Monte dei Paschi di Siena Group

Consolidated Half-Yearly Report as at 30 June 2020

MONTE DEI PASCHI DI SIENA
BANK SINCE 1472

Half-Yearly Report
Monte dei Paschi di Siena Group
30 June 2020

Banca Monte dei Paschi di Siena S.p.a.
Share Capital: € 10,328,618,260.14 fully paid in
Registered with the Arezzo-Siena Company Register – registration no. and tax code 00884060526
MPS VAT Group - VAT number 01483500524
Member of the Italian Interbank Deposit Protection Fund. Registered with the Register of Banks under no. 5274
Monte dei Paschi di Siena Banking Group, registered with the Register of Banking Groups

CONTENTS

HALF-YEARLY REPORT ON OPERATIONS

Results in brief

Below are the main economic and financial values of the Montepaschi Group as at 30 June 2020, compared with those for the same period of the previous year and at the end of 2019, respectively. In addition, the key economic and financial indicators[1] are provided, based on accounting data, corresponding to those used in internal performance management and management reporting systems, and consistent with the most commonly used metrics within the banking industry, thereby ensuring the comparability of reported figures.

The Alternative Performance Measures (APMs) provided in this section take into account the Guidelines provided by ESMA on 5 October 2015, which 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 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 Half-harly Report on Operations.

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

INCOME STATEMENT AND BALANCE SHEET FIGURES			
MPS GROUP			
INCOME STATEMENT FIGURES (EUR mln)	30 06 2020	30 06 2019	Chg.
Net interest income	646.9	813.2	-20.5%
Net fee and commission income	694.3	722.5	-3.9%
Other income from banking business	138.9	121.9	13.9%
Other operating income	(27.5)	(71.3)	-61.4%
Total Revenues	1,452.5	1,586.3	-8.4%
Operating expenses	(1,085.4)	(1,146.4)	-5.3%
Cost of customer loans	(519.3)	(253.8)	n.m.
Other value adjustments	(5.5)	(0.7)	n.m.
Net operating income	(157.7)	185.4	n.m.
Net profit (loss) for the period	(1,088.7)	93.1	n.m.
EARNINGS PER SHARE (EUR)	30 06 2020	30 06 2019	Chg.
Basic earnings per share	(0.986)	0.084	n.m.
Diluted earnings per share	(0.986)	0.084	n.m.
BALANCE SHEET FIGURES AND INDICATORS (EUR mln)	30 06 2020	31 12 2019	Chg.
Total assets	141,656.1	132,196.0	7.2%
Loans to customers	82,510.6	80,135.0	3.0%
Direct funding	97,585.2	94,217.3	3.6%
Indirect funding	98,702.9	101,791.5	-3.0%
of which: assets under management	57,737.0	59,302.0	-2.6%
of which: assets under custody	40,965.9	42,489.6	-3.6%
Group net equity	7,158.4	8,279.1	-13.5%
OPERATING STRUCTURE	30 06 2020	31 12 2019	Chg.
Total headcount - end of period	22,123	22,040	83
Number of branches in Italy	1,421	1,422	(1)

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

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

ALTERNATIVE PERFORMANCE MEASURES			
MPS GROUP			
PROFITABILITY RATIOS (%)	**30 06 2020**	**31 12 2019**	**Chg.**
Cost/Income ratio	74.7	69.7	5.0
R.O.E.	-28.2	-12.0	-16.2
Return on Assets (RoA) ratio	-1.5	-0.8	-0.7
ROTE (Return on tangible equity)	-28.9	-12.2	-16.7
KEY CREDIT QUALITY RATIOS (%)	**30 06 2020**	**31 12 2019**	**Chg.**
Net impaired loans to customers / Loans to Customers	7.1	7.6	-0.5
Gross NPL ratio	10.4	11.3	-0.9
Rate of change of non-performing loans to customers	0.2	-27.4	27.6
Bad loans to custormers/ Loans to Customers□	3.5	3.7	-0.2
Loans to Customers measured at amortised cost - Stage 2/Loans to Customers measured at amortised cost	19.3	15.5	3.8
Coverage impaired loans to customers	49.5	48.7	0.8
Coverage bad loans to customers	54.5	53.6	0.9
Cost of customers loans/Cusotmers loans (Provisioning)	1.26	0.73	0.6
Texas Ratio	91.2	85.6	5.6

* *At 31 December 2019 the indicator, expressed as Net non-performing loans to customes/ Loans to customers, stood at 6.8% (6.3% at 30 June 2020).*

** *At 31 December 2019 the indicator, expressed as Net impairment (losses)/reversal on loans at amortised cost / Loans to customers at amortised cost (Provisioning), stood at 0.68% (1.16% at 30 June 2020).*

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

Return On Equity (ROE): ratio between the annualised Net profit (loss) for the period and the average between the Group shareholders' equity (including Profit and Valuation reserves) at the end of period and the Group 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[3] at the end of the period and that of the end of the previous year.

Gross NPL Ratio: gross impact of non-performing loans calculated based on the EBA guidelines[2] as the ratio between Gross non-performing loans to customers and banks, net of assets held for sale, and total Gross loans to customers and banks, net of assets held for sale. The Gross NPE Ratio, presented also in previous reports and expressed as the ratio between Gross non-performing exposures to customers / Gross exposures to customers, thus including the securities component, stood at 11.8% at 30 June 2020 compared to 12.4% at 31 December 2019.

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

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

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

[2] EBA GL/2018/10.

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

REGULATORY MEASURES			
MPS GROUP			
CAPITAL RATIOS (%)	30 06 2020	31 12 2019	Chg.
Common Equity Tier 1 (CET1) ratio - phase in	13.4	14.7	-1.3
Common Equity Tier 1 (CET1) ratio - fully loaded	11.4	12.7	-1.3
Total Capital ratio - phase in	16.0	16.7	-0.7
Total Capital ratio - fully loaded	14.0	14.7	-0.7
FINANCIAL LEVERAGE INDEX (5)	30 06 2020	31 12 2019	Chg.
Leverage ratio - transitional definition	4.9	6.1	-1.2
Leverage ratio - fully phased	4.2	5.3	-1.1
LIQUIDITY RATIO (%)	30 06 2020	31 12 2019	Chg.
LCR	171.5	152.4	19.1
NSFR	118.3	112.6	5.7
Encumbered asset ratio	40.4	36.0	4.4
Loan to deposit ratio	84.6	85.1	-0.5
Counterbalancing capacity (Eur bn)	25.0	24.7	0.3

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

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

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

Financial leverage ratio: indicator calculated as the ratio between Tier 1 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. The comparative figure relating to the LCR index as at 31 December 2019 was restated to take into account a specific interpretative clarification provided by the supervisory authority.

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

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

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

Spot counterbalancing capacity: sum of items that are certain and free from any commitment that the Group can use to meet its liquidity requirements, consisting of financial and commercial assets eligible for purposes of refinancing operations with the ECB and assets granted in MIC *(Mercato Interbancario Collateralizzato - the collateralized interbank market)*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 30 June 2020 are summarised below, noting that the results of the first half of 2020 were affected by the health emergency created by the spread of the COVID-19 virus, starting from the end of February. In particular:

- the Cost of Customer Credit was penalised by the effects deriving from the changed macroeconomic scenario due to the spread of the pandemic, which influenced the portfolio's risk levels,
- Net fee and commission income was impacted by the reduction of Network operations during the months of the lockdown, with a recovery of full operations only starting from late June,
- the results of trading activities and the contribution of AXA-MPS were impacted by financial market volatility, with negative effects in the first quarter of the year and a subsequent recovery in the second quarter,
- taxes recorded a negative contribution due almost entirely to the modification of the value of deferred tax assets (DTAs) recorded in the financial statements, by virtue of the update in long-term internal estimates (2020-2024) of income statement and balance sheet values performed to take into account the evolution of the macroeconomic scenario as a result of the pandemic.

Instead, with reference to the balance sheet aggregates, note the reduction in Indirect Funding compared to 31 Decembre 2019, which reflected the negative performance of financial markets in the first quarter of the year following the COVID-19 emergency.

- **Net interest income**, equal to EUR 647 mln, was down by 20.5% compared to the same period of 2019, mainly due to the drop in interest-bearing commercial assets and the related yields, which were also impacted by disposals of Unlikely-to-Pay loans carried out in the course of 2019 and the conclusion in June 2019 of the sale of the subsidiary BMP Belgio S.A. The aggregate also reflected the increase in the cost of market funding, mainly linked to the return on the market of bond issues that took place in the second half of 2019 and continued in 1Q20.

