had sent the Parent Company a non-binding expression of interest, has had access to the virtual data room since March.

At present, the "structural solution" has not yet materialised, but it represents a potential scenario also in the light of the substantial incentives mentioned above.

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

Should the implementation of a "structural solution" not materialise in the short/medium term, the Capital Plan envisages a EUR 2.5 bn capital strengthening transaction. In this context, DG Comp would be required to assess the State's intervention on the basis of the Parent Company's standalone viability. This assessment poses, in principle, significant uncertainties on the Parent Company's capital strengthening process and on a capital increase at market conditions. On the basis of the initial discussions with DG Comp following the presentation of the new Group Strategic Plan 2021-2025 - and in light of the breach of certain commitments defined in the 2017-2021 Restructuring Plan - the Bank was asked to propose additional compensation measures, which were approved by the Board of Directors on 5 February 2021 and submitted to DG Comp. Discussions with the Authority have continued since, and have not recorded any significant development to date.

Pending the outcome of discussions with DG Comp, it is believed that the capital strengthening transaction, initially envisaged for the third quarter of 2021, could take place in the fourth quarter of 2021 or in the first half of 2022.

In order to facilitate any solution, after the incisive interventions on credit risk carried out since 2018, which have reduced the incidence of non-performing exposures to the lowest levels among significant Italian banks, the Parent Company continues to work to reduce business risk, actively engaging in initiatives aimed at reducing legal risks.

In light of these elements, it is believed that the capital shortfall could be resolved either through the "structural solution" or through a stand-alone capital strengthening transaction.

With regard to the indications contained in Document no. 2 of 6 February 2009 and Document no. 4 of 3 March 2010, issued jointly by the Bank of Italy, Consob and ISVAP, and subsequent amendments, the Directors, after having considered the significant uncertainty concerning how the Parent Company's capital strengthening will be executed - which may give rise to significant doubts on the Group's ability to continue to operate as a going concern, consider that, taking into account the status of the actions put in place, the set of these evaluations supports the reasonable expectation that the Bank will continue to operate as a going concern in the foreseeable future and therefore the use of the going concern assumption in preparing this report.

Reclassification principles

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

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

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

Following the change in the property asset valuation approach, starting from this disclosure, please note that:

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

Please also note that, to ensure better comparability, write-downs on property for business use (pursuant to IAS 16) referring to the first quarter of 2020 were reclassified from "Net value adjustments to property, plant and equipment and intangible assets" to "Net gains (losses) on property, plant and equipment and intangible assets measured at fair value".

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

Income statement data

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

- Item "**Net interest income**" was cleared of the negative contribution (equal to EUR -1.2 mln) of the Purchase Price Allocation (PPA), referring to past business combinations, which was reclassified to a specific item.
- The item "**Net fees and commissions**" includes the balance of financial statement items 40 "Fee and commission income" and 50 "Fee and commission expense".
- Item "**Dividends, similar income and gains (losses) on investments**" incorporates item 70 "Dividends and similar income" and the relevant portion of profits from investments in the associate AXA, consolidated using the equity method, equivalent to EUR 21.2 mln, included in item 250 "Gains (losses) on investments". The aggregate was also cleared of dividends earned on equity securities other than equity investments (EUR 0.4 mln), reclassified to item "Net profit (loss) from trading, the fair value measurement of assets/liabilities and gains from disposals/repurchases".
- Item "**Net profit (loss) from trading, the fair value measurement of assets/liabilities and gains from disposals/repurchases**" includes item 80 "Net profit (loss) from trading", item 100 "Gains (losses) on disposal/repurchase", cleared of the contribution from loans to customers (EUR -0.1 mln) reclassified in the item "Cost of customer credit", and item 110 "Net profit (loss) from other financial assets and liabilities measured at fair value through profit and loss", cleared of the contribution from loans to customers (EUR -4.8 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 "**Net profit (loss) from hedging**" includes financial statement item 90 "Net profit (loss) from hedging".
- Item "**Other operating income (expense)**" includes the balance of item 230 "Other operating expenses/income" net of stamp duties and other expenses recovered from customers, which are included in

the reclassified item "Other administrative expenses" (EUR 58.6 mln) and net of other expenses recovered, which are posted to "Net value adjustments to property, plant and equipment" (EUR 4.9 mln).

- Item "**Personnel expenses**" includes the balance of item 190a "Personnel expenses" from which EUR 0.2 mln has been separated, relating to interest for the discounting of the redundancy fund, reclassified under "Restructuring costs/One-off charges".
- Item "**Other administrative expenses**" includes the balance of financial statement item 190b "Other administrative expenses", reduced by the following cost items:
  - expenses, amounting to EUR 67.8 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 15.7 mln (posted to the reclassified item "DTA fee");
  - charges of EUR 0.4 mln, relating to initiatives also aimed at complying with the commitments undertaken with DG Comp, stated under reclassified item "Restructuring costs/One-off charges".

  This item also includes the portion of stamp duty and other expenses recovered from customers (EUR 58.6 mln) posted under item 230 "Other operating expenses/income".
- Item "**Net value adjustments to property, plant and equipment and intangible assets**" includes the values of items 210 "Net value adjustments to (recoveries on) property, plant and equipment" and 220 "Net value adjustments to (recoveries on) intangible assets" and was cleared of the negative contribution (EUR -0.2 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 4.9 mln) that was recorded under item 230 "Other operating expenses/income".
- Item "**Cost of customer credit**" includes the income statement components relating to loans to customers of item 100a "Gains (losses) on disposal/repurchase of financial assets measured at amortised cost" (EUR -0.1 mln), item 110b "Net profit (loss) from other financial assets measured at fair value as per mandatory requirements" (EUR -4.8 mln), item 130a "Net impairment (losses)/reversals on financial assets measured at amortised cost" (EUR -73.5 mln), item 140 "Modification gains/(losses)" (EUR -4.4 mln) and item 200a "Net provisions for risks and charges - commitments and guarantees given" (EUR +6.1 mln).
- Item "**Net impairment losses on securities and loans to banks**" includes the portion related to securities (EUR -2.9 mln) and loans to banks (EUR +0.8 mln) in item 130a "Financial assets measured at amortised cost" and item 130b "Net impairment (losses)/reversals on financial assets measured at fair value through other comprehensive income" (EUR -1.6 mln).
- Item "**Other net provisions for risks and charges**" includes the balance of financial statement item 200 "Net provisions for risks and charges", reduced by component relative to loans to customers of item 200a "commitments and guarantees given" (EUR +6.1 mln), which was included in the specific item "Cost of customer credit".
- Item "**Gains (losses) on other investments**" includes the balance of item 250 "Gains (losses) on investments", cleared of the portion of profit relative to the investments in AXA, consolidated at equity and equivalent to EUR 21.2 mln, reclassified under item "Dividends, similar income and gains (losses) on investments".
- Item "**Restructuring costs/One-off costs**" includes the following amounts:
  - positive contribution of EUR 0.2 mln represented by interest for the discounting of the redundancy fund, recognised in the financial statements under item 190a "Personnel expenses";
  - charges of EUR 0.4 mln, relating to project initiatives also aimed at complying with the commitments undertaken with DG Comp, accounted for in the financial statements under item 190b "Other administrative expenses".
- Item "**Risks and charges associated with SRF, DGS and similar schemes**" includes expenses deriving from the EU Deposit Guarantee Schemes Directive (DGSD) and the Bank Recovery and Resolution Directive (BRRD), equivalent to EUR 67.8 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 15.7 mln.
- Item "**Net gains (losses) on property, plant and equipment and intangible assets measured at fair value**" includes the balance of financial statement item 260 "Net gains (losses) on property, plant and equipment and intangible assets measured at fair value".

- Item "**Gains (losses) on disposal of investments**" includes the balance of financial statement item 280 "Gains (losses) on disposal of investments".
- Item "**Tax expense (recovery)**" includes the balance of item 300 "Tax expense (recovery) on income from continuing operations" cleared of the theoretical tax component relating to the Purchase Price Allocation (PPA), which was reclassified to a specific item for an amount of EUR 0.5 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 -1.2 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 +0.5 mln which was added to the item).

Balance sheet data

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

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

- liability item "**Other liabilities**" includes item 50 "Change in value of macro-hedged financial liabilities", item 70 "Liabilities associated with discontinued operations" and 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 period".

Reclassified income statement

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.

Reclassified Consolidated Income Statement				
MONTEPASCHI GROUP	31 03 2021	31 03 2020	Change	
			Abs.	%
Net interest income	279.6	327.1	(47.5)	-14.5%
Net fee and commission income	372.0	369.9	2.1	0.6%
Income from banking activities	**651.6**	**697.0**	**(45.4)**	**-6.5%**
Dividends, similar income and gains (losses) on investments	21.2	11.8	9.4	79.7%
Net profit (loss) from trading, from financial assets/liabilities measuerd at fair value and Net profit (loss) on disposals/repurchases	159.8	29.9	129.9	n.m.
Net profit (loss) from hedging	1.6	(2.8)	4.4	n.m.
Other operating income (expenses)	(10.7)	(6.5)	(4.2)	64.6%
Total Revenues	**823.5**	**729.4**	**94.1**	**12.9%**
Administrative expenses:	(492.9)	(493.0)	0.1	0.0%
a) personnel expenses	(360.1)	(356.7)	(3.5)	1.0%
b) other administrative expenses	(132.7)	(136.3)	3.6	-2.6%
Net value adjustments to property, plant and equipment and intangible assets	(47.5)	(51.0)	3.5	-6.9%
Operating expenses	**(540.4)**	**(544.0)**	**3.6**	**-0.7%**
Pre-Provision Operating Profit	**283.1**	**185.4**	**97.7**	**52.7%**
Cost of customer credit	**(76.7)**	**(314.5)**	**237.8**	**-75.6%**
Net impairment (losses)/reversals on securities and loans to banks	**(3.7)**	**(1.1)**	**(2.6)**	**n.m.**
Net operating income	**202.7**	**(130.2)**	**332.9**	**n.m.**
Net provisions for risks and charges	8.5	(40.1)	48.6	n.m.
Other gains (losses) on equity investment	(2.8)	0.2	(3.0)	n.m.
Restructuring costs / One-off costs	(0.1)	2.6	(2.7)	n.m.
Risks and charges associated to the SRF, DGS and similar schemes	(67.8)	(58.3)	(9.5)	16.3%
DTA Fee	(15.7)	(17.8)	2.1	-11.7%
Net gains (losses) on property, plant and equipment and intangible assets measured at fair value	(27.8)	4.0	(31.8)	n.m.
Gains (losses) on disposal of investments	17.0	0.2	16.8	n.m.
Profit (Loss) for the period before tax	**114.0**	**(239.4)**	**353.4**	**n.m.**
Tax (expense)/recovery on income from continuing operations	6.1	1.6	4.5	n.m.
Profit (Loss) after tax	**120.1**	**(237.8)**	**358.0**	**n.m.**
Net profit (loss) for the period including non-controlling interests	**120.1**	**(237.8)**	**358.0**	**n.m.**
Net profit (loss) attributable to non-controlling interests	(0.1)	-	(0.1)	n.m.
Parent Company's Profit (loss) for the period before PPA	**120.2**	**(237.8)**	**358.1**	**n.m.**
PPA (Purchase Price Allocation)	(0.9)	(1.1)	0.2	-17.6%
Parent company's net profit (loss) for the period	**119.3**	**(239.0)**	**358.3**	**n.m.**

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

Quarterly trend in reclassified consolidated income statement					
MONTEPASCHI GROUP	**2021**	**2020***			
	1°Q 2021	**4°Q 2020**	**3°Q 2020**	**2°Q 2020**	**1°Q 2020**
Net interest income	279.6	311.9	331.8	319.8	327.1
Net fee and commission income	372.0	380.4	355.4	324.4	369.9
Income from banking activities	**651.6**	**692.3**	**687.3**	**644.1**	**697.0**
Dividends, similar income and gains (losses) on investments	21.2	43.5	11.2	34.5	11.8
Net profit (loss) from trading, from financial assets/liabilities measuerd at fair value and Net profit (loss) on disposals/repurchases	159.8	(10.2)	61.7	62.2	29.9
Net profit (loss) from hedging	1.6	1.6	0.5	3.3	(2.8)
Other operating income (expenses)	(10.7)	(10.1)	(12.9)	(21.0)	(6.5)
Total Revenues	**823.5**	**717.1**	**747.7**	**723.1**	**729.4**
Administrative expenses:	(492.9)	(514.7)	(490.6)	(480.2)	(493.0)
a) personnel expenses	(360.1)	(355.2)	(352.0)	(351.2)	(356.7)
b) other administrative expenses	(132.7)	(159.5)	(138.5)	(129.0)	(136.3)
Net value adjustments to property, plant and equipment and intangible assets	(47.5)	(50.9)	(51.4)	(52.9)	(51.0)
Operating expenses	**(540.4)**	**(565.6)**	**(542.0)**	**(533.1)**	**(544.0)**
Pre-Provision Operating Profit	**283.1**	**151.5**	**205.7**	**190.0**	**185.4**
Cost of customer credit	**(76.7)**	**(126.6)**	**(101.7)**	**(204.8)**	**(314.5)**
Net impairment (losses)/reversals on securities and loans to banks	**(3.7)**	**1.2**	**(1.1)**	**(4.4)**	**(1.1)**
Net operating income	**202.7**	**26.1**	**102.9**	**(19.2)**	**(130.2)**
Net provisions for risks and charges	8.5	(216.2)	(410.7)	(317.0)	(40.1)
Other gains (losses) on equity investment	(2.8)	1.7	0.4	0.5	0.2
Restructuring costs / One-off costs	(0.1)	(25.1)	(100.7)	(30.4)	2.6
Risks and charges associated to the SRF, DGS and similar schemes	(67.8)	(22.7)	(41.0)	(18.4)	(58.3)
DTA Fee	(15.7)	(17.8)	(17.8)	(17.7)	(17.8)
Net gains (losses) on property, plant and equipment and intangible assets measured at fair value	(27.8)	(28.9)	(3.1)	0.4	4.0
Gains (losses) on disposal of investments	17.0	53.9	0.3	(0.9)	0.2
Profit (Loss) for the period before tax	**114.0**	**(229.0)**	**(469.6)**	**(402.7)**	**(239.4)**
Tax (expense)/recovery on income from continuing operations	6.1	75.8	20.0	(439.0)	1.6
Profit (Loss) after tax	**120.1**	**(153.2)**	**(449.6)**	**(841.7)**	**(237.8)**
Net profit (loss) for the period including non-controlling interests	**120.1**	**(153.2)**	**(449.6)**	**(841.7)**	**(237.8)**
Net profit (loss) attributable to non-controlling interests	(0.1)	-	-	(0.1)	-
Parent Company's Profit (loss) for the period before PPA	**120.2**	**(153.2)**	**(449.6)**	**(841.6)**	**(237.8)**
PPA (Purchase Price Allocation)	(0.9)	(1.3)	(1.1)	(0.9)	(1.1)
Parent company's net profit (loss) for the period	**119.3**	**(154.5)**	**(450.6)**	**(842.4)**	**(239.0)**

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

Revenue trends

As at 31 March 2021, the Group achieved total **Revenues** of **EUR 824 mln**, up 12.9% compared to the same period of last year.

This trend can basically be linked to growth in Other revenues from banking business, particularly the Net profit (loss) from trading, the fair value measurement of assets/liabilities and gains from disposals/repurchases, which benefitted from higher profits from the sale of securities. Net interest income was down year on year primarily due to the lower contribution of the non-performing portfolio specifically due to the deconsolidation of the "Hydra M" portfolio in late 2020, as well as the decline in returns on assets due to interest rate trends and the recomposition of exposures, with a reduction in the demand and short-term components and growth in the medium/long-term component. On the other hand, Net Interest Income benefited from the positive effects linked to access to the TLTRO3 auctions, although partially offset by the cost of higher deposits at central banks. Net fees and commissions were up compared to the same period of the previous year, primarily due to higher income from asset management, particularly on product placement. On the other hand, Other operating income/expense deteriorated.