- **Net fee and commission income**, totalling EUR 694 mln, posted a downturn of 3.9% compared to the same period of the previous year. This trend was influenced by the reduced Network operations during the months of the lockdown, which penalised commissions on loans due to lower fees on brokered loans and commissions from services. On the other hand, commissions on asset management were basically stable, thanks to the positive placement trends during the first two months of the year and the recovery observed in June, as well as the contribution of income deriving from the placement of the "BTP Italia XVI issue" in May. Lastly, other net fee and commission income improved, due to the lower cost of the state guarantee following the repayment of Government-Guaranteed Bonds that took place in 1Q20.

- **Other revenues from banking business**, totalling EUR 139 mln, posted an improvement of EUR 17 mln compared to the same period of the previous year. The higher profits from the sale of securities and the greater contribution of AXA more than compensated for the decrease in the net result of trading activities, negatively impacted in the first quarter of the year by tensions in the financial markets linked to the COVID-19 emergency and the lower contribution of the Net profit (loss) from other financial assets and liabilities measured at fair value.

- **Other operating income (expenses)**, totalling EUR -28 mln, improved compared to the same period of the previous year (equal to EUR -71 mln), which included the recognition of the indemnity linked to the exercise of the right of withdrawal from the agreement entered into with Juliet for EUR 49 mln.

- As a result of the trend in these aggregates, **Total revenues** amounted to EUR 1,453 mln, down 8.4% compared to the same period of the previous year.

- **Operating expenses** amounted to EUR 1,085 mln (improvement of 5.3% Y/Y). Within the aggregate, **Personnel expenses**, equal to EUR 708 mln, fell 2.5% compared to the same period of the previous year, benefiting from the lower average workforce (in relation, in particular, to the 750 departures for the Solidarity Fund recorded in 2019 and the deconsolidation of BMP Belgio S.A. in June 2019). This trend was only partially offset by the contractual increases/adjustments related to the effects of the renewal of the National Collective Bargaining Agreement. **Other administrative expenses** amounted to EUR 265 mln, down 9.1% compared to 30 June 2019. Despite the higher expenses for the acquisition of Personal Protection Equipment (PPE) required to handle the COVID-19 emergency, the aggregate benefitted from the deconsolidation of BMP Belgio S.A. in June 2019, the savings linked to branch closures in 2019 and reduced operations during the lockdown period, as well as the savings initiatives carried out. **Net value adjustments to property, plant and equipment and intangible assets** totalled EUR 112 mln, a deterioration of 12.7% compared to 30 June 2019, principally due to lower amortisation of intangible assets.

- The **Cost of customer credit** equal to EUR 519 mln increased by EUR 266 mln compared to the corresponding period of the previous year. The figure in the first half of 2020 includes roughly EUR 300 mln from the increase in adjustments deriving from the changed macroeconomic scenario due to the spread of the COVID-19 pandemic, which influenced the portfolio's risk levels. The value in the first half of 2019 instead included a negative effect of around EUR 37 mln linked to the changed macroeconomic scenario and a net positive effect of roughly EUR 209 mln connected to the exercise of the right of withdrawal from the servicing agreement entered into with Juliet (positive effect of around Eur 457 mln, which resulted in the elimination of forecasted costs for the agreement, reflected in value adjustments) and the simultaneous revision of the NPE reduction strategy, which entailed an acceleration in the 2019 disposal plan (negative effect of around EUR 248 mln). Excluding these effects, the aggregate was down Y/Y primarily due to lower provisions on positions that are already non-performing and the lower impact of transfers to bad loans. The **Provisioning Rate**[7] is equal to **126 bps** (equal to 89 bps including the EUR 300 mln increase in adjustments linked to the scenario update as a one-off effect of only the first half of 2020).

- The **Net operating income (loss)** was EUR -158 mln, compared to a positive value of EUR 185 mln in the same period of the previous year.

- The trend in the aforementioned income statement aggregates also includes **Net provisions for risks and charges**, totalling EUR -357 mln (EUR -58 mln in 1H19), **Gains (losses) on investments**, equalling EUR 0.7 mln (EUR +3 mln in 1H19), **Restructuring costs/One-off charges**, amounting to EUR -28 mln (compared to EUR +3 mln recorded in the same period of the previous year), costs associated with **SRF (Single Resolution Fund), DGS (Deposit Guarantee Systems) and similar schemes**, amounting to EUR -77 mln (EUR -88 mln at 30 June 2019), **DTA fee** of EUR -36 mln (unchanged from same period of the previous year), and **Gains (losses) on sale of investments**, equal to EUR +1 mln (EUR +0.7 mln in 1H19).

- As a result of these trends, together with the negative impact on **Taxes** of **EUR -434 mln** (positive EUR 91 mln in 1H19) and the net economic effects of the **PPA**, equal to EUR -2 mln (EUR -9 mln as at 30 June 2019), the Group posted a **Net Loss of EUR 1,089 mln**, compared to a Net Profit of EUR 93 mln posted in 1H19.

- **Total Funding** at 30 June 2020 amounted to approx. **EUR 196.3 bn**, with an increase in volumes of EUR 11.8 bn compared to 31 March 2020, concentrated, in particular, on Indirect Funding (EUR +9.6 bn). The Assets under Custody component, up EUR 6.3 bn Q/Q, benefitted from the positive market effect as well as the deposit with the Parent Company by a large industrial group of shares that had been withdrawn in 1Q20 and the placement of the "BTP Italia XVI issue" in May. The component of Assets under Management, up EUR 3.3 bn Q/Q, instead benefitted from a positive market effect linked to the recovery in the financial markets, which in the first quarter were impacted by tensions linked to the spread of COVID-19. Direct Funding also increased (EUR +2.2 bn), thanks especially to the growth in Current Accounts (EUR +1.6 bn). Total Funding was up compared to 31 December 2019 (EUR +0.3 bn). In particular, the decrease in Indirect Funding (EUR -3.1 bn), which reflected negative market effects, was more than offset by the increase in Direct Funding (EUR +3.4 bn) thanks to the growth in Current Accounts (EUR +4.9 bn) and Repurchase Agreements (EUR +4.1 bn). On the other hand, decreases were recorded with respect to 31 December 2019 for other forms of funding (EUR -2.6 bn) and bonds (EUR -2.7 bn) mainly as a result of the aforementioned effects from the repayment of the Government-Guaranteed Bonds and the closure of the associated structured funding transactions in 1Q20.

- **Loans to customers** stood at roughly **EUR 82.5 bn** as at 30 June 2020, up EUR 0.3 bn compared to the end of March 2020, due to the increase in Repurchase Agreements (EUR +0.7 bn) and mortgages (EUR +1.4 bn), the latter also influenced by the effect of disbursements and moratoria linked to the government decrees issued following the COVID-19 emergency. By contrast, there was a drop in current accounts (EUR -0.7 bn) and Other loans (EUR -1.2 bn). The aggregate was also up compared to 31 December 2019 (EUR +2.4 bn), due to more transactions in Repurchase Agreements (EUR +2.0 bn) as well as growth in mortgages (EUR +1.9 bn), also influenced by the disbursements linked to the "Liquidity Decree". By contrast, there was a drop in current accounts (EUR -0.7 bn), Other loans (EUR -0.6 bn) and net non-performing loans (EUR -0.3 bn).

- As at 30 June 2020, the **coverage** of non-performing loans stood at 49.5%, substantially stable compared to 31 March 2020 (49.6%) and up compared to 31 December 2019 (48.7%), also following the increase in

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

adjustments deriving from the changed macroeconomic scenario that emerged following the spread of the COVID-19 emergency (for more details, refer to the section "*Quantification of impairment losses on loans"* under "*Accounting Policies"*).

- With regard to capital ratios, as at 30 June 2020 the **Common Equity Tier 1 Ratio** stood at **13.4%** (14.7% at the end of 2019 and 13.6% recordered in the 1Q20) and the **Total Capital Ratio** at **16.0%** (compared to 16.7% recorded at the end of December and 16.2% recordered in the 1Q20).