Also in the comparison with the previous quarter, there was growth in Revenues of EUR 106 mln, mainly due to higher profits from the sale of securities, which more than offset the decline in Primary Banking Income.

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

SEGMENT REPORTING	Operating Segments						Corporate Center		Total Montepaschi Group	
Primary segment	Retail banking		Wealth Management		Corporate banking					
(EUR mln)	31/03/21	Chg % Y/Y	31/03/21	Chg % Y/Y	31/03/21	Chg % Y/Y	31/03/21	Chg % Y/Y	31/03/21	Chg % Y/Y
PROFIT AND LOSS AGGREGATES										
Net interest income	139.8	-35.5%	0.1	-87.5%	91.5	-10.8%	48.2	n.m.	279.6	-14.5%
Net fee and commission income, of which	290.9	-0.5%	31.0	7.9%	73.1	-0.9%	(23.1)	-8.2%	372.0	0.6%
Fee and commission income	*310.3*	0.3%	*31.3*	7.6%	*86.8*	0.0%	*(6.3)*	n.m.	*422.1*	*-0.2%*
Fee and commission expense	*(19.4)*	14.8%	*(0.3)*	-17.7%	*(13.7)*	5.3%	*(16.8)*	-26.0%	*(50.1)*	*-5.3%*
Other Revenues from Banking and Insurance Business	17.4	74.4%	4.7	73.9%	18.1	n.m.	142.4	n.m.	182.6	n.m.
Other operating expenses/income	(5.1)	79.8%	(0.2)	n.m.	(0.8)	-46.5%	(4.6)	n.m.	(10.7)	64.6%
Total Revenue	443.1	-14.2%	35.7	9.6%	181.9	21.3%	162.9	n.m.	823.5	12.9%

Net Interest Income amounted to **EUR 280 mln** as at 31 March 2021, down 14.5% compared to the same period of 2020. The decline was driven (i) primarily by the lower contribution of the non-performing portfolio specifically due to the deconsolidation of the "Hydra M" portfolio in late 2020, as well as (ii) the higher cost of institutional funding linked to the issues carried out in the second half of 2020, (iii) the lower contribution of the BMPS securities portfolio, also following sales made in the course of 2020 which continued in 2021, (iv) the negative contribution of hedging derivatives and (v) the decline in returns due to interest rate trends and the recomposition of exposures, with a reduction in the demand and short-term components and growth in the medium/long-term component. On the other hand, Net Interest Income benefited from the lower cost of commercial funding and the positive effects linked to access to the TLTRO3 auctions for a total of EUR 60 mln, although partially offset by the cost of higher deposits at central banks of approximately EUR 27 mln.

Net interest income in 1Q21 was down compared to the previous quarter (-10.4%) primarily due to the lower contribution of the non-performing portfolio specifically due to the above-mentioned deconsolidation of the "Hydra M" portfolio, as well as the decline in returns on assets due to interest rate trends and the further recomposition of exposures, with a reduction in the demand and short-term components and growth in the medium/long-term component. In 1Q21, Net interest income also incorporated on one hand the reduction in the cost of customer funding linked to the reduction in volumes as well as lower rates, and on the other hand a further increase in the cost of deposits at central banks.

Items	31 03 2021	31 03 2020	Chg. Y/Y		1°Q 2021	4°Q 2020	Chg. Q/Q	
			Abs.	%			Abs.	%
Loans to customers measured at amortised cost	300.9	348.1	(47.2)	-13.6%	300.9	320.9	(20.0)	-6.2%
Loans to banks measured at amortised cost	29.1	(7.3)	36.4	n.m.	29.1	33.8	(4.7)	-14.0%
Government securities and other issuer measured at amortised cost	31.1	37.9	(6.8)	-17.9%	31.1	35.9	(4.8)	-13.4%
Securities issued	(89.2)	(82.3)	(6.9)	8.4%	(89.2)	(88.9)	(0.3)	0.3%
Net Differentials on hedging derivatives	(13.1)	1.3	(14.4)	n.m.	(13.1)	(7.2)	(5.9)	81.9%
Trading portfolios	6.0	9.5	(3.5)	-36.8%	6.0	6.6	(0.6)	-9.1%
Portfolios measured at fair value	1.1	1.0	0.1	10.0%	1.1	1.8	(0.7)	-38.9%
Financial assets measured at fair value through other comprehensive income	12.5	17.1	(4.6)	-26.9%	12.5	4.3	8.2	n.m
Other net interest income	1.2	1.8	(0.6)	-33.3%	1.2	4.7	(3.5)	-74.5%
Net interest income	**279.6**	**327.1**	**(47.5)**	**-14.5%**	**279.6**	**311.9**	**(32.3)**	**-10.4%**
of which: interest income on impaired financial assets	*14.4*	*44.0*	*(29.6)*	*-67.3%*	*14.4*	*32.9*	*(18.5)*	*-56.2%*

Net fee and commission income in the first quarter of 2021, totalling **EUR 372 mln**, posted an improvement of +0.6% compared to the same period of the previous year. The increase is linked to higher income from asset management (+8.3%), particularly on product placement, and the improvement in other net fee and commission income, due to the elimination of the cost of the state guarantee following the repayment of Guaranteed Government Bonds that took place in 1Q20. Instead, commissions on loans decreased (-12.3%) due to lower fees on brokered loans and commissions from services (-6.1%).

The contribution of the first quarter of 2021 was down in the comparison with the previous quarter (-2.2%). In particular, there was a significant increase in fees and commissions on asset management (+16.2%), with income from product placement recording +51.0% thanks to growth in gross managed flows. Instead, Fees from traditional banking services and Other net fees and commissions were down.

Services/value	31 03 2021	31 03 2020	Change Y/Y		1°Q 2021	4°Q 2020	Change Y/Y	
			abs.	%			abs.	%
Assets under management fee	**188.0**	**173.6**	**14.4**	**8.3%**	**188.0**	**161.9**	**26.1**	**16.2%**
Product placement	70.1	63.0	7.1	11.3%	70.1	46.4	23.7	51.0%
Continuing fees	94.3	88.4	5.8	6.6%	94.3	91.0	3.3	3.6%
Placement of securities	10.7	10.4	0.3	2.9%	10.7	10.6	0.1	0.6%
Sales of Protection	13.0	11.8	1.2	9.9%	13.0	13.9	(0.9)	-6.6%
Fee and commisions from traditional activities	**207.2**	**227.6**	**(20.4)**	**-8.9%**	**207.2**	**221.5**	**(14.3)**	**-6.4%**
Credit fees	93.5	106.7	(13.1)	-12.3%	93.5	99.3	(5.7)	-5.8%
Fees from foreign service	12.0	12.7	(0.7)	-5.4%	12.0	11.4	0.6	5.1%
Other services	101.7	108.2	(6.6)	-6.1%	101.7	110.8	(9.1)	-8.3%
Other fee and commission income	**(23.2)**	**(31.3)**	**8.0**	**-25.7%**	**(23.2)**	**(2.9)**	**(20.3)**	**n.m.**
Net fees and commission income	**372.0**	**369.9**	**2.1**	**0.6%**	**372.0**	**380.4**	**(8.4)**	**-2.2%**

Dividends, similar income and gains (losses) on investments totalled **EUR 21 mln** and mainly include the contribution generated by the Bancassurance partnership with AXA.[11] The aggregate was up compared to 1Q20 (EUR +9 mln), which was negatively impacted by the effects of the Covid-19 pandemic in the financial markets, and worse than in the previous quarter (EUR -22 mln).

Net profit (loss) from trading, fair value measurement of assets/liabilities and gains on disposal/repurchase as at 31 March 2021 amounted to **EUR 160 mln**, an increase compared to the values recorded in the same period of the previous year (EUR +130 mln) and compared to the previous quarter (EUR +170 mln). The analysis of the main aggregates shows the following:

- **Net profit (loss) from trading amounting to EUR +14 mln was** up compared to 1Q20, which was penalised by tensions in the financial markets connected to the COVID-19 emergency.
  The contribution of 1Q21 is up by EUR 8 mln compared to the previous quarter, due to the higher contribution of the results of the subsidiary MPS Capital Services.
- **Net profit (loss) from financial assets/liabilities measured at fair value through profit and loss positive for EUR 19 mln,** up compared to the basically null contribution recorded in the same period of the previous year and also compared to the negative contribution of EUR 6 mln in 4Q20 thanks to capital gains on participating financial instruments, debt securities and UCITSs.
- **Gains on disposal/repurchase** (excluding loans to customers at amortised cost) **were positive for EUR 127 mln**, up compared to the same period of the previous year and the previous quarter, thanks to higher gains on sales of securities.

Items	31 03 2021	31 03 2020	Chg. Y/Y		1°Q 2021	4°Q 2020	Chg. Q/Q	
			Abs.	%			Abs.	%
Financial assets held for trading	(9.3)	(124.3)	115.0	-92.5%	(9.3)	(3.2)	(6.1)	n.m.
Financial liabilities held for trading	41.1	62.4	(21.3)	-34.1%	41.1	(28.4)	69.5	n.m.
Exchange rate effects	1.3	5.2	(3.9)	-75.0%	1.3	10.0	(8.7)	-87.0%
Derivatives	(19.2)	34.9	(54.1)	n.m.	(19.2)	27.6	(46.8)	n.m.
Trading results	**13.9**	**(21.8)**	**35.7**	**n.m.**	**13.9**	**6.0**	**7.9**	**n.m.**
Net profit (loss) from financial assets and liabilities measured at fair value through profit or loss	19.0	0.1	18.9	n.m.	19.0	(6.3)	25.3	n.m.
Disposal / repurchase (excluding loans to customers measured at amortised cost)	126.9	51.6	75.3	n.m.	126.9	(9.9)	136.8	n.m.
Net profit (loss) from trading, financial assets and liabilities measured at fair value and gains/losses from disposals/ purchases	**159.8**	**29.9**	**129.9**	**n.m.**	**159.8**	**(10.2)**	**170.0**	**n.m.**

The following items are also included in Revenues:

- **Net profit (loss) from hedging equal to EUR +2 mln,** an increase compared to 1Q20 (EUR -3 mln) and stable compared to the previous quarter;
- **Other operating income/expense, totalling a negative EUR 11 mln,** deteriorated compared to the result recorded in 1Q20 (equal to EUR -7 mln) and was basically aligned with the previous quarter (equal to EUR -10 mln).

Operating expenses

As at 31 March 2021, **operating expenses** totalled **EUR 540 mln**, down -0.7% from 1Q20 and compared to the previous quarter (-4.5%). A closer look at the individual aggregates reveals the following:

- **Administrative expenses** were **EUR 493 mln**, substantially stable compared to the same period of the previous year and down by around EUR 22 mln from 4Q20. A breakdown of the aggregate shows:

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

- **Personnel expenses**, amounting to **EUR 360 mln**, increased by 1.0% compared to the same period of the previous year, despite the decline in headcount (linked - primarily - to the 560 terminations relating to the Solidarity Fund recorded between 1 November 2020 and 1 January 2021), in relation to contractual increases deriving from the renewal of the national collective labour agreement and the elimination of savings resulting from the failure to renew the trade union agreement. The aggregate was also up compared to 4Q20 (+1.4%), primarily due to the above-mentioned contractual increases deriving from the renewal of the national collective labour agreement and the lack of savings linked to the expiry of solidarity initiatives, offset in part by the lower cost ensuing from the 4Q20 early retirement plan.
- **Other administrative expenses**, which amounted to **EUR 133 mln**, were down by 2.6% compared to the same period of the previous year and by around 16.8% compared to 4Q20, impacted by the typical acceleration in expenses at year end.

- **Net value adjustments to property, plant and equipment and intangible assets** as at 31 March 2021 totalled **EUR 48 mln**, a deterioration compared to the same period of the previous year (-6.9%) as well as the previous quarter (-6.7%), also due to the effects of the introduction of the fair value measurement of properties.

Type of transaction	31 03 2021	31 03 2020*	Chg Y/Y		1°Q 2021	4°Q 2020	Chg Q/Q	
			Abs.	%			Abs.	%
Wages and salaries	(261.1)	(254.8)	(6.3)	2.5%	(261.1)	(252.3)	(8.8)	3.5%
Social-welfare charges	(71.3)	(69.7)	(1.6)	2.3%	(71.3)	(66.9)	(4.4)	6.6%
Other personnel expenses	(27.7)	(32.2)	4.4	-13.8%	(27.7)	(36.0)	8.2	-22.9%
Personnel expenses	**(360.1)**	**(356.7)**	**(3.5)**	**1.0%**	**(360.1)**	**(355.2)**	**(5.0)**	**1.4%**
Taxes	(56.6)	(59.6)	3.0	-5.0%	(56.6)	(46.8)	(9.8)	20.9%
Furnishing, real estate and security expenses	(18.8)	(19.3)	0.5	-2.6%	(18.8)	(18.3)	(0.5)	2.7%
General operating expenses	(53.3)	(55.1)	1.8	-3.3%	(53.3)	(40.4)	(12.9)	31.9%
Information technology expenses	(31.3)	(27.4)	(3.9)	14.2%	(31.3)	(41.3)	10.0	-24.2%
Legal and professional expenses	(15.4)	(21.3)	5.9	-27.7%	(15.4)	(57.4)	42.0	-73.2%
Indirect personnel costs	(0.8)	(1.6)	0.8	-50.0%	(0.8)	(1.4)	0.6	-42.9%
Insurance	(11.1)	(9.3)	(1.8)	19.4%	(11.1)	(14.9)	3.8	-25.5%
Advertising, sponsorship and promotions	(0.8)	(1.2)	0.4	-33.3%	(0.8)	(2.0)	1.2	-60.0%
Other	(3.2)	(3.4)	0.2	-4.7%	(3.2)	(0.6)	(2.7)	n.m.
Expenses recovery	58.6	61.9	(3.3)	-5.3%	58.6	63.6	(5.0)	-7.9%
Other administrative expenses	**(132.7)**	**(136.3)**	**3.6**	**-2.6%**	**(132.7)**	**(159.5)**	**26.7**	**-16.8%**
Property, plant and equipment	(30.8)	(32.9)	2.1	-6.4%	(30.8)	(32.5)	1.7	-5.1%
Intangible assets	(16.7)	(18.1)	1.4	-7.7%	(16.7)	(18.5)	1.8	-9.6%
Net value adjustments to property, plant and equipment and intangible assets	**(47.5)**	**(51.0)**	**3.5**	**-6.9%**	**(47.5)**	**(50.9)**	**3.4**	**-6.7%**
Operating expenses	**(540.4)**	**(544.0)**	**3.6**	**-0.7%**	**(540.4)**	**(565.6)**	**25.2**	**-4.5%**

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

As a result of these trends, the Group's **Gross Operating Income** totalled **EUR 283 mln** (EUR 185 mln as at 31 March 2020), up by around EUR 132 mln compared to the previous quarter.

Cost of customer credit

As at 31 March 2021, the Group accounted for a **Cost of customer credit**, equal to **EUR -77 mln**, down by EUR 238 mln compared to the same period of the previous year (EUR 315 mln), which included a roughly EUR 193 mln increase in adjustments deriving from the changed macroeconomic scenario triggered by the spread of the COVID-19 pandemic. Also excluding this effect, the aggregate was down in any event compared to 1Q20 primarily due to the elimination of adjustments on the positions in the "Hydra M" portfolio, deconsolidated at the end of 2020.
The cost of customer credit in the first quarter of 2021 was also down compared to the previous quarter, which included a EUR 48 mln increase in adjustments deriving from the updated macroeconomic scenario. Net of this component, the cost is stable.

The ratio between the Cost of customer credit, annualised linearly, and Loans to customers as at 31 March 2021 reflects a **Provisioning** Rate **of 37 bps** (90 bps as at 31 December 2020).

	31 03 2021	31 03 2020	Chg. Y/Y		1°Q 2021	4°Q 2020	Chg. Q/Q	
			Abs.	%			Abs.	%
Loans to customers measured at amortised cost	(73.5)	(319.5)	246.0	-77.0%	(73.5)	(114.9)	41.4	-36.0%
Modification gains/(losses)	(4.4)	(1.0)	(3.4)	n.m.	(4.4)	(14.3)	9.9	-69.2%
Gains/(losses) on disposal/repurchase of loans to customers measured at amortised cost	(0.1)	0.3	(0.4)	n.m.	(0.1)	(1.5)	1.4	-93.4%
Net change of Loans to customers mandatorily measured at fair value	(4.8)	2.2	(7.0)	n.m.	(4.8)	(5.5)	0.7	-12.7%
Net provision for risks and charges on commitments and guarantees issued	6.1	3.5	2.6	74.3%	6.1	9.6	(3.5)	-36.5%
Adjustments to cost of customer credit	**(76.7)**	**(314.5)**	**237.8**	**-75.6%**	**(76.7)**	**(126.6)**	**49.9**	**-39.4%**

The Group's **Net Operating Income** as at 31 March 2021 was **positive for approximately EUR 203 mln**, compared to a negative value of EUR 130 mln in the same period of the previous year and a positive value of EUR 26 mln in 4Q20.

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

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

- **Net provisions for risks and charges were** positive by roughly **EUR +9 mln,** an improvement compared to the same period of the previous year (EUR -40 mln) due to the reduction in provisions for legal risks. It also improved compared to 4Q20 due to lower provisions for legal risks and guarantees linked to receivables assignment transactions (EUR -216 mln).
- **Other gains (losses) on investments** of approx. **EUR -3 mln**, against a gain of EUR 0.2 mln in the same period of the previous year and a gain of EUR +2 mln recorded in 4Q20.
- **Restructuring costs/One-off charges,** of EUR **-0.1 mln,** a deterioration compared to a positive EUR 3 mln recorded in the same period of the previous year, mainly due to the positive effects linked to the definition of the price adjustment on the sale of BMP Belgio S.A. On the other hand, the aggregate improved compared to 4Q20 (equal to EUR -25 mln), which included expenses (interest, fees and commissions and other administrative expenses) relating to the non-proportional demerger plan with asymmetric option of a set of non-performing loans in favour of AMCO.
- **Risks and charges associated with SRF, DGS and similar schemes**, amounting to **EUR -68 mln**, comprised of the contribution due from the Group to the Single Resolution Fund (SRF), up compared to the balance recorded in the same period of the previous year following the increase in deposit volumes.
- **DTA fee**, amounting to **EUR -16 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 2021 on DTA (Deferred Tax Assets) that can be converted into a tax credit.

- **Profit (loss) from the fair value measurement of property, plant and equipment and intangible assets, *equal to roughly* EUR -28 mln** includes the write-down on owned properties for business use (pursuant to IAS 16), in application of the new valuation approach applied to the Group's property assets.
- Gains (losses) on disposal of investments of EUR 17 mln related to the sale of property. As at 31 March 2020, the aggregate was positive for EUR 0.2 mln.

Due to the changes discussed above, the Group's **Profit before tax for the period** stood at **EUR 114 mln**, compared to 31 March 2020, which recorded a loss of EUR 239 mln.

Tax expense (recovery) on income from continuing operations recorded a positive contribution of **EUR 6 mln** (equal to EUR 2 mln as at 31 March 2020) attributable primarily to the valuation of DTAs, determined in continuity with the Financial Statements as at 31 December 2020.

Specifically, note that the estimate of taxable income of future years was determined on the basis of the same income projections used for the 2020 Financial Statements, as the new 2021-2025 Strategic Plan, approved by the Board of Directors on 17 December 2020, has not yet been approved by the competent authorities.

Considering the net effects of the PPA (EUR -0.9 mln), the Parent Company's **Profit for the period amounted to EUR 119 mln**, compared to a loss of EUR -239 mln in the same period of 2020.

Reclassified balance sheet

Please note that starting from February 2020, the financial statement data are influenced by the effects linked to the health crisis still under way.

Reclassified Balance Sheet

Assets	31 03 2021	31 12 2020*	Chg abs.	Chg %
Cash and cash equivalents	550.3	763.8	(213.5)	-28.0%
Loans to central banks	26,116.9	28,526.3	(2,409.4)	-8.4%
Loans to banks	4,278.4	5,452.3	(1,173.9)	-21.5%
Loans to customers	82,259.0	82,632.3	(373.3)	-0.5%
Securities assets	22,562.1	21,623.3	938.8	4.3%
Derivatives	2,757.5	3,018.6	(261.1)	-8.6%
Equity investments	1,069.2	1,107.5	(38.3)	-3.5%
Property, plant and equipment/Intangible assets	2,784.5	2,520.1	264.4	10.5%
of which:				
a) goodwill	*7.9*	*7.9*	-	0.0%
Tax assets	1,919.8	1,991.5	(71.7)	-3.6%
Other assets	2,361.1	2,709.6	(348.5)	-12.9%
Total assets	**146,658.8**	**150,345.3**	**(3,686.5)**	**-2.5%**

Liabilities	31 03 2021	31 12 2020*	Chg abs.	Chg %
Direct funding	99,053.6	103,719.3	*(4,665.7)*	*-4.5%*
a) Due to customers	87,124.1	91,506.9	(4,382.8)	-4.8%
b) Securities issued	11,929.5	12,212.4	*(282.9)*	*-2.3%*
Due to central banks	26,373.1	23,933.6	2,439.5	10.2%
Due to banks	3,816.4	4,484.5	(668.1)	-14.9%
On-balance-sheet financial liabilities held for trading	3,179.5	4,545.5	(1,366.0)	-30.1%
Derivatives	2,759.0	3,253.5	*(494.5)*	*-15.2%*
Provisions for specific use	2,011.3	2,059.2	(47.9)	-2.3%
a) Provision for staff severance indemnities	164.2	166.6	(2.4)	-1.4%
b) Provision related to guarantees and other commitments given	147.1	154.1	(7.0)	-4.5%
c) Pension and other post-retirement benefit obligations	32.3	33.0	(0.7)	-2.1%
d) Other provisions	1,667.7	1,705.5	(37.8)	-2.2%
Tax liabilities	8.1	4.1	4.0	97.6%
Other liabilities	3,451.0	2,572.4	878.6	34.2%
Group net equity	6,005.4	5,771.9	233.5	4.0%
a) Valuation reserves	367.6	260.9	106.7	40.9%
d) Reserves	(3,415.8)	(1,683.8)	(1,732.0)	n.m.
f) Share capital	9,195.0	9,195.0	-	0.0%
g) Treasury shares (-)	(260.7)	(313.7)	53.0	-16.9%
h) Net profit (loss) for the period	119.3	(1,686.5)	1,805.8	n.m.
Non-controlling interests	1.4	1.3	0.1	7.7%
Total Liabilities and Shareholders' Equity	**146,658.8**	**150,345.3**	**(3,686.5)**	**-2.5%**

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

Reclassified Balance Sheet - Quarterly Trend

Assets	31 03 2021	31 12 2020*	30 09 2020*	30 06 2020*	31 03 2020*
Cash and cash equivalents	550.3	763.8	662.4	679.9	611.2
Loans to central banks	26,116.9	28,526.3	18,679.7	15,037.8	8,109.5
Loans to banks	4,278.4	5,452.3	4,934.9	5,757.3	4,938.8
Loans to customers	82,259.0	82,632.3	87,098.7	82,510.6	82,206.1
Securities assets	22,562.1	21,623.3	23,024.6	25,569.4	26,006.3
Derivatives	2,757.5	3,018.6	3,023.0	3,129.1	3,233.8
Equity investments	1,069.2	1,107.5	991.8	953.9	892.0
Property, plant and equipment/Intangible assets	2,784.5	2,520.1	2,536.2	2,560.4	2,825.6
of which:					
a) goodwill	*7.9*	*7.9*	*7.9*	*7.9*	*7.9*
Tax assets	1,919.8	1,991.5	2,114.0	2,196.0	2,767.9
Other assets	2,361.1	2,709.6	3,209.6	3,255.7	2,668.8
Total assets	**146,658.8**	**150,345.3**	**146,274.9**	**141,650.1**	**134,260.0**

Liabilities	31 03 2021	31 12 2020*	30 09 2020*	30 06 2020*	31 03 2020*
Direct funding	99,053.6	103,719.3	98,418.1	97,585.2	95,367.2
a) Due to customers	87,124.1	91,506.9	86,827.3	86,139.8	83,680.4
b) Securities issued	11,929.5	12,212.4	11,590.8	11,445.4	11,686.8
Due to central banks	26,373.1	23,933.6	23,994.9	21,330.6	15,997.9
Due to banks	3,816.4	4,484.5	4,733.6	4,853.9	4,752.1
On-balance-sheet financial liabilities held for trading	3,179.5	4,545.5	3,122.2	2,192.1	2,407.1
Derivatives	2,759.0	3,253.5	3,293.9	3,419.2	3,174.4
Provisions for specific use	2,011.3	2,059.2	1,942.4	1,570.9	1,310.3
a) Provision for staff severance indemnities	164.2	166.6	182.1	180.3	166.4
b) Provision related to guarantees and other commitments given	147.1	154.1	153.0	152.6	155.3
c) Pension and other post-retirement benefit obligations	32.3	33.0	33.1	34.0	35.2
d) Other provisions	1,667.7	1,705.5	1,574.2	1,204.0	953.4
Tax liabilities	8.1	4.1	3.0	3.0	3.3
Other liabilities	3,451.0	2,572.4	4,001.0	3,541.4	3,327.7
Group net equity	6,005.4	5,771.9	6,764.5	7,152.4	7,918.3
a) Valuation reserves	367.6	260.9	153.5	35.2	(41.5)
d) Reserves	(3,415.8)	(1,683.8)	(1,871.9)	(1,816.3)	(1,816.2)
f) Share capital	9,195.0	9,195.0	10,328.6	10,328.6	10,328.6
g) Treasury shares (-)	(260.7)	(313.7)	(313.7)	(313.7)	(313.7)
h) Net profit (loss) for the period	119.3	(1,686.5)	(1,532.0)	(1,081.4)	(239.0)
Non-controlling interests	1.4	1.3	1.3	1.4	1.7
Total Liabilities and Shareholders' Equity	**146,658.8**	**150,345.3**	**146,274.9**	**141,650.1**	**134,260.0**

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

Customer funding

The Group's Total Funding as at **31 March 2021** amounted to **EUR 203.5 bn**, with a decrease in volumes of EUR 2.3 bn compared to 31 December 2020, due to the decrease in Direct Funding (EUR -4.7 bn), only partially offset by the increase in Indirect Funding (EUR +2.4 bn). The aggregate was instead up compared to 31 March 2020 (EUR +19.0 bn), mainly due to the increase in Indirect Funding (EUR +15.3 bn).

Background

In the first quarter of 2021, the continuation of the health crisis, uncertainties surrounding the expected economic recovery and the continuation of low interest rates kept household propensity to save (which rose above 15% in 2020) high and maintaining private sector preference for liquidity; at the same time, good financial market performance and some improvements in the climate of confidence favoured investments in certain asset management products such as equity mutual funds and unit-linked policies. The upward trend in bank deposits (+12% Y/Y) appears to have significantly accelerated in the first two months of the year, with the decisive driver being current accounts, up by roughly 15% (equal to just over EUR 170 bn); the increase in deposits redeemable at notice was more limited (around +2.5%) while the downturn in the time component accentuated. Household deposits rose by more than EUR 88 bn in twelve months (+8% Y/Y) and, also at this start of the year, they are continuing on that path, highlighting the emergence of a sort of forced saving caused by consumption restrictions concentrated within households less impacted by the pandemic. For non-financial companies, governmental support measures and the decline in investments caused a significant increase in deposits in percentage terms (roughly +25% Y/Y) although the stock was down in February compared to December 2020. The decrease in bank bonds continues, down by EUR 5 bn in the first two months of the year and by more than 11% on a yearly basis, also as a result of the abundant availability of resources accessible via the Eurosystem; in the first quarter, bank bond yields in the secondary market remained basically unchanged, at very low levels (1.2%).

As concerns interest rates, those on deposits of non-financial companies and households were at 0.33% in February, the same level as at the end of 2020; indeed, the interest rate on current accounts has stabilised at 0.03% and on time deposits, it remained just over 1%. The rate on the stock of bonds continued its downward trend, falling to 1.87%, 7 bps lower than last December. In the financial markets, substantial stability just above 50 bps was seem in CDS premiums relating to major Italian banks.

With reference to asset management, net funding from mutual funds was positive, in the first two months of the year, by roughly EUR 6.5 bn, a result in line with trends seen in the second half of 2020; the good performance of equity and balanced products continues, as does the negative performance of flexible products. Net flows on individual retail portfolio management remained positive (more than EUR 800 mln in two months), while new savings policy business reduced by 5% per year in the first two months of 2021: indeed, the significant decline in traditional products was not offset by the recovery in unit-linked products.

Customer Funding							
				Chg Q/Q		Chg Y/Y	
	31/03/21	31/12/20	31/03/20	Abs.	%	Abs.	%
Direct funding	99,053.6	103,719.3	95,367.2	(4,665.7)	-4.5%	3,686.4	3.9%
Indirect funding	104,440.5	102,067.3	89,139.5	2,373.2	2.3%	15,301.1	17.2%
Total funding	**203,494.1**	**205,786.6**	**184,506.7**	**(2,292.5)**	**-1.1%**	**18,987.5**	**10.3%**

Volumes of **Direct Funding** stood at **EUR 99.1 bn**, with a decrease of EUR 4.7 bn compared to the end of December 2020. The decrease is primarily linked to a decline in repurchase transactions (EUR -3.0 bn), but time deposits (EUR -0.8 bn), current accounts (EUR -0.5 bn), the bond sector (EUR -0.3 bn) and Other forms of funding (EUR -0.1 bn) were down as well. In particular, for time deposits and current accounts, trends were impacted by the actions deployed by the Parent Company to reduce rates recognised to customers, primarily corporate.

The aggregate was up by EUR 3.7 bn compared to the end of March 2020, primarily due to growth in Current Accounts (EUR +8.2 bn), witnessed in light of the spread of the COVID-19 emergency, offset only in part by the decline in repos (EUR -3.0 bn), Time deposits (EUR -1.4 bn) and Other forms of funding (EUR -0.3 bn). The bond segment was up (EUR +0.2 bn).

The Group's market share[12] on Direct Funding was 3.90% (figure updated in January 2021), down compared to December 2020 (3.93%).

Direct funding							
				Change Q/Q		Change Y/Y	
Type of transaction	31/03/21	31/12/20	31/03/20	Abs.	%	Abs.	%
Current accounts	67,459.2	67,988.7	59,299.3	(529.5)	-0.8%	8,159.9	13.8%
Time deposits	8,074.5	8,827.4	9,449.4	(752.9)	-8.5%	(1,374.9)	-14.6%
Reverse repurchase agreements	6,519.3	9,508.4	9,515.5	(2,989.1)	-31.4%	(2,996.2)	-31.5%
Bonds	11,929.5	12,212.4	11,686.8	(282.8)	-2.3%	242.9	2.1%
Other types of direct funding	5,071.1	5,182.4	5,416.2	(111.3)	-2.1%	(345.1)	-6.4%
Total	**99,053.6**	**103,719.3**	**95,367.2**	**(4,665.6)**	**-4.5%**	**3,686.6**	**3.9%**

Indirect funding came to **EUR 104.4 bn**, up (EUR +2.4 bn) compared to 31 December 2020 for the Managed component (EUR +1.7 bn), which benefitted from positive net flows and a positive market effect, as well as the component under Custody (EUR +0.7 bn), which benefitted from a positive market effect.