Reference context

In the first part of 2020, the COVID-19 epidemic, which began in China, spread rapidly at global level, requiring stringent lockdowns which had a strong recessionary impact on global growth. After the block on the Chinese economy in February and its gradual recovery in the following months, the COVID-19 crisis depressed the US and Europe, with the Eurozone seeming to have managed the health emergency better. On the other hand, the epidemic worsened in many emerging countries, with devastating economic effects. In this context, while maintaining resources to limit the health emergency, budget policies are gradually transitioning the objectives of governmental measures from alleviating the cost of the crisis for households and businesses, focused on earlier in the pandemic, towards jump starting the economy. The advanced economies are thus handling the phase of getting over/living with the virus, but the economic scenario remains uncertain and subject to downside risks: a new wave of the pandemic capable of cancelling out the signs of recovery remains the most significant risk; furthermore, other potential risks include continued tensions between the US and China, the further slowdown in international trade and friction between the UK and the EU during the Brexit transition period; there are also concerns regarding the sustainability of public and private debt, including the expansion of Central Bank assets, the social sustainability of the crisis, political fragmentation and increasing nationalism.

In the first quarter of the year, the United States recorded an annualised drop in GDP of 5% Q/Q followed by a decline of roughly -33% in the second quarter, but the less stringent restrictions than in Europe, established by the Trump Administration, resulted in a less severe decline in industrial production from which to recover; however, the recent new outbreak of the virus in certain parts of the country is requiring new stricter containment measures, with the risk of blocking the faint signs of economic recovery. The improvement in the job market in May and June may be only reflecting the relaxation of limitations on the movement of people and may not be permanent: indeed, while weekly applications for new unemployment benefits are declining, they remain higher than the pre-crisis average.

The Eurozone also experienced a recession in the first and second quarters of 2020 (annual GDP -3.1% and approx. -15%, respectively) within a very fragmented context in which the countries farther south, including France, are suffering more given their greater exposure to sectors more vulnerable to the crisis (tourism, restaurants, etc.). The gradual recovery in confidence indicators in May and June is showing, however, that we may be done with the acute phase, which may have seen its culmination in the very significant drop in industrial production in April (-28.7% Y/Y). The initiatives deployed at EU level are playing a decisive role for the possibility of relaunching the economy:

- in March, the EU Commission increased the flexibility of European rules, temporarily suspending the obligations of the Stability and Growth Pact, approving an exemption to rules on State aid and making unused EU funds available to Member States;
- in April, the European Council approved an emergency package for a total of EUR 540 bn in financing, including:
  - ✓ a new ESM credit line for a total of EUR 240 bn (Pandemic Crisis Support) to cover direct and indirect health expenses relating to COVID-19 and immediately operative, which each country may request by December 2022 within the limits of 2% of Gross National Income;
  - ✓ the SURE (Support to mitigate Unemployment Risks in an Emergency) instrument, operative until December 2022, with EUR 100 bn in loans under favourable conditions, which may be requested to finance expenses incurred starting in February 2020 linked to national short-time work schemes, similar measures for the self-employed and for workplace health measures. These loans will be guaranteed by payments to the EU budget by the Member States to an extent equal to at least 25% of the total loans;
  - ✓ EUR 200 bn which the European Investment Bank (EIB) will mobilise primarily in favour of small and medium enterprises not beyond the end of 2021; to this end, Member States will need to contribute pro-rata to the establishment of a EUR 25 bn Pan-European Guarantee Fund at the EIB.
- lastly, in May, the EU Commission proposed a EUR 750 bn instrument linked to the 2021-2027 EU budget, the "Recovery Fund" (Next Generation EU); the European Council subsequently reached an agreement on an instrument consisting of subsidies for EUR 390 bn and loans for EUR 360 bn. The recipient countries will need to commit to using the funds for investment or reform projects which privilege initiatives aiming to accelerate the green and digital transition, incentivise private investment and strengthen healthcare systems and cooperation in the area of public health; indeed, the increase, though temporary, of EU resources could lead the EU to establish new own resources (through web taxes, taxes on carbon emissions and on plastic) that would provide it with autonomous fiscal capacity, making it less dependent on Member State contributions.

Amongst the emerging countries, China, the first state to exit the emergency, although with some hot spots remaining, is resuming full economic activity (second quarter GDP at +3.2% y/y, after -6.8% in the first quarter). Instead, in India and Brazil, the health and economic crisis linked to coronavirus is in full swing, resulting in a further decline in the role played by emerging markets in supporting global growth.

In Italy, the COVID-19 epidemic triggered an annual decline in GDP of 5.5% in the first quarter and of roughly -17% in the second quarter of the year, with a new expansion of the growth spread with respect to the average of Eurozone countries, except for countries like France and Spain; indeed, despite the decline in economic activity, which should turn out to be worse in the second quarter, Italy overcame the peak of the emergency ahead of other European countries. The severity of the recession also has strongly asymmetrical connotations, with very different consequences at sector and regional level and by type of worker and business. The government intervened to combat the health emergency and support the economy with the "Cura Italia" decree approved at the end of March, and the subsequent Liquidity Decree approved in June and the Relaunch Decree approved in July, setting aside EUR 75 bn, equal to 4.5% of GDP: the financial commitment was significant, but the amount was slightly lower than the Eurozone average, although Italy was one of the continental European countries most struck by the pandemic; thus recourse to EU aid becomes crucial in order to support the recovery.

After the heavy losses recorded between February and March due to the outbreak of the pandemic, stock prices embarked upon a phase of progressive increases supported by the introduction of anti-crisis measures by Central Banks and governments. Since the beginning of the year, the Euro Stoxx index has lost more than 13% and the FTSE MIB -17%. More limited declines were seen for the S&P 500 (-4%) and the Nikkei (roughly -6%). The Chinese Shenzhen instead rose by nearly 2%, recovering its losses from the start of the year. It was almost exclusively the securities of tech and healthcare companies to drive the indexes, which however represent only around 30% of the capitalisation of the global general index.

The long-term yields of risk-free countries have risen from the lows observed in March, however the new outbreak of the virus and the strongly accommodating tones of the Central Banks have contributed to them partially backsliding. As at 30 June 2020, the yield on the German ten-year bond was at -0.45%, down from -0.19% at the end of 2019, and the US ten-year was 0.66%, from 1.92%. After rising multiple times above 250 basis points in the spring months, with the rating agencies which increased the alert level on Italian public debt, the spread between the BTP and the Bund benefitted from the policies deployed by the European Authorities, retreating at the end of June to 171 basis points, only 11 higher than the levels marked at the end of 2019; the yield on the Italian ten-year bond also reached 1.26% on 30 June 2020, after rising to a peak of 2.43% in March.

To counter the considerable economic fallout from the pandemic, Central Banks strengthened their economic interventions. The Fed reduced the Federal Funds rates in the range of 0.00%-0.25%, then increased the liquidity available to intermediaries and launched a new programme to purchase public debt and mortgage-backed securities, without limits on their amount. It introduced a series of instruments to support credit to businesses, even the riskiest ones, consumers and local administrations both indirectly, through the banking system, and directly, by granting loans and purchasing private securities in the secondary market with a USD 750 bn plan. Furthermore, to ensure the availability of dollar liquidity in international markets, it activated swap lines with the central banks of major advanced and emerging countries. The ECB, after arranging new longer-term refinancing operations (LTRO) and a further relaxation of the conditions applied to the third series of targeted longer-term refinancing operations (TLTRO3), launched the PELTRO (Pandemic Emergency LTRO), new refinancing transactions for 2020 aiming to favour the functioning of the interbank market. It also decided to temporarily accept junk bonds as collateral from banks in Eurosystem financing transactions, even discussing their acquisition as part of the quantitative easing plan. At the June meeting, the President of the ECB announced the expansion of the Pandemic Emergency Purchase Programme (PEPP), bringing its total amount to EUR 1,350 bn and extending its expiration to June 2021 or at least until the end of the crisis. The bonds purchased through the APP (Expanded Asset Purchase Programme) will instead continue at the pace of EUR 20 bn per month, and in any event for all of the time required, to finish just before the policy rates are increased. The maturing bonds, including non-financial commercial papers, will be reinvested at least until 2022, contributing towards the compression of monetary rates.

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

In the initial months of 2020, the effects of the COVID-19 pandemic were reflected in the production activities and aggregate demand of all economies. The deterioration in growth forecasts has translated into a sharp drop in stock market indexes and a sudden increase in volatility and risk aversion. In all the largest countries, monetary and fiscal authorities have put in place strong expansionary measures to support household and business income as well as provide credit to the economy and liquidity on the markets. In parallel, the European institutions (**European Commission, European Council and Parliament**), Italian and European Supervisory Authorities (**EBA, ESMA, ECB/SSM, Bank of Italy, SRB**), and international institutions (**IASB, Basel Committee**) adopted a series of measures to support banks in mitigating the economic impact of the COVID-19 pandemic.