In the comparison with 31 March 2020, there was growth in Indirect Funding of EUR 15.3 bn due to growth in Asset Management (EUR +7.6 bn) as well as Assets under Custody (EUR +7.7 bn), which benefitted from positive net flows and the positive market effect. Last year, indirect funding volumes were influenced by negative financial market trends and the sharp reduction in placement flows taking place progressively in March as a result of the spread of the COVID-19 pandemic. Furthermore, in 1Q20, Assets under Custody were also impacted by the withdrawal of shares deposited with the Parent Company by a large industrial group following that Group's organisational/corporate restructuring (these shares were withdrawn in 1Q20 and deposited again in 2Q20).

Indirect Funding							
	31/03/21	31/12/20	31/03/20	Change Q/Q		Change Y/Y	
				Abs.	%	Abs.	%
Assets under management	62,081.7	60,400.3	54,436.0	1,681.4	2.8%	7,645.7	14.0%
Mutual Funds/Sicav	*27,856.6*	*26,992.2*	*23,859.3*	*864.4*	*3.2%*	*3,997.4*	*16.8%*
Individual Portfolio under Management	*5,246.9*	*5,130.5*	*4,601.5*	*116.4*	*2.3%*	*645.4*	*14.0%*
Insurance Products	*28,978.2*	*28,277.5*	*25,975.2*	*700.6*	*2.5%*	*3,003.0*	*11.6%*
Assets under custody	42,358.8	41,667.0	34,703.5	691.8	1.7%	7,655.3	22.1%
Government bonds	*13,685.1*	*13,223.5*	*12,777.4*	*461.5*	*3.5%*	*907.7*	*7.1%*
Others	*28,673.7*	*28,443.5*	*21,926.1*	*230.2*	*0.8%*	*6,747.6*	*30.8%*
Total funding	**104,440.5**	**102,067.3**	**89,139.5**	**2,373.2**	**2.3%**	**15,301.1**	**17.2%**

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

Loans to customers

As at 31 March 2021, the Group's **Loans to Customers** amounted to **EUR 82.3 bn**, down EUR 0.4 bn compared to the end of December 2020, primarily as a result of the decrease in repo transactions (EUR -1.1 bn). Other loans (EUR -0.7 bn) and current accounts (EUR -0.1 bn) were also down, while mortgages were up (EUR +1.6 bn), also affected by the effect of the disbursements and the extension of moratoria granted under the government decrees issued following the COVID-19 emergency.

The aggregate was stable compared to 31 March 2020. The growth of EUR 7.2 bn in mortgages, also influenced by the above-mentioned disbursements and moratoria granted in connection with the government decrees issued following the COVID-19 emergency, and the increase in repo transactions (EUR +1.8 bn), were offset by the drop in current accounts (EUR -1.6 bn), Other loans (EUR -3.6 bn) and net non-performing loans (EUR -3.7 bn), the latter primarily due to the deconsolidation of the "Hydra M" portfolio in December 2020.

The Group's market share[13] stood at 4.49% (last available figure from January 2021), up 6 basis points from the end of 2020.

Background

In the first two months of the year, the expansion of bank lending continued, with a few minor signs of a slowdown. Support to household and business liquidity, favoured by the regulations approved in 2020 at the initiative of the government and in keeping with EU policies, continues to promote the disbursement of new loans and moratoria on existing ones. As at 26 March, moratoria were active on loans for a total value of around EUR 173 bn, relating to roughly 1.6 mln applicants, households and businesses; those for non-financial companies regard loans of around EUR 130 bn, the majority SMEs; roughly EUR 15 bn in loans were covered by moratoria at the initiative of the Italian Banking Association (ABI) and Assofin. Requests (nearly all accepted) for guarantees on new bank loans to micro, small and medium sized enterprises supported by the Guarantee Fund for SMEs exceeded EUR 152 bn; through SACE's 'Garanzia Italia', guaranteed loan volumes reached EUR 22.6 bn.
Annual growth in loans to the private sector, adjusted for derecognised loans assigned, came to around 4.5% in February. Lending to non-financial companies was up by around 7.5% on a yearly basis, a slight deceleration compared to the over 8% increase at the end of last year; demand, driven by manufacturing, remains high, reflecting the continuing scarcity of stocks as well as working capital. According to the results of surveys performed with businesses by ISTAT and the Bank of Italy relating to the first quarter of 2021, credit access conditions have remained relaxed on the whole across all sectors, although they have deteriorated slightly compared to the end of 2020 for the smallest companies. Loans to households continue to grow at an annual rate exceeding 2%, in line with trends of the component destined for the acquisition of homes, which is benefitting from some signs of recovery in residential market transactions: consumer credit has not recovered (-1.6% Y/Y) while loans for other purposes are supported by public guarantees.

With regard to interest rates, there was a further decline both for current loans to businesses, whose rate fell to 1.77% in February, and those to households, with the rate at 2.76%. On new transactions, the average rate for non-financial companies fell again to around 1.15% (level in line with what was recorded during lockdown last year), after surpassing 1.30% in the final months of 2020. For households, there was a limited rise in rates on home mortgages, which returned to 1.30%, also as a result of the increase in several reference parameters (medium/long-term IRS); the average interest rate remains above 6% for consumer credit and shows signs of a recovery on loans for other purposes (+28 bps in February compared to December 2020) as a result of the lower incidence of certain transactions provided under the support legislation.
In the absence of assignments, bad loans rose to a very limited extent (roughly EUR 300 mln between December 2020 and this February), benefitting from the effects of moratoria, the other support measures introduced as a result of the pandemic and the flexibility of rules on loan classification; net of assignments made over time, the aggregate was up by less than 2% per annum. According to ABI, the impact of bad loans, net of loss provisions, on bank loans fell to around 1.14% (from an average of 1.5% in the initial months of 2020). The flow of new non-performing loans remained at low levels, also benefitting from the natural delay in the effects of the deterioration in economic activity on credit quality; the most recent available figure (fourth quarter of 2020) however marks the return of the decay rate to above 1%.

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

Loans to customers

Type of transaction	31/03/21	31/12/20	31/03/20	Change Q/Q Abs.	Change Q/Q %	Change Y/Y Abs.	Change Y/Y %
Current accounts	2,935.1	3,038.5	4,552.2	(103.4)	-3.4%	(1,617.1)	-35.5%
Mortgages	56,750.8	55,200.2	49,548.5	1,550.6	2.8%	7,202.3	14.5%
Other forms of lending	12,924.8	13,616.3	16,549.6	(691.5)	-5.1%	(3,624.8)	-21.9%
Repurchase agreements	7,497.9	8,617.1	5,722.8	(1,119.2)	-13.0%	1,775.1	31.0%
Non performing loans	2,150.4	2,160.2	5,833.0	(9.8)	-0.5%	(3,682.6)	-63.1%
Total	**82,259.0**	**82,632.3**	**82,206.1**	**(373.3)**	**-0.5%**	**52.9**	**0.1%**
Stage 1	*65,194.8*	*65,449.2*	*63,694.9*	*(254.4)*	*-0.4%*	*1,499.9*	*2.4%*
Stage 2	*14,784.4*	*14,901.2*	*12,524.2*	*(116.8)*	*-0.8%*	*2,260.2*	*18.0%*
Stage 3	*2,133.7*	*2,138.7*	*5,768.3*	*(5.0)*	*-0.2%*	*(3,634.6)*	*-63.0%*
Performing loans measured at fair value	*129.5*	*121.8*	*154.0*	*7.7*	*6.3%*	*(24.5)*	*-15.9%*
Non performing loans measured at fair value	*16.6*	*21.4*	*64.7*	*(4.8)*	*-22.4%*	*(48.1)*	*-74.3%*

Loans to customers measured at amortised cost		Stage 1	Stage 2	Stage 3	**Total**
31 03 2021	Gross exposure	65,273.0	15,270.4	4,018.2	**84,561.6**
	Adjustments	78.2	486.0	1,884.5	**2,448.7**
	Net exposure	65,194.8	14,784.4	2,133.7	**82,112.9**
	Coverage ratio	*0.1%*	*3.2%*	*46.9%*	***2.9%***
	% on Loans to customers measured at amortised cost	*79.4%*	*18.0%*	*2.6%*	***100.0%***

Loans to customers measured at amortised cost		Stage 1	Stage 2	Stage 3	**Total**
31 12 2020	Gross exposure	65,524.1	15,419.4	3,940.6	**84,884.1**
	Adjustments	74.9	518.2	1,801.9	**2,395.0**
	Net exposure	65,449.2	14,901.2	2,138.7	**82,489.1**
	Coverage ratio	*0.1%*	*3.4%*	*45.7%*	***2.8%***
	% on Loans to customers measured at amortised cost	*79.3%*	*18.1%*	*2.6%*	***100.0%***

Loans to customers measured at amortised cost		Stage 1	Stage 2	Stage 3	**Total**
31 03 2020	Gross exposure	63,772.1	13,001.7	11,372.3	**88,146.1**
	Adjustments	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	*0.1%*	*3.7%*	*49.3%*	***7.0%***
	% on Loans to customers measured at amortised cost	*77.7%*	*15.3%*	*7.0%*	***100.0%***

Stage 1 loans, amounting to EUR 65.3 bn, recorded a decrease compared to 31 December 2020 (equal to EUR 65.5 bn) and an increase compared to 31 March 2020 (amounting to EUR 63.8 bn). Positions classified in stage 2, the gross exposure of which amounted to EUR 15.3 bn as at 31 March 2021, were stable compared to EUR 15.4 bn as at 31 December 2020 and up compared to EUR 13.0 bn as at 31 March 2020. The overall trend indeed shows substantial stability in the quality of the credit portfolio, with stage 3 basically flat compared to the end of 2020.

Non-performing exposures of loans to customers

Total Non-Performing Loans to Customers of the Group as at 31 March 2021 amounted to **EUR 4.1 bn** in terms of gross exposure, in line with 31 December 2020 (equal to EUR 4.0 bn) and down compared to 31 March 2020 (equal to EUR 11.6 bn). In particular, the gross exposure to Bad loans, equal to EUR 1.5 bn, was stable compared to 31 December 2020 and down by EUR 4.7 bn compared to 31 March 2020. The gross exposure to Unlikely to pay, equal to EUR 2.4 bn, was stable compared to 31 December 2020 and down by EUR 2.8 bn compared to 31 March 2020. Gross non-performing past due loans, amounting to EUR 122 mln, were up by EUR 46 mln compared to 31 December 2020 and down by EUR 4 mln compared to 31 March 2020. The trend compared to the values as at 31 March 2020 can be attributed primarily to the deconsolidation of "Hydra M" portfolio positions, with a gross exposure totalling EUR 7.1 bn.

As at 31 March 2021, the Group's **net exposure in terms of non-performing loans to customers** totalled **EUR 2.2 bn**, in line with 31 December 2020 and down compared to 31 March 2020 (EUR -3.7 bn). Also for the net exposure, the trend compared to the values as at 31 March 2020 can be attributed primarily to the deconsolidation of "Hydra M" portfolio positions, with a net exposure totalling EUR 3.5 bn.

The ratio between net non-performing loans to customers and total net loans to customers as at 31 March 2021 was 2.6%, in line with December 2020 (2.6%) and down compared to March 2020 (7.1%). In detail, Unlikely to pay loans went from 3.5% of total loans in March 2020 to 1.9% in December 2020 and 1.8% in March 2021; the incidence of Bad loans, equal to 0.7%, was unchanged compared to December 2020 and down compared to March 2020 (3.5%). The percentage of non-performing past due loans was 0.1%, stable compared to December 2020 as well as March 2020.

Loans to customers		Bad loans	Unlikely to pay	Non-performing Past due	**Total Non-performing loans to customers**	Perfoming loans	**Total**
31 03 2021	Gross exposure	1,544.0	2,424.2	121.5	**4,089.7**	80,673.0	**84,762.7**
	Adjustments	999.7	908.5	31.1	**1,939.3**	564.4	**2,503.7**
	Net exposure	544.3	1,515.7	90.4	**2,150.4**	80,108.6	**82,259.0**
	Coverage ratio	*64.7%*	*37.5%*	*25.6%*	***47.4%***	*0.7%*	***3.0%***
	% on Loans to customers	*0.7%*	*1.8%*	*0.1%*	***2.6%***	*97.4%*	***100.0%***
31 12 2020	Gross exposure	1,498.7	2,438.0	75.6	**4,012.3**	81,065.2	**85,077.5**
	Adjustments	933.7	897.4	21.0	**1,852.1**	593.1	**2,445.2**
	Net exposure	565.0	1,540.6	54.6	**2,160.2**	80,472.1	**82,632.3**
	Coverage ratio	*62.3%*	*36.8%*	*27.8%*	***46.2%***	*0.7%*	***2.9%***
	% on Loans to customers	*0.7%*	*1.9%*	*0.1%*	***2.6%***	*97.4%*	***100.0%***
31 03 2020	Gross exposure	6,264.8	5,182.2	125.4	**11,572.4**	76,927.8	**88,500.2**
	Adjustments	3,412.3	2,295.2	31.9	**5,739.4**	554.7	**6,294.1**
	Net exposure	2,852.5	2,887.0	93.5	**5,833.0**	76,373.1	**82,206.1**
	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%***

As at 31 March 2021**, the non-performing loan coverage ratio** was 47.4%, up compared to 31 December 2020 (equal to 46.2%). Specifically, the non-performing loan coverage ratio rose from 62.3% to 64.7% and that of Unlikely to pay rose from 36.8% to 37.5%. On the other hand, the non-performing past-due loans coverage ratio declined from 27.8% to 25.6%.

The non-performing loan coverage ratio instead recorded a decline compared to 31 March 2020 of 49.6%, primarily as a result of the deconsolidation of the "Hydra M" portfolio at the end of December 2020.