Below is a summary of the main interventions/support measures adopted in the first half of 2020.

Regulatory interventions

Capital requirements

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

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

The ECB also indicated that it would ensure maximum flexibility regarding NPE reduction strategies, taking into account the extraordinary nature of current market conditions.

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

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

On 25 June 2020, Commission Delegated Regulation (EU) 2020/866 of 28 May 2020 was published in the Official Journal of the European Union, modifying Delegated Regulation (EU) 2016/101 as regards the standards on prudent valuation, in order to mitigate the impact of volatility triggered by the COVID-19 pandemic on prudential market risk requirements; in particular, the Regulation introduces the use of a 66% aggregation factor to be applied until 31 December 2020 as part of the "core approach".

On 26 June 2020, Regulation (EU) 2020/873 was published in the Official Journal of the European Union, amending the CRR and CRR II regulations, in order to adjust the prudential regulation framework to the requirements linked to the COVID-19 emergency. The Regulation introduces, *inter alia*, measures to relax the capital requirements applicable as of 27 June 2020, such as:

---

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

- changing the IFRS 9 transitional provisions, which allows banks to sterilise the capital impacts associated with the increase in credit value adjustments recognised in the period 2020-2024 with respect to 1 January 2020 for stage 1 and 2 portfolios. In particular, the Regulation provides for the re-introduction into common equity Tier 1 capital of a progressively decreasing share of the effect of the higher adjustments, equal to 100% in 2020 and 2021, 75% in 2022, 50% in 2023 and 25% in 2024;
- introducing a prudential filter relating to the OCI reserve on government bonds to attenuate the negative impact of the levels of volatility in the financial markets and the debt of central administrations on regulatory capital. The temporary treatment, applicable in the period from 1 January 2020 to 31 December 2022, allows banks to exclude from common equity Tier 1 capital the progressively decreasing amount (100% in 2020, 70% in 2021, 40% in 2022) of unrealised profits and losses accumulated starting from 31 December 2019, accounted for in the financial statement item "Changes in the fair value of debt instruments measured at fair value through other comprehensive income", with reference to exposures to central administrations, provided such exposures are not classified as non-performing financial assets;
- bringing forward the application date of a) the SME Supporting Factor, b) the Infrastructure Supporting Factor, and c) a more accurate calibration of the salary-/pension-backed loans. The application date of such measures was brought forward to 27 June 2020, the date of entry into force of the Regulation, instead of the date of 28 June 2021 originally established by the CRR II;
- introducing a temporary treatment of public debt issued in the currency of another Member State: until 31 December 2024, exposures to central administrations and the central banks of Member States, when such exposures are denominated and financed in the national currency of another Member State, receive more favourable weighting factors in credit risk; furthermore, the competent authorities may allow banks to take on exposures with higher limits for the purposes of the rules on large exposures;
- immediately applying the EBA's RTS (Regulatory Technical Standard) on the prudential treatment of software; the CRR II introduced provisions to modify the regulatory treatment of software assets, providing for their exclusion from CET1 deductions. The EBA was commissioned to develop the Regulatory Technical Standards (still being drafted) to specify how to apply this exemption. The application date of the new prudential treatment of software was set by the CRR II at 12 months from the entry into force of the aforementioned RTS. To free up capital and support digital investments by banks, Regulation 2020/873 brought forward the application date to the date on which the Technical Standards enter into force;
- with reference to the regulations on the prudential backstop for non-performing loans ("calendar provisioning"), extending the preferential regime envisaged for loans guaranteed by Export Credit Agencies (SACE in Italy) in terms of the provisioning obligations (0% for the first 7 years, 100% provision only in the eighth year), to all loans guaranteed by the State (only for the guaranteed portion of the loan);
- temporarily excluding, subject to the discretion of the competent authority, certain exposures to central banks from the calculation of the financial leverage ratio;
- introducing a temporary method for calculating the value of the exposure of standardised purchases and sales pending settlement for leverage ratio purposes, which establishes the possibility of offsetting the entire nominal amount of commitments to pay connected to standardised purchases with the entire nominal amount of receivables in cash connected to standardised sales pending settlement, when certain conditions are met.

Liquidity requirements

With reference to the liquidity requirement, the ECB has allowed the possibility to supervised banks to operate below 100% of the liquidity coverage ratio.

MREL requirement

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

Classification of exposures for accounting and prudential purposes

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

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

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

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

Forborne classification

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

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

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

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

On 2 April 2020, the EBA also published the document **"Guidelines on legislative and non-legislative moratoria on loan repayments applied in light of the COVID-19 crisis"**, which provides detailed criteria that must be observed for public and private moratoria granted before 30 June 2020[9], so that they are not classified as exposures subject to forbearances or distressed restructurings. The guidelines also establish that the entities must continue to promptly identify situations of possible financial difficulty for borrowers and establish consistent classification in accordance with the regulatory framework.

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

1. the moratorium must be the result of national legislation or a private initiative. In the latter case, the measure must be based on an intervention scheme that is widely coordinated throughout the banking sector, in order to guarantee uniformity in the moratorium granted by the various credit institutions;
2. the moratorium is applied in relation to a broad spectrum of obligors, determined based on general criteria, such as certain customer types (retail, SMEs, etc.), obligors from one of the areas most affected

[9] Term extended to 30 September 2020 on the basis of the EBA's decision announced on 18 June 2020.

by the pandemic, exposure type (mortgage, lease, etc.), or part of a particularly affected production sector, etc.;

3. the measure is based solely on a modification of the payment deadlines and, therefore, may consist of a payment suspension, rescheduling, or a temporary reduction of the principal and/or interest to be paid. The moratorium, therefore, cannot entail the modification of other contractual clauses (e.g., interest rate);
4. the moratorium is applied under the same conditions to all subjects who benefit from it;
5. the measure is not granted on loans disbursed after the date on which the moratorium was announced;
6. the moratorium is a response specifically to the emergency generated by the COVID-19 pandemic and applied before 30 June 2020[10].

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

Performing/non-performing classification

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

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

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

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

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

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

Updates to macroeconomic scenarios

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

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

[10] Term extended to 30 September 2020 on the basis of the EBA's decision announced on 18 June 2020.

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

The crisis triggered by the COVID-19 pandemic has produced a sudden worsening in economic forecasts: the context of pronounced uncertainty limits the reliability of available information, making the task of producing detailed long-term forecasts extremely difficult. Various authorities have taken action on this point, providing indications and references to the use of forecasts in developing estimates of expected credit losses during this period characterised by the COVID-19 pandemic. In particular, with its communication of 20 March **"ECB Banking Supervision provides further flexibility to banks in reaction to coronavirus"**, the ECB, although not strictly under its responsibility, as part of its prudential mandate also expressed itself on the IFRS 9 forward-looking assessments, recommending that banks avoid excessively pro-cyclical assumptions in their provision estimation models. In determining Expected Credit Losses, the ECB invited institutions to "provide greater weight to the stable long-term outlooks developed from past experience in the estimation of provisions for credit losses".

The ECB also sent the supervised banks an additional communication, **"Letter to banks: IFRS 9 in the context of the coronavirus (COVID-19) pandemic"** of 1 April, to provide additional information and references on the inclusion of forward-looking information in the determination of ECLs according to IFRS 9 in the current context of the COVID-19 pandemic. The letter refers to the expectations already expressed by the ECB to intermediaries, or avoiding the use of excessively pro-cyclical assumptions, in consideration of the extreme uncertainty of the context and in light of the impossibility of having forward-looking information available that can be deemed "reasonable and supportable".

Also the documents of ESMA and the EBA of 25 March 2020 referred to above, with reference to forward-looking estimates, highlight the complexity of the context and substantially confirm the observations of the ECB already referred to above.

Lastly, on 27 March 2020, the IASB published the document **"COVID-19 - Accounting for expected credit losses applying IFRS 9 Financial Instruments in the light of current uncertainty resulting from the COVID-19 pandemic"**. The document does not modify IFRS 9, but it suggests a way to interpret it within the current context of the pandemic. Specifically, it is clarified that entities should not continue to mechanically apply the existing methodology for the determination of ECLs ("*Entities should not continue to apply their existing ECL methodology mechanically*"); furthermore, the difficulty of incorporating both the effects of the pandemic and the correlated government aid within models is recognised. Therefore, if banks find themselves in this situation, post-model management adjustments will need to be taken into consideration.