Change in gross exposures

abs/%		Bad loans	Unlikely to pay	Non performing past due	**Total Non-performing loans to customers**	Perfoming loams	**Total**
Q/Q	abs.	45.3	(13.8)	45.9	**77.4**	(392.2)	**(314.8)**
	%	3.0%	-0.6%	60.7%	**1.9%**	-0.5%	**-0.4%**
Y/Y	abs.	(4,720.8)	(2,758.0)	(3.9)	**(7,482.7)**	3,745.2	**(3,737.5)**
	%	-75.4%	-53.2%	-3.1%	**-64.7%**	4.9%	**-4.2%**

Changes in coverage ratios

	Bad loans	Ulikely to pay	Non performing past due	**Total Non-performing loans to customers**	Perfoming loams	**Total**
Q/Q	*2.4%*	*0.7%*	*-2.2%*	***1.3%***	*0.0%*	***0.1%***
Y/Y	*10.3%*	*-6.8%*	*0.2%*	***-2.2%***	*0.0%*	***-4.2%***

Trend of non-performing loans to customers	1°Q 2021		31 12 2020		4°Q 2020		31 03 2020		Chg. 1°Q 2021/4°Q2020 Non-performing loans to customers		Chg. Y/Y Non-performing loans to customers	
	Non performing loans to customers	*of which Bad loans*	Non performing loans to customers	*of which Bad loans*	Non performing loans to customers	*of which Bad loans*	Non performing loans to customers	*of which Bad loans*	Abs.	%	Abs.	%
Gross exposure, opening balance	**4,012.3**	***1,498.7***	**11,907.9**	***6,423.5***	**11,444.0**	***6,286.5***	**11,907.9**	***6,423.5***	**(7,431.7)**	**-64.9%**	**(7,895.6)**	**-66.3%**
Increases from performing loans	223.3	*3.1*	1,020.6	*86.5*	280.7	*30.3*	288.1	*23.9*	(57.4)	-20.4%	(64.8)	-22.5%
Transfers to performing loans	(59.7)	*(15.0)*	(179.6)	*(0.9)*	(29.7)	*(0.5)*	*(79.5)*	*(0.2)*	(30.0)	n.m.	19.8	-24.9%
Collections	(108.9)	*(15.3)*	(879.8)	*(350.6)*	(187.8)	*(55.5)*	(263.6)	*(109.0)*	78.9	-42.0%	154.7	-58.7%
Write-offs and loss on disposal	(16.3)	*(8.7)*	(402.4)	*(124.7)*	(207.1)	*(21.1)*	(168.9)	*(135.3)*	190.8	-92.1%	152.6	-90.3%
+/- Other changes	39.0	*81.2*	(7,454.4)	*(4,535.1)*	(7,287.8)	*(4,741.0)*	(111.6)	*61.9*	7,326.8	n.m.	150.6	n.m.
Gross exposure, closing balance	**4,089.7**	***1,544.0***	**4,012.3**	***1,498.7***	**4,012.3**	***1,498.7***	**11,572.4**	***6,264.8***	**77.4**	**1.9%**	**(7,482.7)**	**-64.7%**
Opening balance of overall adjustments	**(1,852.1)**	**(933.7)**	**(5,800.1)**	***(3,441.5)***	**(5,660.4)**	***(3,430.1)***	**(5,800.1)**	***(3,441.5)***	**3,808.3**	**-67.3%**	**3,948.0**	**-68.1%**
Adjustments / write-backs	(99.7)	*(44.1)*	(629.4)	*(337.2)*	(165.8)	*(93.1)*	(227.7)	*(128.4)*	66.1	-39.9%	128.0	-56.2%
+/- Other changes	12.5	*(21.9)*	4,577.4	*2,845.0*	3,974.1	*2,589.5*	288.4	*157.6*	(3,961.6)	-99.7%	(275.9)	-95.7%
Closing balance of overall adjustments	**(1,939.3)**	***(999.7)***	**(1,852.1)**	**(933.7)**	**(1,852.1)**	***(933.7)***	**(5,739.4)**	***(3,412.3)***	**(87.2)**	**4.7%**	**3,800.1**	**-66.2%**
Net exposure closing balance	**2,150.4**	***544.3***	**2,160.2**	***565.0***	**2,160.2**	***565.0***	**5,833.0**	***2,852.5***	**(9.8)**	**-0.5%**	**(3,682.6)**	**-63.1%**

Other financial assets/liabilities

As at 31 March 2021, the Group's **Securities assets** totalled **EUR 22.6 bn**, up compared to 31 December 2020 (EUR +0.9 bn), in relation to the increase in the trading component referring in particular to the subsidiary MPS Capital Services, offset only in part by the downturn in Financial assets measured at fair value through other comprehensive income and the amortised cost component. Note that the market value of the securities in Loans to customers at amortised cost is EUR 9,431.8 mln (with implicit capital gains of around EUR 314.9 mln).

The aggregate was down compared to 31 March 2020 (EUR -3.4 bn), as a result of the reduction in Financial assets held for trading (EUR -1.9 bn) attributable, in particular, to the subsidiary MPS Capital Services, and Financial assets measured at fair value through other comprehensive income (EUR -1.2 bn) referring, in particular, to the Parent Company against sales and security maturities, only in part offset by acquisitions.

At 31 March 2021, **On-balance-sheet financial liabilities held for trading** decreased compared to 31 December 2020 (EUR -1.4 bn) and rose compared to 31 March 2020 (EUR +0.8 bn).

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

Items	31 03 2021	31 12 2020	31 03 2020	Chg. Q/Q		Chg. Y/Y	
				Abs.	%	Abs.	%
Securities assets	22,562.1	21,623.3	26,006.3	938.8	4.3%	(3,444.2)	-13.2%
Financial assets held for trading	*7,440.8*	*5,247.1*	*9,383.3*	*2,193.7*	41.8%	*(1,942.5)*	-20.7%
Financial assets mandatorily measured at fair value	*338.1*	*317.8*	*537.4*	*20.3*	6.4%	*(199.3)*	-37.1%
Financial assets measured at fair value through other comprehensive income	*4,938.0*	*5,777.9*	*6,094.0*	*(839.9)*	-14.5%	*(1,156.0)*	-19.0%
Financial assets held for sale	*0.1*	*0.6*	*0.0*	*(0.5)*	-83.3%	*0.1*	*n.m*
Loans to customers measured at amortised cost	*9,116.9*	*9,520.5*	*9,206.1*	*(403.6)*	-4.2%	*(89.2)*	-1.0%
Loans to banks measured at amortised cost	728.2	759.4	785.5	(31.2)	-4.1%	(57.3)	-7.3%
On-balance-sheet financial liabilities held for trading	(3,179.5)	(4,545.5)	(2,407.1)	1,366.0	-30.1%	(772.4)	32.1%
Net positions in Derivatives	(1.6)	(234.9)	59.4	233.3	n.m	(61.0)	n.m
Other financial assets and liabilities	**19,381.0**	**16,842.9**	**23,658.6**	**2,538.1**	**15.1%**	**(4,277.6)**	**-18.1%**

Items	31 03 2021		31 12 2020		31 03 2020	
	Securities assets	On-balance-sheet financial liabilities held for trading	Securities assets	On-balance-sheet financial liabilities held for trading	Securities assets	On-balance-sheet financial liabilities held for trading
Debt securities	22,008.9	-	21,124.5	-	25,525.3	-
Equity instruments and Units of UCITS	553.2	-	498.8	-	481.0	-
Loans	-	3,179.5	-	4,545.5	-	2,407.1
Total	22,562.1	3,179.5	21,623.3	4,545.5	26,006.3	2,407.1

Interbank position

At 31 March 2021, the **net interbank position** of the Group stood at **EUR 0.2 bn** in lending, compared to EUR 5.6 bn in lending as at 31 December 2020 following the decline in deposits in the compulsory reserve account and additional access to the TLTRO3. Compared to 31 March 2020 (equal to EUR 7.7 bn in funding), the change can be attributed to the further increase in deposits in the compulsory reserve account and additional access to TLTRO3

Compared to 31 December 2020, due to banks were down (EUR -0.7 bn). This trend was driven by the actions implemented by the Bank to reduce rates recognised on bank deposits.

Interbank balances							
				Change Q/Q		Change Y/Y	
	31/03/21	31/12/20	31/03/20	Abs.	%	Abs.	%
Loans to banks	4,278.4	5,452.3	4,938.8	(1,173.9)	-21.5%	(660.4)	-13.4%
Deposits from banks	3,816.4	4,484.5	4,752.1	(668.1)	-14.9%	(935.7)	-19.7%
Net position whit banks	**462.0**	**967.8**	**186.7**	**(505.8)**	**-52.3%**	**n.m.**	**n.m**
Loans to central banks	26,116.9	28,526.3	8,109.5	(2,409.4)	-8.4%	18,007.4	222.1%
Deposits from central banks	26,373.1	23,933.6	15,997.9	2,439.5	10.2%	10,375.2	64.9%
Net position whit central banks	**(256.2)**	**4,592.7**	**(7,888.4)**	**(4,848.9)**	**n.m.**	**7,632.2**	**-96.8%**
Net interbank position	**205.8**	**5,560.5**	**(7,701.7)**	**(5,354.7)**	**-96.3%**	**7,907.5**	**n.m.**

As at 31 March 2021, the operational liquidity position showed an ***unencumbered Counterbalancing Capacity* of approx. EUR 31.0 bn**, down by EUR 2.1 bn compared with 31 December 2020, mainly due to lower commercial funding. It was up compared to 31 March 2020 (EUR +9.4 bn) thanks to higher commercial funding and the implementation of initiatives established in the Funding Plan (institutional issues, access to the TLTRO3, as well as liquidity deriving from the assignment of loans to AMCO).

Shareholders’ equity

As at 31 March 2021, the **Shareholders' equity of the Group and non-controlling interests** was roughly **EUR 6.0 bn,** up EUR 0.2 bn compared to 31 December 2020, thanks to the increase in valuation reserves and the profit for the period.

Compared to 31 March 2020, there was instead a decline of EUR 1.9 bn, ascribable primarily to the closing of the “Hydra M” Transaction on 1 December 2020, which resulted in a share capital reduction by EUR 1.1 bn and an increase in reserves by EUR 0.2 bn, and the trend in results for the period.

Reclassified Consolidated Balance Sheet

Equity	31/03/21	31/12/20*	31/03/20*	Chg Q/Q		Chg Y/Y	
				Abs.	%	Abs.	%
Group Net Equity	6,005.4	5,771.9	7,918.3	233.5	4.0%	(1,912.9)	-24.2%
a) Valuation reserves	367.6	260.9	(41.5)	106.7	40.9%	409.1	n.m.
d) Reserves	(3,415.8)	(1,683.8)	(1,816.2)	(1,732.0)	n.m.	(1,599.6)	88.1%
f) Share capital	9,195.0	9,195.0	10,328.6	-	n.m.	(1,133.6)	-11.0%
g) Treasury shares (-)	(260.7)	(313.7)	(313.7)	53.0	-16.9%	53.0	-16.9%
h) Net profit (loss) for the period	119.3	(1,686.5)	(239.0)	1,805.8	n.m.	358.3	n.m.
Non-controlling interests	1.4	1.3	1.7	0.1	7.7%	(0.3)	-17.6%
Shareholders’ equity of the Group and Non-controlling interests	**6,006.8**	**5,773.2**	**7,920.0**	**233.6**	**4.0%**	**(1,913.2)**	**-24.2%**

** The balance sheet values as at 31 December 2020 and 31 March 2020 have been restated compared to those published at the respective reporting dates, following the retrospective application of the change in the approach for the valuation of investment property (pursuant to IAS 40).*

It should be noted that the Parent Company, due to the loss recorded as at 31 December 2020 of EUR 1.9 bn, is subject to the provisions of Article 2446 of the Italian Civil Code.

Capital adequacy

Regulatory capital and statutory requirements

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

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

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

Accordingly, the Group must meet the following requirements at the consolidated level as at 31 March 2021:

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

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

As at **31 March 2021**, the Group's level of capital on a transitional basis was as shown in the following table:

Categories / Values	31 03 2021	31 12 2020	Chg. 31 12 2020	
			Abs.	%
OWN FUNDS				
Common Equity Tier 1 (CET1)	5,957.6	6,053.3	(95.7)	-1.58%
Tier 1 (T1)	5,957.6	6,053.3	(95.7)	-1.58%
Tier 2 (T2)	1,803.6	1,806.6	(3.0)	-0.17%
Total capital (TC)	**7,761.2**	**7,859.9**	**(98.7)**	**-1.26%**
RISK WEIGHTED ASSETS				
Credit and Counterparty Risk	34,584.8	35,409.6	(824.8)	-2.33%
Credit valuation adjustment risk	455.8	440.4	15.4	3.50%
Market risks	2,703.7	2,487.4	216.3	8.70%
Operational risk	11,157.1	11,565.6	(408.5)	-3.53%
Total Risk-weighted assets	**48,901.4**	**49,903.0**	**(1,001.6)**	**-2.01%**
CAPITAL RATIOS				
CET1 capital ratio	**12.18%**	**12.13%**	**0.05%**	
Tier1 capital ratio	**12.18%**	**12.13%**	**0.05%**	
Total capital ratio	**15.87%**	**15.75%**	**0.12%**	

[14] Calculated considering the exposure as at 31 March 2021 in the various countries in which MPS Group operates and the requirements established by the competent national authorities.

Compared to 31 December 2020, CET1 decreased by a total of EUR -96 mln, essentially due to the following phenomena:

- decrease in shareholders' equity reserves by EUR -11 mln, as an impact of the fair value measurement of investment property (IAS 40);
- decrease in treasury shares as a result of the sale of a portion of them with an overall effect on shareholders' equity of EUR +7 mln;
- improvement in the balance of the Other Comprehensive Income reserve for a total of EUR +107 mln, inclusive of the net positive impact from the revaluation of properties for business use (IAS 16) equal to EUR 164 mln, offset in part by the decline in debt security valuation reserves;
- increase in deductions associated with DTAs (EUR -9 mln); decrease in deductions associated with prudential filters (EUR +8 mln, primarily due to the prudent valuation) and deductions associated with intangible assets (EUR +1 mln), as well as the decrease in non-exempt deductions relating to significant financial investments and DTAs (EUR +60 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 -264 mln, attributable to the transition of the filter from 70% to 50%;
- sterilisation of the capital impacts associated with the increase in credit value adjustments recognised in the period as at 31 March 2021 with respect to 1 January 2020 for stage 1 and 2 portfolios as set forth in Regulation (EU) 2020/873. This Regulation calls for the reintroduction within CET1 of a progressively decreasing share of the effect of higher adjustments, equal to 100% in 2021: as at 31 March, this effect amounts to EUR -10 mln (inclusive of the related tax effect);
- positive effect of EUR +15 mln linked to the prudential filter relating to the Other Comprehensive Income Reserve on government securities, attributable in particular to the transition of the filter from 100% to 70%.

Therefore, the Bank respects all capital requirements, including those relating to the P2G.

It should be noted that CET1 does not include the portion of the result for 1Q2021. Conversely, in respect of the regulatory provisions, the higher deductions for DTAs and qualified investments, whose values are updated at the date of the report, contribute, inter alia, to the calculation of the CET1.

Tier 2 marked a decrease of EUR -3 mln compared to the end of December 2020, due to the reduction in the contribution to Tier 2 of the excess value adjustments over expected losses.

Hence, the Total Capital Ratio reflects an overall decrease in own funds of EUR -99 mln.

The RWAs recorded an overall decrease of EUR 1001.1 mln. In particular, there was a reduction in RWAs relating to credit and counterparty risk (EUR -824.8 mln) due to: i) the effect of public guarantees on new disbursements, as well as ii) normal lending activities. There was also an increase in RWAs relating to market risks (EUR +216.3 mln) and in RWAs relating to CVA risk (EUR +15.4 mln), and a decrease for operational risk (EUR -408.5 mln).

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

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

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

Also in 2021, the Group will re-estimate the models for full alignment with the EBA Guidelines (EBA-GL-2017-16) with expected increases in RWAs estimated at around EUR 4.3 bn. This restatement will be reviewed by the ECB during the second half of 2021 and the impact will be included in the capital requirements no earlier than the first quarter of 2022.

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

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 2020, to which reference is made.

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

Risks linked to the expected capital shortfall

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

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

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

Risks associated with regulatory stress tests

The Group is participating in the 2020 EU-*wide stress test* and is therefore exposed to the uncertainties deriving from its outcome. The publication by the EBA of the related results is expected by 31 July 2021 and it cannot be excluded that the outcome may result in greater capital strengthening needs than those estimated so far by the Bank.

Risks associated with the COVID-19 pandemic

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

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

In Italy, an increasing availability of vaccines and adequate treatments together with the tax support measures undertaken will reduce the damages and, already starting from the second quarter of 2021, will allow a rebound in growth. The recovery is expected to continue with a certain intensity in the following two-year period, however, the pre-COVID activity levels will most likely be recovered only in the medium-long term. The recovery path will inevitably depend on the good use of the resources made available by European countries through debt-sharing instruments, in regard to which however there are critical issues such as: ability to meet the deadlines for the presentation of the projects, the generation of effective added value from the projects, the efficiency of bureaucracy and national companies in executing the projects. The risk remains that, once the phase of exceptional support of economic policies is over, growth will not be sufficiently sustained to allow the management of public (and private) debts that have considerably increased in the meantime.

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

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

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

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

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

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

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 2021.

The exposures are broken down by accounting categories.

COUNTRY	DEBT SECURITIES					LOANS	CREDIT DERIVATIVES
	Financial assets measured at fair value through profit or loss		Financial assets measured at fair value through other comprehensive income		Financial assets measured at amortised cost	Financial assets measured at amortised cost	Financial assets held for trading
	Nominal	Fair value=book value	Nominal	Fair value=book value	Book value	Book value	Nominal
Argentine	0.3	-	-	-	-	-	-
Austria	10.0	10.1	-	-	-	-	-
Azerbaijan	-	-	-	-	0.3	-	-
Belgium	5.0	4.3	8.0	6.9	-	-	-
Bulgaria	0.8	0.9	-	-	-	-	-
Croatia	1.0	1.1	-	-	-	-	-
France	10.0	9.9	15.0	14.3	7.5	-	6.0
Germany	7.0	7.4	-	-	-	-	-
Greece	-	-	25.0	25.0	-	-	-
Italy	3,441.1	3,112.8	3,911.5	3,987.2	5,539.2	1,796.9	3,354.1
Mexico	1.3	1.2	15.0	14.1	-	-	-
Perù	-	-	2.0	2.0	-	-	-
Portugal	6.0	5.6	20.0	21.7	2.5	-	-
Romania	-	-	13.0	13.5	-	-	-
Spain	39.2	50.1	10.0	10.2	1,395.3	-	-
United States	-	-	42.6	40.3	-	-	-
South Africa	-	-	5.0	5.4	-	-	-
Turkey	0.1	0.1	-	-	-	-	-
Other Countries	2.4	2.7	-	-	-	-	-
Total 31 03 2021	**3,524.2**	**3,206.2**	**4,067.1**	**4,140.6**	**6,944.8**	**1,796.9**	**3,360.1**
Total 31 12 2020	**158.7**	**42.0**	**4,796.5**	**4,897.7**	**7,241.0**	**1,749.9**	**3,415.9**

As at 31 March 2021, the residual duration of the exposure to sovereign debt was 5.1 years.

Main types of legal, employment and tax risks and complaints

The health emergency resulting from the spread of COVID-19 has led to the adoption of measures at government level in the management and organization of civil and criminal justice.
In this context, the proceedings involving the MPS Group also experienced slowdowns and deferments, with a generalised postponement of procedural expiries as well as hearings, scheduled, mostly electronically, in compliance with the rights of defence of the parties as established by each court.

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

Legal disputes and out-of-court claims

As at 31 March 2021, the following were pending:

- legal disputes with a total amount claimed, where quantified, of approximately EUR 5.0 bn. In particular:
  - approx. EUR 2.5 bn in claims regarding disputes for which there is a "probable" risk of losing the case, for which provisions of EUR 0.9 bn have been allocated;
  - approx. EUR 0.7 bn in claims attributable to disputes for which there is a "possible" risk of losing the case;
  - approx. EUR 1.8 bn in claims attributable to the remaining disputes, for which there is a "remote" risk of losing the case;
- out-of-court claims totalling, where quantified, approximately EUR 4.9 bn. Specifically:
  - approx. EUR 4.9 bn in claims for which there is a "likely" risk of losing the case;
  - approx. EUR 0.01 bn in claims for which there is a "possible" risk of losing the case.

Disputes regarding compound interest, interest and conditions

For this type of dispute, provisions for risks of EUR 124.7 mln were allocated (against a total claim amount of EUR 299.7 mln), compared to EUR 127.2 mln recognised as at 31 December 2020 (against a claim of EUR 303.1 mln).

Dispute regarding bankruptcy rescindments

For this type of dispute, as at 31 March 2021, provisions for risks of EUR 25.2 mln were allocated (against a total claim amount of EUR 125.8 mln), compared to EUR 26.2 mln recognised as at 31 December 2020 (against a claim of EUR 131.4 mln).

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

For this type of dispute, provisions for risks of EUR 7.3 mln were allocated (against a total claim amount of EUR 22.1 mln), compared to EUR 8.1 mln recognised as at 31 December 2020 (against a claim of EUR 24.0 mln).

Dispute with purchasers of subordinated bonds issued by Group companies

The total claim for these disputes is EUR 48.2 mln as at 31 March 2021, down compared to 31 December 2020 (EUR 49.9 mln). 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 2021, the provisions recognised amounted to roughly EUR 28.7 mln (down by EUR 0.9 mln compared to 31 December 2020).

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

As at 31 March 2021, the total relief sought for this type of dispute amounted to approx. EUR 5.6 bn, subdivided as follows (data in EUR mln).

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

(*) The decrease in the relief sought is linked to the fact that by the ruling of 15 October 2020 handed down by the Court of Milan and the justifications of which were filed on 7 April 2021, nearly a hundred civil parties were excluded. The claim was considered to be a likely risk.

Criminal proceeding no. 955/16

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

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

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

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

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

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

Currently, the investigations are being carried out in the form of an evidence gathering procedure for which the Preliminary Investigations Judge has appointed two experts that have recently delivered their report.

The Bank has acknowledged the content of the report and will follow the developments of the proceedings with the greatest attention, also in order to evaluating possible effects on the civil disputes already pending whose subject matter substantially overlaps with the facts described in the report.

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

Employment law disputes

Risks relating to employment law (an overall claim of EUR 0.07 bn, of which EUR 0.04 bn for a "probable" risk of losing the case) are subject to monitoring and evaluation by the competent Group functions, and in the event of disputes with "probable" risk, appropriate allocations are made to the provision for risks and charges.

Risks for tax disputes

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

Criminal proceedings and compensation for transactions in diamonds

On 11 March 2021, the Public Prosecutor's Office at the Court of Milan issued a new notice of indictment and of the conclusion of preliminary investigations regarding 3 former executives of the Parent Company as well as one current executive. The crimes subject to the proceedings are those of aggravated fraud (art. 640, par. 1, par. 2 bis in relation to art. 61 no. 5 of the Criminal Code), self-laundering (art. 648 ter, par. 1, 2 and 5 of the Criminal Code) and obstruction of regulators (art. 2638, par. 2 and 3 of the Italian Civil Code). In these proceedings, the Parent Company is not being investigated as a party with administrative liability pursuant to Italian Legislative Decree 231/01 and the Public Prosecutor may request committal for trial or submit a request for dismissal.

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

As at 31 March 2021, more than twelve thousand requests were received for a total value of approximately EUR 312 mln, while the transactions carried out totalled EUR 297 mln (of which EUR 11 mln in the first quarter of 2021, covered for the equivalent value net of the market value of the stones by the provision for risks and charges allocated in previous years) and represent 86% of the total volume of diamond offers reported by the Parent Company. Residual provisions for risks and charges recognised against the compensation initiative amounted to EUR 11.4 mln at the end of March 2021.

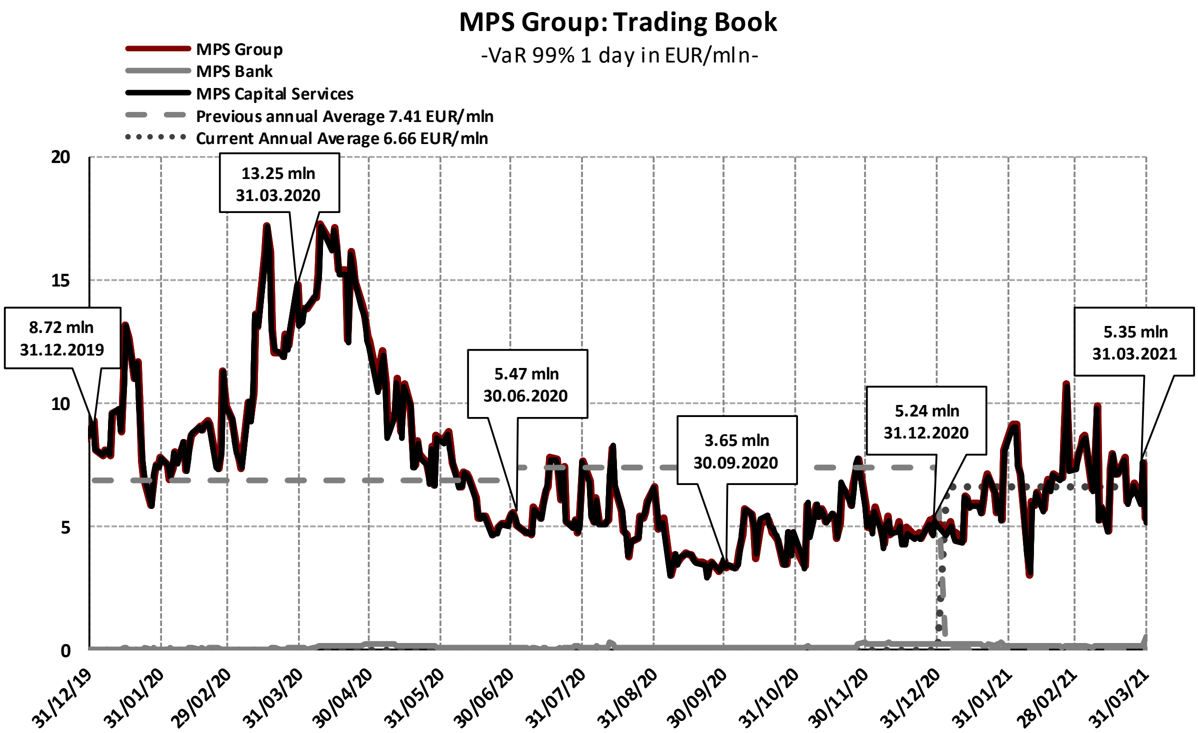
Market risks

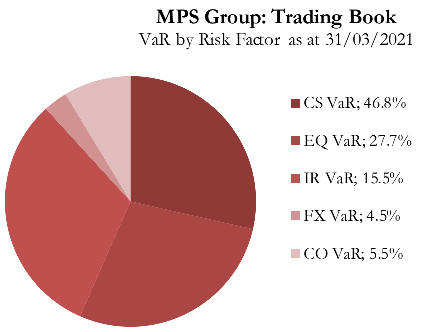
At 31 March 2021, the market risks of the Group's Regulatory Trading Book, measured as VaR, amounting to EUR 5.35 mln, have increased slightly compared to the end of December (EUR 5.24 mln) and were lower than the yearly average (EUR 6.66 mln).

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

During the quarter, VaR volatility resulted from auctions on Italian government securities by the subsidiary MPS Capital Services for primary dealer activities, with temporary changes in CS Italy risk exposure, primarily short term. The contribution of the EQ segment on total VaR increased in March, linked to bancassurance product structuring activities.

During the quarter, the average of Italian sovereign bonds held in the Group's trading books rose to roughly EUR 4.4 bn in nominal terms (EUR +1.4 bn compared to the average for the final quarter of 2020), with a resulting increase in the average VaR (EUR +1.7 mln) compared to what was observed in the final quarter of last year.





Spread is the main risk factor, accounting for 46.8% of the RTB Gross VaR of the Group, while the EQ factor accounts for 27.7%, IR for 15.5%, CO for 5.5% and FX for 4.5%.

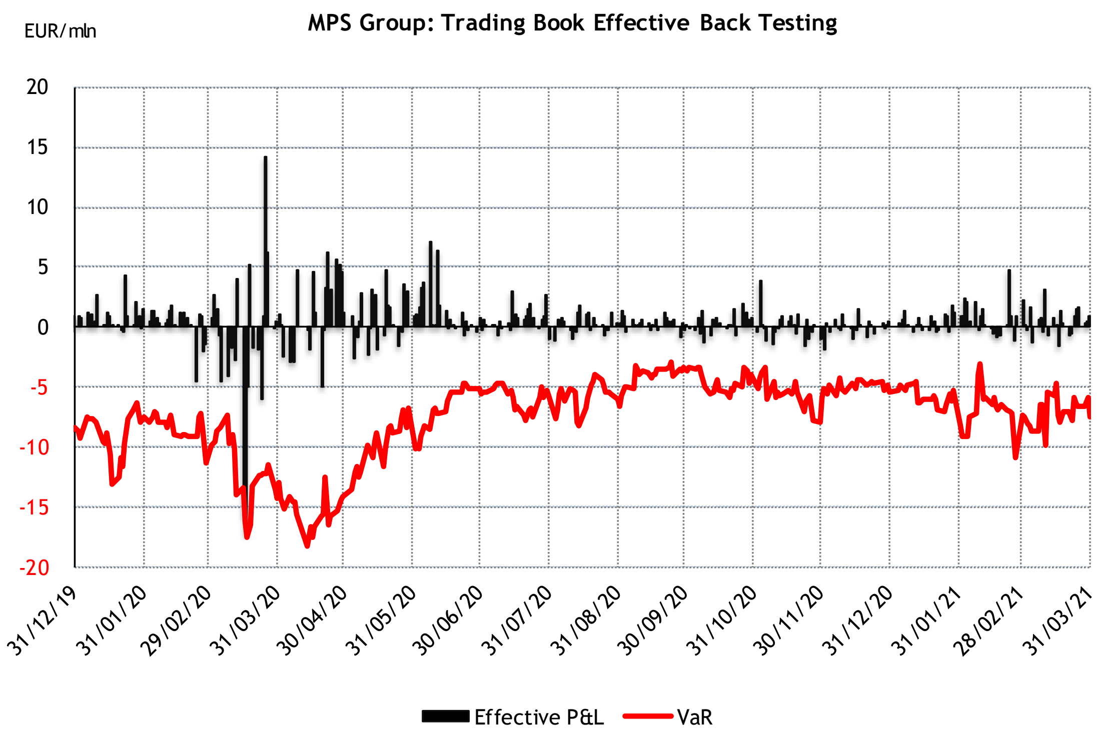
MPS GROUP: Trading Book
VaR 99% 1 day in EUR/mln

	VaR	Date
End of Period	5.35	31/03/2021
Min	3.04	09/02/2021
Max	10.79	25/02/2021
Average	6.66	

In the first three months of 2021, the Group's VaR in the Regulatory Trading Book ranged between a low of EUR 3.04 mln recorded on 9 February 2021 and a high of EUR 10.79 mln on 25 February 2021 with an average value registered of EUR 6.66 mln. The Regulatory Trading Book VaR as at 31 March 2021 amounted to EUR 5.35 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 2020 and the first three months of 2021:



No exceptions in the first quarter of 2021.

Results by Operating Segment

Identification of Operating Segments

In accordance with the provisions of IFRS 8, the operating segments have been identified based on the main business sectors in which the Group operates. As a result, by adopting the "business approach", consolidated income statement and balance sheet data are broken down and re-aggregated based on criteria including: business area concerned, operating structure of reference, relevance and strategic importance of activities carried out, and customer clusters served.

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 results of 1Q20 were affected by the health emergency created by the spread of the COVID-19 virus, starting from the end of February.

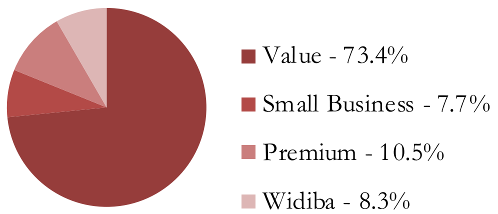
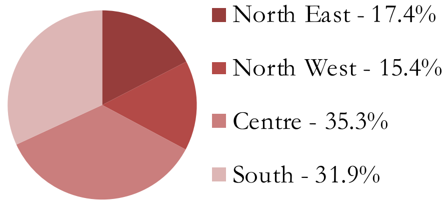
Results in brief

The following table reports the main income statement and balance sheet items that characterised the Group's Operating Segments as at 31 March 2021:

SEGMENT REPORTING	Operating Segments									
Primary segment	Retail banking		Wealth Management		Corporate banking		Corporate Center		Total MPS Group	
(EUR mln)	31/03/21	Chg % Y/Y	31/03/21	Chg % Y/Y	31/03/21	Chg % Y/Y	31/03/21	Chg % Y/Y	31/03/21	Chg % Y/Y
PROFIT AND LOSS AGGREGATES										
Total Revenues	443.1	-14.2%	35.7	9.6%	181.9	21.3%	162.9	n.m.	823.5	12.9%
Operating expenses	(394.2)	-2.6%	-26.2	-1.7%	-105.8	4.8%	(14.2)	21.9%	(540.4)	-0.7%
Pre Provision operating Profit	48.9	-56.3%	9.5	60.3%	76.1	55.1%	148.7	n.m.	283.1	52.7%
Cost of customer loans/Net impairment (losses) reversals on securities and loans to banks	(17.7)	-88.9%	-1.4	n.m.	-59.3	-62.1%	(1.9)	n.m.	(80.4)	-74.5%
Net Operating Income	31.1	n.m.	8.1	49.3%	16.8	n.m.	146.8	n.m.	202.7	n.m.
	31/03/21	Chg. % 31/12	31/03/21	Chg. % 31/12	31/03/21	Chg. % 31/12	31/03/21	Chg. % 31/12	31/03/21	Chg. % 31/12
BALANCE SHEET AGGREGATES										
Gross Interest-bearing loans to customers (*)	43,193	1.4%	520	-1.7%	29,386	1.5%	10,120	-11.9%	83,219	-0.4%
Direct funding	50,490	0.4%	2,936	-7.0%	19,585	-6.4%	26,043	-11.2%	99,054	-4.5%
Indirect Funding	54,651	2.5%	15,964	2.5%	15,436	2.1%	18,389	1.9%	104,441	2.3%
Assets under management	*45,855*	*2.9%*	*12,191*	*2.8%*	*1,278*	*-2.0%*	*2,758*	*4.0%*	*62,082*	*2.8%*
Assets under custody	*8,796*	*0.6%*	*3,773*	*1.8%*	*14,158*	*2.4%*	*15,632*	*1.5%*	*42,359*	*1.7%*

(*) The value shown in the Group as well as that in the operating segments is represented by gross interest-bearing Loans to customers, therefore not including loss provisions.