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

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

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

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

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

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

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

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

Financial reporting

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

In the additional warning notice no. 8/20 of 16 July 2020, Consob drew the attention of issuers to respect for the recommendations laid out by ESMA in the Public statement **"Implications of the COVID-19 outbreak on the half-yearly financial Reports"** of 20 May 2020. In particular, Consob highlighted how in the preparation of the next interim reporting, the assessments that directors are called upon to make pursuant to IAS 36 "Impairment of assets" (IAS 36, paragraphs 9 and 12) are particularly important, and specifically it must be evaluated whether the effects of the Covid-19 pandemic constitute indicators of impairment such so as to require the performance of specific testing on asset recoverability.

The authority underscores the importance of the description of significant uncertainties and risks connected to Covid-19 and with reference to the income statement, these descriptions must be provided on a quantitative basis as well, within a single note to the interim financial statements, in order to enable users of the financial statements to understand the overall impact of the pandemic on the profit and loss for the period. Furthermore, in relation to the disclosure to be provided in half-yearly reports on operations, issuers should provide detailed and specific information about the impacts of Covid-19 on strategic planning and plan targets, economic performance, the financial position and cash flows.

Lastly, Consob highlights that there must be a particular focus on the description of the measures adopted or planned to handle and mitigate the impacts of Covid-19 on the assets and economic results, indicating the relative implementation status.

Monetary policy interventions

Financing transactions

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

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

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

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

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

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

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

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

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

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

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

In particular, the following measures were applied:

- from 8 April 2020: i) the minimum threshold for domestic credit at the time of collateral transfer is reduced to zero (from the current EUR 30,000); ii) the concentration limit envisaged for the use as collateral of senior uncovered bank bonds (UBB) issued by a credit institution or by other entities with

which this institution has close ties is increased from 2.5% to 10% of the total value of the collateral pool of each counterparty;
- from 20 April 2020: the minimum rating requirement for Greek government bonds is suspended, in order to make them eligible to be used as collateral in Eurosystem credit operations;
- from 20 April 2020: a generalised reduction in haircuts for all eligible assets (securities and loans) will be applied. A reduction is also envisaged for the additional risk mitigation measures applied to covered bank bonds for own use and to securities measured using a theoretical price (UBBs, GGBBs, covered bank bonds and ABSs).

Furthermore, as part of the framework for additional credit claims (ACC), effective 20 April 2020, the following were introduced:
- the possibility for banks to use their own internal credit quality assessment system (IRB), even if they have only been approved by supervisory authority;
- a reduction in haircuts applied to loans provisioned both individually and as part of portfolios;
- a review of other risk mitigation measures specifically envisaged for credit portfolios;
- change in the frequency, from monthly to quarterly, for sending detailed data on individual loans included in the portfolios (loan-level data).

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

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

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

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

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

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

Further expansions in the group of eligible assets were subsequently decided upon by the ECB's Governing Council. In particular, from 25 May 2020 until September 2021 (when the ECB's Governing Council will evaluate their extension), it is possible to allocate:
1. loans backed by guarantees introduced by Law Decree no. 23/2020 to handle the COVID-19 emergency issued by SACE and by the Fund for SMEs;
2. loans disbursed to businesses for whose debtors only the assessment of credit quality produced by the internal system of the Bank of Italy (ICAS) is available, even if individually provided as a guarantee (until now, those assessments were used only for loans granted within portfolios of loans to businesses);
3. within portfolios of loans to businesses, performing loans irrespective of the probability of default (PD) attributed to the debtor (after eliminating the maximum PD limit, currently equal to 10%);
4. the loans disbursed in the form of with recourse factoring, both in the ordinary scheme and in the temporary scheme of ACCs.

From 17 June 2020 to September 2021 (when the ECB's Governing Council will evaluate a possible extension), the banks may also provide as guarantees in financing transactions with the Eurosystem:
1. portfolios of similar loans consisting of consumer credit provided to households;
2. mortgages provided to households within uniform portfolios, irrespective of the probability of default attributed to the debtor and the Loan-to-Value ratio (after eliminating the maximum limits currently established, equal to 10% for PD and 80% for the Loan-to-Value).

In this regard, the following new sources of assessment of the credit quality of borrowers were introduced:

1. the trend component of the internal system of the Bank of Italy for the assessment of credit quality (ICAS - In-house Credit Assessment System), with assessments based exclusively on data of the Central Credit Register, usable for loans disbursed to small partnerships provided as a guarantee within portfolios of loans to businesses;
2. a unique PD and LGD, calculated according to a conservative approach developed by the Bank of Italy, usable for the assessment of: i) loans disbursed to artisans and income-generating households, provided as a guarantee within portfolios of loans to businesses; ii) loans granted as a guarantee within consumer credit portfolios.

Market liquidity support

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

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

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

In response to the downward revision of inflation, due to the pandemic, and with a view to further supporting financing conditions for the real economy, especially for businesses and households, at its meeting on 4 June 2020 the ECB's Governing Council decided to increase the amount available in the PEPP by EUR 600 bn, which therefore reached a total of EUR 1,350 bn. The horizon of the net purchases as part of the PEPP was also extended at least until the end of June 2021.

Government interventions

State Aid in the European context

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

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

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

- **direct grants, selective tax advantages and advance payments**: Member States will be able to set up systems to grant up to EUR 0.8 mln to a business facing urgent liquidity needs;
- **state guarantees for bank loans taken by companies**: Member States can provide state guarantees to allow banks to continue providing loans to customers who need them;
- **subsidised public loans to companies**: Member States will be able to grant loans with favourable interest rates to companies. These loans can help businesses meet immediate working capital and investment needs;
- **safeguards for banks that channel State Aid to the real economy**: some Member States plan to leverage banks' existing lending capacities and use them as a support channel for businesses, in

particular small and medium-sized enterprises. The framework clarifies that this aid is considered direct aid to the banks' customers and not to the banks themselves and provides guidelines to minimise the distortion of competition between banks;

- **short-term export credit insurance**: the framework introduces additional flexibility in demonstrating that some countries constitute uninsurable risks on the market, thus allowing states to offer credit insurance, where necessary, for short-term exports.

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

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

On 14 April 2020, the European Commission approved an aid package to support the Italian economy in tackling the effects of the COVID-19 epidemic as part of the Temporary Framework on State Aid.

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

On 8 May 2020, the European Commission adopted an amendment to the Temporary Framework, intended to further facilitate access to the capital and to liquidity for the companies impacted by the crisis, establishing the criteria on the basis of which the Member States can recapitalise and provide subordinated debt to businesses in difficulty, while at the same time preserving equal conditions within the European Union.

In addition to these measures, the EU has established a temporary instrument (SURE, Support to mitigate Unemployment Risks in an Emergency) to support work and workers, financed with the issue of securities by the EU. The SURE fund, adopted by the European Council on 19 May, provides financial assistance for a total of EUR 100 bn in the form of loans, to support and supplement national unemployment funds.

On 26 May 2020, the European Investment Bank (EIB) in turn set aside a new pan-European guarantee fund of EUR 25 bn, supported by the Member States, which enables the EIB Group to activate EUR 200 bn for the EU economy, with a view to limiting the negative impact of COVID-19 on SMEs and other businesses in Europe. At least 65% of the loans will be allocated to SMEs, while up to 7% may be assigned to support SMEs and mid-caps in the form of risk capital, growth capital and venture debt.

On 27 May 2020, the European Commission also launched a recovery programme, Next Generation EU, which has a financial capacity of EUR 750 bn and is based on three pillars:

- instruments to support the efforts made by the Member States to recover from the crisis, overcome its effects and re-emerge stronger;
- measures intended to stimulate private investments and support businesses in difficulty;
- strengthening of strategic EU programmes to learn from the crisis and make the single market stronger and more resilient and accelerate the dual green and digital transition.

The plan was approved by the European Council on 21 July 2020.

On 26 June 2020, the European Commission approved four Italian aid schemes to support businesses and workers. The measures, with a total estimated budget of EUR 7.6 bn, offer tax breaks and tax credits and were included within a broader package, part of the "Relaunch Decree".

On 2 July 2020, the European Commission adopted a third amendment to the Framework, which acts in three areas: 1) the inclusion within the beneficiaries of the aid schemes of microenterprises and small businesses that were already in difficulty as at 31 December 2019, provided they meet specific parameters; 2) the encouragement of the contribution of capital, with significant private participation in the framework of public aid to support companies in difficulty; 3) the exclusion of a subordination of aid to the delocalisation of production activity or another activity of the beneficiary from another country of the European Economic Area (EEA) to the Member State providing the aid.

On 8 July 2020, the European Commission approved an additional Italian aid scheme for EUR 6.2 bn to support small businesses and the self-employed active in all economic sectors, with the exception of the financial sector and the public administration. In this framework, the public support will take the form of direct subsidies.

Italian government decrees

To counteract the negative effects that the COVID-19 epidemiological emergency is having on the domestic social and economic fabric and to prevent the temporary crisis from producing permanent effects, in the initial months of the year the Italian government implemented a series of extraordinary, necessary, and urgent measures. A summary is provided below.

Law Decree 18/2020 issued on 17 March 2020 "Measures to strengthen the National Health Service and economic support for households, workers and businesses related to the COVID-19 epidemiological emergency" (known as **"Cura Italia"**).

The **"Cura Italia"** decree acts within four main areas. Firstly, the resources available to the healthcare system have been strengthened, including for hiring doctors and nurses and increasing the number of intensive care units. Secondly, measures to support household income have been introduced through numerous instruments, mostly intended to strengthen social safety nets throughout the country for employees and freelance workers as well as specific sectors. In particular, the existing social safety nets, such as the *Cassa Integrazione Guadagni Ordinaria* (Ordinary Unemployment Fund)[1], the *Fondo di Integrazione Salariale* (Income Support Fund) and the *Cassa Integrazione Guadagni in Deroga* (Exceptional Unemployment Fund), are extended to all companies forced to limit or suspend business activities due to COVID-19, reducing all or part of employees' working hours. Furthermore, the decree suspends lay-offs for economic reasons for the duration of the emergency period. The third line of action relates to the support of companies' liquidity, at risk due to the collapse in demand following the halt in economic activities, through the banking system and the use of the *Fondo Centrale di Garanzia* (Central Guarantee Fund). The primary objective of the Italian government is to prevent the difficulties of the real economy from escalating due to a lack of liquidity and interruption in the supply of credit. In particular, it envisages:

- the temporary postponement of fiscal deadlines relating to taxes and social security contributions;
- the obligation for banks to maintain credit lines[2] to respond promptly to the exceptional and urgent need for liquidity of small and medium-sized enterprises (SMEs) in particular;
- the recognition to banks of government guarantees on one-third of the loans subject to a moratorium measure. At the same time, the Central Guarantee Fund for SMEs has been enhanced, in terms of resources and operating procedures, and a public guarantee has been granted on exposures assumed by Cassa Depositi e Prestiti to banks and financial intermediaries that disburse loans to companies affected by the emergency and operating in specific sectors.

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

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

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

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

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

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

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

On 29 April 2020, Law no. 27/2020, converting the "**Cura Italia**" decree, was published in the Official Gazette no. 110. The main changes introduced during the process of conversion into law include:

- the extension of the intended beneficiaries of the "first home" mortgage solidarity fund (Fondo Gasparrini), providing for, among other things, the suspension of mortgages of amounts up to EUR 400 thousand (the previous threshold was EUR 250 thousand) as well as mortgages granted through the Guarantee Fund for the purchase of first home loans, managed by CONSAP S.p.A;
- the suspension of instalments of mortgages disbursed by the Solidarity Fund for victims of usury, as well as the suspension of all enforcement procedures relating to those mortgages;
- the suspension of mortgages granted by Invitalia in favour of businesses located in the areas of the first municipalities most struck by the COVID-19 epidemic (pursuant to Annex 1 of Prime Ministerial Decree of 1 March 2020).

The Italian government continued with the issue of regulations supporting the economy to limit the negative effects caused by the health crisis.

On **7 June 2020**, Law no. 40/2020, converting Law Decree no. 23/2020 (**"Liquidity Decree"**), was published in the Official Gazette no. 143. The measures adopted establish, *inter alia*:

- financing up to EUR 30,000 with a maximum duration of 10 years 100% guaranteed by the Guarantee Fund for SMEs or natural persons performing business activities;
- financing up to EUR 800,000 with a maximum duration of 72 months 90% guaranteed by the Guarantee Fund (extendable to 100% with Confidi credit guarantee consortia intervention) for SMEs and SBs;
- financing up to EUR 5 million in new liquidity 90% guaranteed by the Guarantee Fund for SMEs;
- guarantees from the State for a total of roughly EUR 200 bn granted through the company SACE Simest, of the Cassa Depositi e Prestiti Group, in favour of banks that provide loans to businesses in any form whatsoever;
- measures to support exports, internationalisation and business investments: this measure introduces - as of 1 January 2021 - a co-insurance system for non-market risks on the basis of which the commitments deriving from the insurance activities of SACE are assumed by the State for 90% and by the company itself for the remaining 10%;
- the expansion of the objective scope of intervention of the golden power rules to sectors of strategic relevance, making it possible to subject to prior authorisation the relevant transactions relating, *inter alia*, to the financial, lending and insurance sectors.

On 16 July the Simplification Decree, Law Decree no. 76 of 16 July 2020 on "Urgent measures for simplification and digital innovation" was also published in Official Gazette no. 76. The measure is currently in Parliament to begin the review process for conversion into law, and calls for simplifications, *inter alia*, in the following areas:

- on building, jointly owned building cooperatives will be eligible for the benefits of the Gasparrini Fund, for mortgage loans disbursed to such cooperatives, governing the methods for granting the suspension of mortgage instalments and the submission of the application;
- within the loans laid out by the Nuova Sabatini law, there is the possibility to grant loans up to EUR 200,000 in a lump sum;
- simplifications for the issue of guarantees by SACE in favour of green new deal projects.

On 18 July, Law 77/2020 was published in Official Gazette no. 180, converting Law Decree 34/2020 on "Urgent measures for health, support for work and the economy, as well as social policies linked to the COVID-19 epidemiological emergency" (**"Relaunch Decree"**), which calls for additional measures to relaunch the economy, including:

- extension of the moratorium in favour of microenterprises and SMEs laid out in art. 56 of Law Decree no. 18/2020 (Cura Italia Law Decree), also to subsidised loans backed by the State and granted to businesses following the earthquakes of 2012 and 2016 for the payment of taxes, contributions and premiums already suspended or still to be paid at the effective date of the respective subsidy regulations;
- refinancing of the Guarantee Fund for SMEs;
- refinancing of the First Home Guarantee Fund;
- strengthening of the system of innovative start-ups, favouring their access to liquidity;
- aid in the form of guarantees from the Regions and the autonomous Provinces on loans to businesses;
- aid in the form of subsidised interest rates for loans to businesses;
- simplifications relating to the benefits of the Guarantee Fund for SMEs;

- structural measures intended to incentivise investments, both in risk capital and in debt capital, in the real economy and, in particular, in the world of unlisted companies, strengthening the capacity of Long-Term Savings Plans (PIR) to convey private savings towards the business world;
- SACE guarantee in favour of insurance companies in the credit segment to an extent equal to 90% of the indemnities generated by exposures relating to short-term trade receivables;
- measures to facilitate the transfer of tax credits in favour of banks and financial intermediaries;
- suppression, on a definitive basis, of the VAT and excise duty safeguard clauses.

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

Occupational safety

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

The following were involved in managing the crisis:

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

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

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

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

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

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

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

The primary strategic initiatives adopted are listed below.

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

  At the height of the health emergency, when the branches and Centres had limited hours, the percentage of employees taking advantage of smart working far surpassed 90%; with the progressive re-opening of the branches, as of 18 May, recourse to smart working on average accounts for roughly 75% of the General Management and 10% of employees in the Branches and Specialised Centres.

  Agile work was only possible thanks to the strengthening of the technology infrastructure, through significant investments designed to enhance the systems for monitoring logical security, with the purchase of new applications and the strengthening of existing infrastructures.

- <u>Personal protection equipment to protect people's health</u>

  To safeguard the health of colleagues and customers, the Parent Company adopted incremental prevention and protection measures since the emergency began, monitoring the evolution of the situation in implementation of the regulatory provisions issued at national and local level.

  The following initiatives are noted in particular:

  - all structures were equipped with Personal Protection Equipment (PPE), consisting of masks, sanitising gel, etc.;

- the cleaning service was reinforced, with the use of sanitising products and cleaning at the end of every work day, activating specific monitoring in this regard;
- respect for separation and distancing rules was favoured with the installation of around 13,500 plexiglass protection screens and distancing strips for customers in operating units in contact with the public;
- extraordinary maintenance of the air treatment systems and air conditioning systems was activated at all locations.