Retail Banking

Business areas	Customers
Retail MPS • Funding and provision of insurance products. • Lending. • Financial advisory services. • Electronic payment services. **Widiba** • Banking products and services, deposit account, cards and advanced payment systems; customer self-service through the bank's digital channels or in assisted mode with the support of a Financial Advisor. • Fully customisable online platform that relies on a Network of 526 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.	The number of Retail Banking customers was roughly 3.8 mln and includes 314,100 Widiba customers, *of which around 154,000 in the Financial Advisor Network channel, 87,300 in the self-service channel, and 72,800 customers migrated from the MPS branch network.* **Breakdown by type**  **Breakdown by geography** 

Income statement and balance sheet results

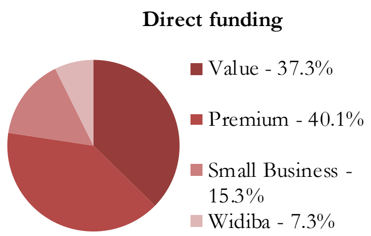
As at 31 March 2021, **Total Funding** for *Retail Banking* amounted to approximately **EUR 105.1 bn**, up by EUR 1.5 bn from the end of 2020 and roughly EUR 11.5 bn compared to the levels at March 2020. More specifically:

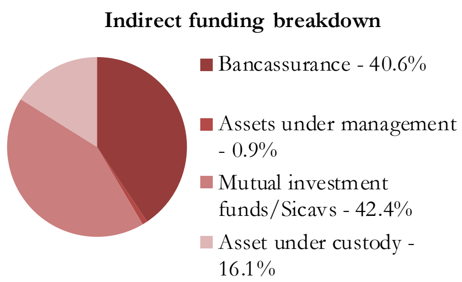
- **Direct Funding** was **EUR 50.5 bn**, up by EUR 0.2 bn compared to 31 December 2020, particularly on the demand component (EUR +0.9 bn), while there was a decline in short-term (EUR -0.2 bn) and medium/long-term (EUR -0.5 bn) forms. In comparison with 31 March 2020, the aggregate shows growth of approx. EUR 5.0 bn, mainly due to the on-demand component (EUR +6.1 bn), while the short-term (EUR -0.5 bn) and medium/long-term (EUR -0.6 bn) funding decreased.

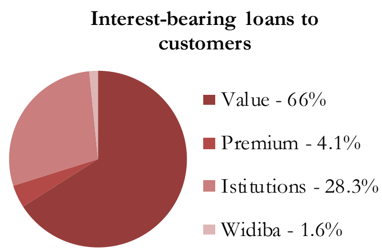
- **Indirect Funding**, amounting to approx. **EUR 54.7 bn**, increased compared to December 2020 (EUR +1.3 bn), primarily on the asset management component (EUR +1.3 bn), which benefited from the positive market effect. The aggregate also increased compared to 31 March 2020 by EUR 6.5 bn, primarily in Assets under Management (EUR +5.8 bn).

- **Gross interest-bearing loans** to Retail Banking customers were **EUR 43.2 bn**, an increase compared to the end of 2020 (EUR +0.6 bn) and March 2020 (EUR +2.0 bn).

RETAIL BANKING - BALANCE SHEET AGGREGATES							
(Eur mln)	31/03/21	31/12/20	31/03/20	Chg Abs Q/Q	Chg % Q/Q	Chg Abs Y/Y	Chg % Y/Y
Direct funding	**50,490**	**50,299**	**45,478**	**190**	**0.4%**	**5,012**	**11.0%**
Assets under management	*45,855*	*44,580*	*40,041*	*1,275*	*2.9%*	*5,814*	*14.5%*
Assets under custody	*8,796*	*8,744*	*8,090*	*52*	*0.6%*	*706*	*8.7%*
Indirect Funding	**54,651**	**53,325**	**48,131**	**1,326**	**2.5%**	**6,520**	**13.5%**
Total Funding	**105,141**	**103,624**	**93,608**	**1,517**	**1.5%**	**11,532**	**12.3%**
Gross Interest-bearing loans to customers	**43,193**	**42,611**	**41,216**	**581**	**1.4%**	**1,977**	**4.8%**







With regard to profit and loss, Retail Banking achieved total **Revenues** of approx. **EUR 443 mln** as at 31 March 2021, down 14.2% compared to the same period of last year. A breakdown of the aggregate shows:

- Net Interest Income was approximately EUR 140 mln, down 35.5% on an annual basis due mainly to the lower contribution from deposits and the drop in yields on commercial assets;
- Net Fee and Commission Income totalled approximately EUR 291 mln, down 0.5% from the previous year's level, principally due to the effect of the reduction in commissions on utilised credit lines and from services.

Considering the impact of Operating Expenses, which decreased by 2.6% Y/Y, Retail Banking generated **Gross Operating Income** of about **EUR 49 mln** (EUR 112 mln as at 31 March 2020). Cost of credit totalled **EUR -18 mln** (EUR -159 mln as at 31 March 2020).

The **Net Operating Income** recorded since the beginning of the year is **positive, amounting to around EUR 31 mln.**

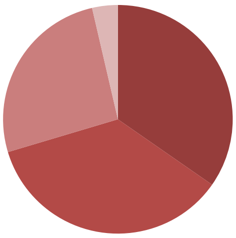
The non-operating components amounted to roughly EUR -17 mln, an increase compared to the same period of the previous year (equal to EUR -7 mln) due mainly to the higher Other net provisions.

The Result before tax from continuing operations was **EUR +14 mln** (EUR -55 mln as at 31 March 2020).

The cost-income ratio of the Operating Segment is **89.0%** (78.4% in 1Q20).

RETAIL BANKING - PROFIT AND LOSS AGGREGATES				
			Chg. Y/Y	
(EUR mln)	31/03/21	31/03/20	Abs.	%
Net interest income	*139.8*	*216.8*	*-77.0*	*-35.5%*
Net fee and commission income	*290.9*	*292.5*	*-1.5*	*-0.5%*
Other Revenues from Banking and Insurance Business	*17.4*	*10.0*	*7.4*	*74.4%*
Other operating expenses/income	*(5.1)*	*(2.8)*	*-2.3*	*79.8%*
Total Revenues	**443.1**	**516.5**	**-73.4**	**-14.2%**
Operating expenses	*(394.2)*	*(404.8)*	*10.6*	*-2.6%*
Pre Provision Operating Profit	**48.9**	**111.7**	**-62.8**	**-56.3%**
Cost of customer loans/Net impairment (losses)-reversals on securities and loans to banks	(17.7)	(159.3)	141.6	-88.9%
Net Operating Income	**31.1**	**(47.6)**	**78.7**	**n.m.**
Non-operating components	**(16.7)**	**(7.1)**	**-9.6**	**n.m.**
Profit (loss) before tax from continuing operations	**14.4**	**(54.7)**	**69.1**	**n.m.**

Consumer banking - Distribution network
Breakdown of revenues



Results for the subsidiary

Banca Widiba SpA: at 31 March 2021**, Total Funding** of Banca Widiba came to roughly **EUR 9.4 bn**, up by EUR +0.3 bn compared to 31 December 2020 and EUR +1.7 bn compared to 31 March 2020, benefitting from positive net funding flows of EUR 141 mln during the quarter (concentrated primarily in Asset Management) and favourable financial market trends. The comparison with the figure as at 31 March 2020 was impacted by particularly negative trends recorded at the end of February and March 2020, relating to the market effect on Indirect Funding, due to the COVID-19 pandemic scenario.

With regard to profit and loss, as at 31 March 2021 Banca Widiba achieved total **Revenues** of approx. **EUR 16.2 mln**, down EUR 4.4 mln (-21%) compared to the previous year, due primarily to the reduction in Net interest income (EUR -4.1 mln) as a result of lower returns on financial assets, while Net fee and commission income remained basically the same.

Gross Operating Income benefitted from the decline in **Operating Expenses** (lower costs by EUR 1.0 mln, -6%) and reached **EUR 1.3 mln**, down compared to the previous year by EUR -3.4 mln. In relation to the lower incidence of the Cost of credit by EUR 0.8 mln compared to 2020, **Net Operating Income** amounted to **EUR 0.9 mln**, marking a downturn of EUR -2.6 mln compared to 31 March 2020.

Lastly, as a result of basically stable non-operating components (equal to EUR 0.1 mln), the **Result before tax from continuing operations** was **EUR 0.8 mln**, with a decrease of EUR 2.5 mln compared to 2020.

Wealth Management

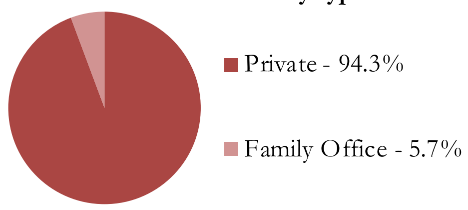
Business areas

- Funding, lending, provision of insurance products, financial and non-financial services to private customers.
- Services and products for high-standing customers in the areas of wealth management, financial planning, consultancy on not strictly financial services (tax planning, real estate, art & legal advisory).
- Fiduciary and trust services (through the subsidiary MPS Fiduciaria).

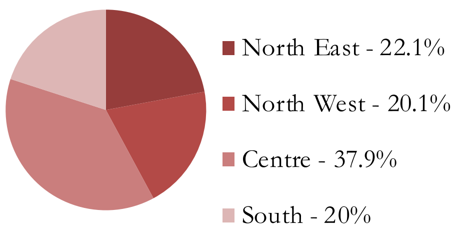
Customers

There are around 36 thousand private customers.

Breakdown by type



Breakdown by geography



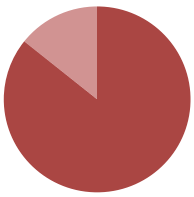
Income statement and balance sheet results

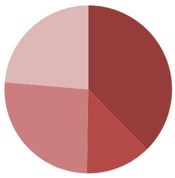
As at 31 March 2021, **Total Funding** for *Wealth Management* amounted to approximately **EUR 18.9 bn**, up by roughly EUR 0.2 bn compared to the end of the year and EUR 1.5 bn compared to 31 March 2020. More specifically:

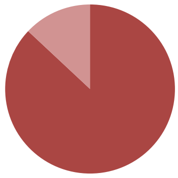
- **Direct Funding** amounted to **EUR 2.9 bn**, down by EUR 0.2 bn compared to 31 December 2020 and by EUR 0.4 bn compared to March 2020;
- **Indirect Funding**, amounting to about **EUR 16.0 bn**, was up by EUR 0.4 bn compared to the end of the previous year thanks to a positive market effect and EUR 1.9 bn compared to 31 March 2020.
- **Gross interest-bearing loans** to *Wealth Management customers* were essentially in line with both December 2020 and 31 March 2020, amounting to roughly **EUR 0.5 bn**.

WEALTH MANAGEMENT - BALANCE SHEET AGGREGATES

(EUR mln)	31/03/21	31/12/20	31/03/20	Chg Abs Q/Q	Chg % Q/Q	Chg Abs Y/Y	Chg % Y/Y
Direct funding	**2,936**	**3,157**	**3,348**	**-221**	**-7.0%**	**-412**	**-12.3%**
Assets under management	*12,191*	*11,865*	*10,685*	*327*	*2.8%*	*1,506*	*14.1%*
Assets under custody	*3,773*	*3,708*	*3,400*	*65*	*1.8%*	*373*	*11.0%*
Indirect Funding	**15,964**	**15,572**	**14,085**	**392**	**2.5%**	**1,879**	**13.3%**
Total Funding	**18,900**	**18,730**	**17,433**	**170**	**0.9%**	**1,467**	**8.4%**
Gross Interest-bearing loans to customers	**520**	**529**	**546**	**-9**	**-1.7%**	**-26**	**-4.8%**







With regard to profit and loss, *Wealth Management* achieved total **Revenues** of approx. **EUR 36 mln** as at 31 March 2021, up 9.6% compared to the same period of last year. A breakdown of the aggregate shows:

- Net Interest Income amounted to approx. EUR 0.1 mln, down EUR 1 mln compared to the same period of the previous year, impacted by the lower contribution from Direct Funding;
- Net fee and commission income amounted to approximately EUR 31 mln, up by EUR 2 mln compared to 31 March 2020.

Considering the impact of Operating Expenses, which were down by 1.7% Y/Y, *Wealth Management* generated **Gross Operating Income** of about **EUR 9 mln** (EUR +4 mln Y/Y). Including Cost of credit equal to EUR -1.4 mln, the **Net Operating Income** totalled roughly **EUR 8 mln.**

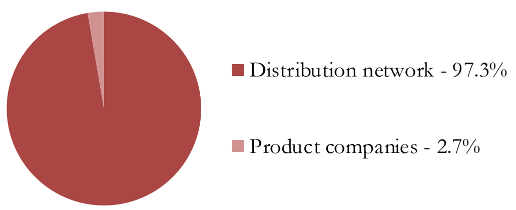
The non-operating components amounted to roughly EUR -0.5 mln, a deterioration of EUR 13 mln compared to the same period of the previous year due mainly to the reduction in Other net provisions.

The Result before tax from continuing operations was **EUR 8 mln** (EUR -8 mln as at 31 March 2020).

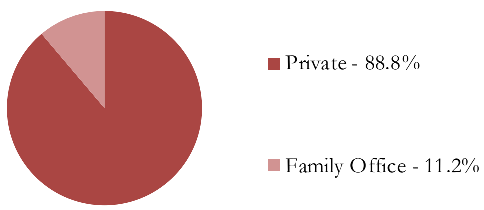
The cost-income ratio of the Operating Segment is **73.4%** (81.8% at the end of March 2020).

WEALTH MANAGEMENT - PROFIT AND LOSS AGGREGATES				
			Chg. Y/Y	
(EUR mln)	31/03/21	31/03/20	Abs.	%
Net interest income	*0.1*	*1.0*	*-0.9*	*-87.5%*
Net fee and commission income	*31.0*	*28.8*	*2.3*	*7.9%*
Other Revenues from Banking and Insurance Business	*4.7*	*2.7*	*2.0*	*73.9%*
Other operating expenses/income	*(0.2)*	*0.1*	*-0.3*	*n.m.*
Total Revenues	**35.7**	**32.5**	**3.1**	**9.6%**
Operating expenses	*(26.2)*	*(26.6)*	*0.4*	*-1.7%*
Pre Provision Operating Profit	**9.5**	**5.9**	**3.6**	**60.3%**
Cost of customer loans/Net impairment (losses)-reversals on securities and loans to banks	(1.4)	(0.5)	-0.9	n.m.
Net Operating Income	**8.1**	**5.4**	**2.7**	**49.3%**
Non-operating components	**(0.5)**	**(13.3)**	**12.8**	**-96.1%**
Profit (loss) before tax from continuing operations	**7.5**	**(7.9)**	**15.5**	**n.m.**

Breakdown of revenues



Breakdown of revenues



Results for the subsidiary

- **MPS Fiduciaria**: in 1Q21 the subsidiary's profit for the period was basically nil.