A "*Protocol for combatting and limiting the spread of the COVID-19 virus*" was also defined, containing all measures enacted (delivered to the Supervisory Bodies, for example local health authorities, in the case of any inspections at our locations) and a specific biological risk assessment was performed with a view to COVID-19. Lastly, specific procedures were defined and distributed for suppliers relating to rules for entry, interaction and the necessary instruments.

- Customers were informed on a case by case basis through notices outside the branches, information on the Parent Company's institutional website and press releases in the media, referencing the availability of alternative channels to the traditional branch, such as the opportunity to use ATMs, internet banking and mobile banking, which were functioning and operational.
- Information to branches: the branches have been constantly updated in real time on developments in the crisis and the resulting provisions of the government, regional ordinances and municipal ordinances, including through the efforts of Health and Safety Executives. Furthermore, at certain points in time, signs were prepared that were hung up in the branches for the benefit of customers.
- Information to personnel: with the evolution of the health emergency and, consequently, the containment measures ordered by the Council of Ministers and by the individual regions, detailed instructions on corporate and national provisions have been made available and constantly updated for all personnel (via individual emails as well as through the web page dedicated to emergency management created on the company's intranet portal).
- Responses to employees: in order to handle requests for specific clarifications and analysis, an email address and an information request form were made available to all Montepaschi Group personnel, which can be filled out on the intranet. The form consists of a series of questions with a guided response. In cases where the answer is not complete, a specific request can be added in a special field.
- FAQs: FAQs have been prepared and constantly updated, broken down by topic, which Group employees can access to get answers to their questions/doubts. The FAQs are published on the web page dedicated to emergency management on the company's intranet portal. This page acts as an access point for all employees for relevant useful information, stored virtually, which can be accessed from any device, including personal devices that have updated credentials.

Commercial activities

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

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

Later, again with a view to safeguarding both customers and employees and in general the communities in which the Parent Company operates, all necessary measures were taken to guarantee health safety and allow for the main banking transactions to be carried out, so as to limit inconveniences for customers as much as possible. The Branches and Centres were thus kept open only on certain days of the week and accessible only with an appointment to carry out indispensable cash transactions after which time opening hours were progressively expanded and access methods simplified.

Currently, all Branches and Specialised Centres throughout the country are accessible with no appointment, every day of the week, with the only restriction being that customers may remain inside the branch only and exclusively for the time necessary to perform banking transactions.

In order to reduce contacts to the extent possible, from the very start of the emergency, customers were invited to use the **apps** and **Digital Banking**, through which accounts can be viewed (current account, debit and credit cards, investments, prepaid cards, mortgages, and loans) and all banking transactions can be carried out remotely.

From 13 March 2020, a toll-free "Covid Emergency" number was made available to customers to support the existing generic number. Direct communication activities with customers on digital information and social channels were also progressively enhanced.

A page dedicated to the COVID-19 emergency (https://www.mps.it/comunicazioni-alla-clientela/emergenza-coronavirus.html) has been created on the Parent Company's website that is constantly updated with all useful information and from which it is possible to check the branch opening schedules, e-mail addresses dedicated to the emergency and telephone numbers.

Subsequently, in keeping with the trend of the emergency and in incorporating the provisions laid out in the Decrees issued by the Prime Minister, customers were informed, both with notices posted outside the Branches and with other remote communication tools, of the restoration of operations and the possibility to access the various economic support tools provided by the government.

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

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

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

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

Credit

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

In relation to this guideline, the activity of **monitoring support measures and the relevant credit aggregates** continued and the **review of credit strategies and credit standards** was completed.

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

As regards the **credit strategies**, approved by the Board of Directors on 25 February 2020, the new scenario has, in fact, resulted in their being inapplicable. The Parent Company therefore defined a new methodological framework with a view to guiding growth, transitioning from an approach of "developing" loans to the best customers (low risk) to an approach of "support" primarily focused on "helping" the Group's performing customers, both low risk and high risk, to overcome this difficult moment generated by the crisis.

The strategies to be applied were developed based on the impacts that the crisis arising from the COVID emergency generated, not only in the economic sector to which the company belongs, but also on its quality in terms of the deterioration in the counterparty rating.

On the basis of the methodology developed, four credit strategy clusters were identified: ordinary growth, growth with risk mitigation, support with risk mitigation and selective management. For each of the clusters identified, the amounts to be disbursed were defined with a view to both development and support. The strategies outlined were approved by the Board of Directors on 16 July 2020.

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

The approach adopted is inspired by the criterion of proportionality, establishing degrees of analysis of creditworthiness depending on the size of the company and the impact of COVID on the applicable sector.

In particular, the main areas of integration regarded the set of documents (document check list defined to verify the criteria for customer eligibility for the various guarantee tools laid out in the "decree"), the analysis of financial requirements (tool developed to determine the shortfall of company liquidity and the "proper" size of the support required), the outlook analysis (impact of the new scenarios on the main indicators, to evaluate timing for recovery and debt sustainability) and qualitative analysis (questionnaire to supplement the informational framework).

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

The concessions/suspensions provided for "COVID" purposes did not result in the relative positions being classified as forborne. For more details, please refer to the section "Classification of exposures for accounting and prudential purposes" in the section "Regulatory and supervisory interventions by institutions within the context of the COVID-19 pandemic" in this Half-hearly Report on Operations.

In addition, on 27 March, the automatic parameters for classifying overdrafts as non-performing, applied to forborne measures already active, were temporarily deactivated, with a not very significant impact as at 30 June 2020.

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

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

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

Particular attention was given to collection actions on private individuals in order to mitigate potential reputational risks that, in this scenario, could result from the credit collection activities and in the classification to bad loans (notice of default status, etc.).

Another aspect to which particular attention was given concerns the management of payment suspension requests (and requests for rescheduling) from customers. In this regard, the Parent Company has decided to evaluate the suspension requests for the "unlikely to pay" portfolio, even if they do not fall within the legislative scope (also see the section "*Other significant aspects within the context of the COVID-19 pandemic*" under "*Accounting Policies*").

As at 30 June 2020, the Group had received requests for moratoria for approximately 111.3 thousand loan accounts of performing customers (approx. 62.4 thousand from businesses, 47.8 thousand from private customers and 1.1 thousand from entities) corresponding to total exposure of EUR 15.8 bn (EUR 10.5 bn for businesses, EUR 4.6 bn for individuals and EUR 0.7 bn for entities).

On the entire scope, 70% consisting of requests falling within the legislative scope, activities are under way to formalise the requests, following the preventive freeze of instalments.

The requests received on the NPL portfolio regard roughly 2,800 counterparties and around 3,300 relationships for EUR 0.9 bn and were accepted to the extent of 69% of the counterparties and 40% of the exposures.

Furthermore, pursuant to art. 56, par. 2 letter a) of Law Decree 18/2020, roughly EUR 4 bn in revocation loans and advances were made irrevocable and/or extended depending on the case.

As at 30 June 2020, loans guaranteed by Sace and/or the Central Guarantee Fund were also approved to the extent of roughly EUR 2.4 bn, equal to 70% of the total proposed for approval; the above-mentioned ratio increases to 95% limited to loans up to EUR 30 thousand guaranteed at 100%; at the same date, the total disbursed is equal to roughly EUR 1.4 bn, and passed EUR 2 bn at 31 July 2020.

Business Continuity Management

In particular, business continuity management has:

- guaranteed operational continuity of critical and systemic processes by:
  - creating separate working teams for the core treasury and operating liquidity processes operating in the regular offices, through smart working and in the recovery room;
  - using smart working, progressively implemented based on developments in the emergency and government provisions;
  - progressively implementing equipment (laptops) for all other resources involved in critical processes, coordinating the delivery of nearly 3,000 new laptops.
- launched the crisis management process envisaged by company regulations - emergency level raised to 3 (extraordinary), reduced to 2 (Ordinary) as of mid-June;
- convened and launched the Crisis Management Committee (CMC) to monitor the emergency as long as the crisis level remained at level 3;
- participated regularly in institutional working teams created by CODISE (Service continuity for managing the banking system crisis led by Bank of Italy), ABI, COBAN, and the BCM Observatory.