Corporate Banking

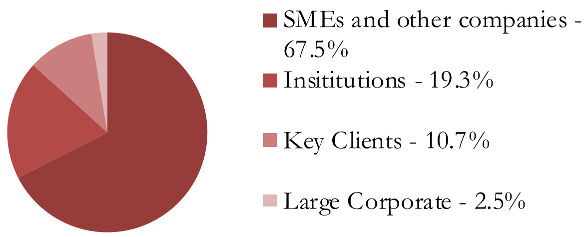
Business areas

- 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).

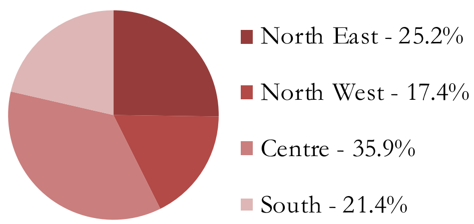
Customers

About 40,000 Corporate and Large Group customers of the Parent Company, directly followed by Corporate Banking.

Breakdown by type



Breakdown by geography



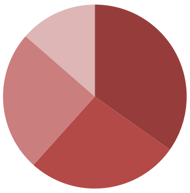
Income statement and balance sheet results

The **Total Funding** from *Corporate Banking* as at 31 March 2021 amounted to **EUR 35.0 bn**, down by EUR 1.0 bn with respect to December 2020, mainly due to the decrease in Direct Funding (EUR -1.3 bn). The aggregate was up compared to 31 March 2020 by around EUR 6.6 bn thanks to the increase in Direct Funding (EUR +2.2 bn) and Indirect Funding (EUR +4.4 bn) recorded on assets under custody.
With regard to lending, as at 31 March 2021, **Gross interest-bearing loans** to Corporate Banking customers stood at approximately **EUR 29.4 bn** (up EUR 0.4 bn compared to 31 December 2020 and down by EUR 2.4 bn compared to 31 March 2020).

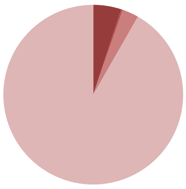
CORPORATE BANKING - BALANCE SHEET AGGREGATES

(EUR mln)	31/03/21	31/12/20	31/03/20	Chg Abs Q/Q	Chg % Q/Q	Chg Abs Y/Y	Chg % Y/Y
Direct funding	**19,585**	**20,921**	**17,356**	**-1,336**	**-6.4%**	**2,229**	**12.8%**
Assets under management	*1,278*	*1,304*	*1,331*	*-26*	*-2.0%*	*-53*	*-4.0%*
Assets under custody	*14,158*	*13,821*	*9,716*	*337*	*2.4%*	*4,442*	*45.7%*
Indirect Funding	**15,436**	**15,125**	**11,047**	**311**	**2.1%**	**4,389**	**39.7%**
Total Funding	**35,021**	**36,046**	**28,403**	**-1,025**	**-2.8%**	**6,618**	**23.3%**
Gross Interest-bearing loans to customers	**29,386**	**28,949**	**31,798**	**437**	**1.5%**	**-2,411**	**-7.6%**

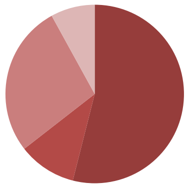
Direct funding



Indirect funding breakdown



Interest-bearing loans to customers



For profit and loss aggregates, as at 31 March 2021 *Corporate Banking Revenues* came to approx. **EUR 182 mln** (+21.3% Y/Y). A breakdown of the aggregate shows:

- Net Interest Income was approximately EUR 91 mln, down 10.8% annually due to the decrease in returns on commercial assets and the lower contribution of direct funding;
- Net Fee and Commission income was down 0.9% compared to the same period of the previous year to around EUR 73 mln;
- Other Revenues from Banking and Insurance Business amounted to approx. EUR 18 mln compared to EUR -25 mln in 1Q20.

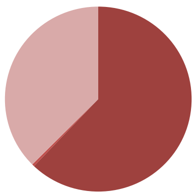
Considering the impact of Operating Expenses, up by 4.8% compared to 31 March 2020, **Gross Operating Income** came to about **EUR 76 mln** (+55.1% Y/Y).

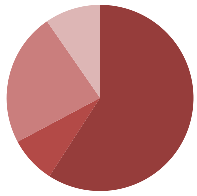
Net Operating Income amounted to **EUR 17 mln** (EUR -107 mln in the same period of the previous year), taking into account a Cost of credit of EUR -59 mln.
The non-operating components amounted to roughly EUR -19 mln, an improvement compared to EUR -28 mln in the same period of the previous year due to lower Other net provisions.

The Result before tax from continuing operations was **EUR -3 mln** (EUR -135 mln as at 31 March 2020).

The Corporate Banking cost-income ratio stands at **58.2%** (67.3% in 1Q20).

CORPORATE BANKING - PROFIT AND LOSS AGGREGATES			Chg. Y/Y	
(EUR mln)	31/03/21	31/03/20	Abs.	%
Net interest income	*91.5*	*102.5*	*-11.0*	*-10.8%*
Net fee and commission income	*73.1*	*73.8*	*-0.7*	*-0.9%*
Other Revenues from Banking and Insurance Business	*18.1*	*(24.9)*	*43.0*	*n.m.*
Other operating expenses/income	*(0.8)*	*(1.4)*	*0.7*	*-46.5%*
Total Revenues	**181.9**	**150.0**	**31.9**	**21.3%**
Operating expenses	*(105.8)*	*(100.9)*	*-4.9*	*4.8%*
Pre Provision Operating Profit	**76.1**	**49.1**	**27.0**	**55.1%**
Cost of customer loans/Net impairment (losses)-reversals on securities and loans to banks	(59.3)	(156.5)	97.2	-62.1%
Net Operating Income	**16.8**	**(107.4)**	**124.2**	**n.m.**
Non-operating components	**(19.3)**	**(28.0)**	**8.6**	**-30.9%**
Profit (loss) before tax from continuing operations	**(2.6)**	**(135.4)**	**132.9**	**-98.1%**





Results of the main subsidiaries

- **MPS Capital Services**: result before tax of EUR 32 mln, up by EUR 69 mln compared to 31 March 2020, especially due to the trend in the Cost of Credit, penalised in 2020 by additional adjustments due to the COVID-19 emergency and the increase in Other revenues from banking business. The profit for the period was EUR +33 mln, up compared to a loss of EUR 34 mln as at 31 March 2020 due to the trends described above.
- **MPS Leasing & Factoring**: result before tax of EUR 2.9 mln, up by EUR 13 mln compared to 31 March 2020, especially due to the trend in the Cost of Credit, penalised last year by additional adjustments due to the COVID-19 emergency. The profit for the period was EUR 3.9 mln, compared to a loss for the period of EUR 10 mln as at 31 March 2020 due to the trends described above.
- **MP Banque[15]:** loss for the period of EUR 0.4 mln compared to a loss for the period of EUR 1.1 mln in the same period of the previous year.

Corporate Centre

The Corporate Centre includes:

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

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

As regards Finance activities, in the first quarter of 2021 securities from the Parent Company's portfolio were sold, particularly roughly EUR 850 mln classified at amortised cost, which contributed a total profit of roughly EUR 124 mln, up by around EUR 77 mln compared to the same period of the previous year when disposals from the securities portfolio were carried out for a total of around EUR 500 mln. Partially offsetting these sales, to support net interest income in the course of the quarter around EUR 570 mln in securities, also classified at amortised cost, were repurchased.

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

Prospects and outlook on operations

The vaccination campaigns and support from economic policies have resulted in an improvement in global outlooks: according to IMF estimates[16], the global economy will expand by 6% in 2021. However, the recovery is uneven at geographical as well as sector level, and depends on the extent of the fiscal stimulus undertaken by the various countries in addition to the pace of vaccinations. In the Eurozone, delays in the vaccination campaign and more limited fiscal measures will translate into a less lively recovery than in China and the US, which are expected to accelerate sharply (in the US, Biden signed the USD 1,900 billion American Rescue Plan Act and presented the over USD 2 trillion American Jobs Plan as well as the USD 1,800 billion American Families Plan). In the short term, uncertainties remain in connection with the evolution of the pandemic, delays in vaccinations and the spread of new variants. With a pandemic generating public and private debt at global level significantly higher than pre-crisis values, in the medium term, the proper management of economic policy will become crucial to contain the risk of new fallouts.

With the Italian vaccination campaign accelerating in the spring months, as of the second quarter of 2021 and, especially, the third, it will be possible for more sustained growth to resume, with the strengthening of the *trend* already under way for industry, construction and part of services joined by a recovery in the sectors hardest hit by the pandemic as well, from tourism to entertainment. According to the main forecasts, expansion in Italy may surpass 4% in 2021 (+4.2% according to IMF estimates[17]). Outlooks remain strongly conditioned by progress in vaccination campaigns and a favourable evolution of new infections. A scenario of returning to sustained and lasting growth is plausible, although risks remain; this will require both the maintenance of economic support and a demonstration of the effectiveness of the interventions being introduced within the National Recovery and Resilience Plan (NRRP) based on the funds made available by the EU (Next Generation EU).

The Italian banking system will continue to vigorously perform its role in support of the economy, but the impacts of the pandemic will accelerate the sector transformation process in order to recover profitability, which will also include the reinforcement of cost management strategies. More resources will be reserved for investments in technology and human capital to seek out new specialised professionals. Within the new operating environment, the recovery in efficiency must consider the expenses, including relating to compliance, deriving from the sector's transition to sustainable finance and the adoption of climate risk management processes. The extension of the liquidity support measures expected to remain in force until the end of the year will favour the expansion of private sector lending throughout 2021, albeit with signs of a slowdown in loans to Italian businesses. In 2022, the support measures (moratoria and guarantees on loans) should come to an end, translating into more limited lending flows, especially for businesses. Overall, the private sector will be able to meet its financial requirements by relying on the abundant liquidity deposited during the crisis. In the medium/long-term, the disintermediation process will be more evident, triggering a cycle of loans with limited elasticity with respect to growth. Loan offer policies will remain relaxed, with rates almost stable over the medium term, thanks to the abundant availability of liquidity in the banking sector, which will handle auction repayments starting from the end of 2022 with no particular tensions.

In the coming months, funding may continue to grow in retail sectors due to health crisis, uncertainty and low interest rates, with a resulting accumulation of deposits. Over the next two years, lower deposit flows are expected; businesses will reduce their liquidity to finance operations; households will withdraw more liquid deposits due to a higher propensity to consume and the recomposition towards more remunerative forms of investment; a greater orientation of household savings decisions towards asset management and insurance, moreover already under way and which will become accentuated over the coming years. It is reasonable to expect the continuation of the ECB's refinancing programmes also after 2022.

The ECB should remain accommodative and no changes in the interest rate on deposits at the Monetary Authority are expected in the 2021-2023 three-year period, although market rates could begin to rise a few months in advance of benchmark rates. The ensuing slight rise would correspond to a slightly lower trend in rates on loans, a more moderate trend in the average rate on deposits and a more lively trend in the rate on bonds, the latter in line with the increase in Italian government securities.

As of 2021, a modest recovery in traditional banking income is expected as a result of the still limited contribution of the banking spread, up slightly only in the medium term. Support for the interest margin will arrive primarily from the benefit obtained on medium and long-term ECB funds, thanks to the maintenance of favourable conditions, including the possibility to receive a maximum rate of 1% until June 2022. Revenues from indirect funding are up thanks to the recovery in economic activity and the accumulation of liquidity recorded during the

[16] World Economic Outlook, International Monetary Fund, April 2021

[17] World Economic Outlook, International Monetary Fund, April 2021

crisis, which could be channelled towards asset management products. The contribution of fees and commissions from the distribution of protection insurance products will also rise, after encountering a pool of customers more sensitive to work and personal risks. With the easing of the restrictions adopted to overcome the pandemic and the increased operations of households and businesses, revenues will also rise for liquidity management services; however, this latter profitability component is under more pressure, due to the regulator's focus on topics of transparency and the consolidation of new consumer habits in the management of current accounts and payment operations, which are opening up the market to the entry of non-traditional operators.

With measures on moratoria and guarantee mechanisms extended for 2021 as well, the peak of risk could be deferred to 2022-2023. The deterioration of credit quality will in any event remain far from the highs reached after the two previous crises thanks to the business restructuring process and the selection performed by banks which in recent years has resulted in borrowers with better credit ratings. The cost of risk will in any event remain high, also considering the extraordinary adjustments linked to foreseeable plans for the disposal of NPLs in the market, penalising already modest sector profitability: the system ROE will show a gradual improvement during the year under way, but will however remain lower than 4% for a long time yet. With the progressive reopening process and progress made in the vaccination campaign, the expected economic recovery, although moderate for this year, may have effects on Group performance. It is realistic to imagine, with the continuation of economic support measures, the deferment of the emergence of new non-performing loan flows, therefore for this year the cost of credit may be lower than last december.

On 29 January 2021, the Parent Company sent the *Capital Plan* to the ECB. The Capital Plan was prepared with the objective of finding a potential structural solution for the Parent Company, including an M&A transaction. In the event that the implementation of a structural solution does not take place in the short/medium term, the Capital Plan envisages a capital strengthening of EUR 2.5 bn. With respect to the estimates formulated in previous months, underlying the Strategic Plan and the Capital Plan, and which identified a shortfall already starting from the first quarter of 2021 with growth to EUR 1.5 bn as at 1 January 2022, please note that as at 31 March 2021 no capital shortfall has emerged and it is expected that 12 months from the reporting date, or as at 31 March 2022, the shortfall could be below EUR 1 bn, including the effect of the update of internal models as per EBA Guidelines. The decrease in the expected shortfall derives from the effects of the capital management actions already carried out and of the evolution of capital and risk-weighted assets. Moreover, the expected capital shortfall concerns Tier 1 and, to a lesser extent, Total Capital, while no shortfall is expected on Common Equity Tier 1. The shortfall is estimated using the same assumptions underlying the Strategic Plan, taking into account the first quarter 2021 results and excluding the capital strengthening transaction.

Despite the reduced expected shortfall, capital strengthening estimates of EUR 2.5 bn have not been revised for the time being, pending the outcome of the stress tests to be announced to the market in July. Pending the outcome of discussions with DG Comp, which have not yet undergone any significant developments at the moment, it is believed that the capital strengthening transaction, initially envisaged for the third quarter of 2021, could take place in the fourth quarter of 2021 or in the first half of 2022.

The 2020 actual figures show that 2021 is starting with a particularly robust liquidity position, with LCR/NSFR indicator levels that are significantly higher than regulatory and operational limits as well as planned targets. The institutional maturities planned for 2021 do not appear to be particularly significant, as they are primarily represented by: EUR 1 bn in covered bonds and EUR 2.7 bn in bilateral funding.

The Parent Company will in any event need to meet the MREL targets which, as of 1 January 2022, will become "binding" for the banking system, as represented in the previous point. To meet these MREL targets, aside from the capital strengthening of EUR 2.5 bn, unsecured senior public bond issues are planned for a total of EUR 2 bn. This amount may in any event be revised during the year in light of RWA trends, based on which the MREL targets to be achieved are determined.

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 2021 corresponds to the underlying documentary evidence and accounting records.

Siena, 6 May 2021

Signed by

The Financial Reporting Officer

Nicola Massimo Clarelli