Logical Security and Physical Security Management

In response to the extraordinary needs that emerged, in particular starting from the beginning of March and related to the COVID-19 emergency, the Group has:

- activated up to 720 “Citrix” licenses for secure connection to the corporate system using personal devices, subsequently available only in cases of actual need;
- enhanced the perimeter of the corporate VPN (reaching peaks of around 19 thousand users connected in agile work);
- strengthened security measures against cyber attacks;
- enhanced monitoring of extraordinary activities (sanitisation, ATM refilling, etc.) during the branch closure days (Tuesday and Thursday);
- adopted extraordinary measures, with the presence of a doorman for managing customer flows in branches during peak periods (e.g., for pension payments);
- launched the pilot project (branches with sliding doors) with regard to the use of the anti-theft technology for active management of the daily flow of customers (failure to comply with the rules established by the Prime Minister’s Decree-DPCM- etc.);
- installed thermal scanners to take body temperature in large complexes;
- monitored daily the number of people in the Head Office buildings.

Shareholders

As at 30 June 2020, the Parent Company Banca Monte dei Paschi di Siena's share capital amounted to EUR 10,328,618,260.14, broken down into 1,140,290,072 ordinary shares, of which 36,280,748 treasury shares.

According to the communications received pursuant to the applicable legislation and based on other information available, as well as based on information on CONSOB's website, the entities that, as at 30 June 2020, directly and/or indirectly hold ordinary shares representing a shareholding exceeding 3% of the share capital of the Issuer and which do not fall under the cases of exemption set forth in art. 119-bis of the Issuers' Regulations are as follows:

Major BMPS shareholders as at 30 June 2020

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

* Shares held directly and through subsidiary companies.

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

Information on the BMPS share

Share price and trends

In the second quarter of the year, confidence in the economic recovery from the crisis caused by the spread of COVID-19 was the main driver of the positive performance observed in the major international stock markets. The hope of developing a vaccine quickly has led to generalised increases, only partially held back by the new accusations between the US and China on the origin and spread of the virus and, towards the end of the quarter, an increase in the contagion curve in some countries. The New York index (S&P 500) closed the second three months of the year at +20.0%, followed by important rises in Tokyo (Nikkei) +11.7% and Shanghai (SHCOMP) +8.5%.

In Europe, the progressive reopening of the majority of production activities resulted in a stabilisation of stock exchange values towards prices closer to the pre-COVID situation, also thanks to the ECB's monetary policies. The Frankfurt DAX recorded the most significant figure, closing the second quarter with an increase of +23.9%, followed by the Paris index (CAC40) with +12.3%. Madrid (IBEX), which reached +6.6% and London (UKX) at +8.8%, also marked positive performance.

In Italy, the FTSE MIB recorded 13.6% growth, supported by encouraging domestic data on the spread of the virus and a series of decrees issued by the government. The quarterly figure of the IT8300 "All Italian Banks" was also positive, achieving growth of +18.7% in the second quarter, pending the outcome of the Intesa Public Exchange Offer on UBI.

As far as MPS is concerned, its performance was influenced by the news on the European Commision Directorate General for Competition – DGCOMP's informal approval of the important derisking transaction with AMCO and possibilities concerning the State's exit strategy, resulting in +39.2% in the second quarter. Average volumes of shares traded amounted to 4 mln shares per day, a value that is equal to roughly half that of the first quarter.

SHARE PRICE SUMMARY STATISTICS (from 01/04/20 to 30/06/20)	
Average	1.24
Minimum	1.01
Maximum	1.65

Rating

The ratings assigned by the rating agencies are provided below:

Rating Agencies	Short-term debt	Outlook	Long-term debt	Outlook	Latest rating action (at 30/06/20)
Fitch	B	-	B	Rating Watch Negative	24/03/20
DBRS	R-4	Stable	B (High)	Negative	16/06/20
Moody's	(P)NP	-	Caa1	Developing	26/03/20

After the actions taken by the agencies in the months of March and April, with a revision of the ratings of the majority of the Italian banks following the downturn in the economic outlook and general market conditions caused by the COVID-19 epidemic emergency, the annual committee meeting of DBRS was held in June. Fitch's annual committee meeting was held in July, and the Moody's rating action took place subsequent to the announcement of the transaction with AMCO.

- on 16 June 2020, DBRS Morningstar confirmed, during its annual review, all ratings of BMPS, including the long-term rating of "B (high)" and the short-term rating of "R-4". The long-term outlook remains "negative" and the short-term outlook remains "stable";
- on 26 March 2020, Moody's Investors Service confirmed the long-term rating of "Caa1", changing the outlook from "Positive" to "Developing", and the short-term rating of "(P)NP". Subsequently, on 21 July 2020, Moody's placed the standalone rating and the Bank's long-term rating under review for a possible upgrade. The long-term outlook was changed to "rating under review" from "developing";
- on 24 March 2020, Fitch Ratings confirmed both the long-term rating of "B", moving it to "rating watch negative" from "stable", as well as the short-term rating of "B". Furthermore, on 2 July 2020, Fitch revised the "rating watch" from "negative" to "evolving" on the Bank's long-term ratings.

Significant events in the first half

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

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

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

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

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

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

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

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

On **1 April 2020**, as part of the employment law dispute following the sale of the business unit for back office services and accounting and administrative activities related to the management and provision of specific services to Fruendo, the Parent Company executed the unfavourable decisions, readmitting the 452 employees who had obtained favourable judgements in the first and/or second instance, without renouncing the appeals filed against these rulings. At the same time as the re-admission in service, these workers were partly seconded to Fruendo.

On **1 April 2020**, the interim servicing contract signed by the Group and Juliet S.p.A. on 28 June 2019, which governed the transition phase for the re-internalisation of the management, collection and recovery of bad loans, was discontinued. On the same date, 88 employees who had been seconded by the Group to the servicer, pursuant to the secondment agreement of 11 May 2018, returned to service within the Group.

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

On **18 May 2020**, the Ordinary Shareholders' Meeting appointed the 15 members of the new Board of Directors, with Ms Maria Patrizia Grieco as Chairperson of the Board of Directors, and Ms Francesca Bettìo and Ms Rita Laura D'Ecclesia and Deputy Chairpersons; on **19 May 2020**, the Parent Company's Board of Directors appointed Mr Guido Bastianini as Chief Executive Officer of the Parent Company and Ms Rita Laura D'Ecclesia as Deputy Chairman.

On **29 June 2020**, with the positive opinion of the Related Parties Committee, the Board of Directors of the Parent Company and the Board of Directors of AMCO - Asset Management Company S.p.A., companies that are 68.247% and 100% held, respectively, by the Ministry of Economy and Finance, approved the project relating to the partial non-proportional demerger with asymmetric option by the Parent Company in favour of AMCO of a set consisting of non-performing loans, tax assets, other assets, financial debt, other liabilities and shareholders' equity. The project is subject to the fulfilment of a series of conditions, first of all the positive assessment of the European Central Bank, which will also need to analyse the impacts and financial sustainability of the demerger for the MPS Group.

On **30 June 2020**, the Parent Company signed the preliminary agreement for the sale to Ardian of a real estate portfolio owned by the Montepaschi Group, offered as part of the competitive procedure launched in July 2019. For the majority of the real estate, the completion of the transaction is expected by 31 December 2020, with a positive effect on the CET1 ratio of roughly 13 bps compared to the value in March 2020. This transaction is part of the Bank's 2017-2021 Restructuring Plan which provides, among the formal commitments assumed by the Parent Company (in particular Commitment no. 17), the sale of properties over the plan horizon.

Significant events after the first half

On **16 July 2020**, the Board of Directors of the Parent Company engaged Mediobanca, Banca di Credito Finanziario S.p.A. as financial advisor in order to evaluate the alternative strategies available to the Bank.

On **6 August 2020**, a trade union agreement was signed for the voluntary exit, in 2020, of about 500 resources through the use of the banking sector's "Solidarity Fund".

Strategy and Restructuring Plan

The Group's strategy is still that outlined in the Restructuring Plan approved by the European Commission on 4 July 2017, which is subject to formal monitoring by the European Commission, through a Monitoring Trustee[11]. This monitoring assumes formal relevance in verifying compliance with the commitments only at specific deadlines agreed with the European Commission. Moreover, although the Parent Company has fulfilled multiple commitments defined with the European Commission, also in relation to the evolution of the reference scenario, there were significant variances referring to revenues and assets, as laid out in the 2017-2021 Plan. In this regard, commitment #9 establishes cost reduction targets if profitability targets are not reached.

In order to take into account the change in the macroeconomic scenario that occurred following the outbreak of the COVID-19 pandemic, the Parent Company updated its internal long-term projections (2020-2024) for the income statement and balance sheet. These estimates are lower than the figures envisaged in the 2017-2021 Restructuring Plan approved by the competent authorities in July 2017, highlighting a loss for the 2020-2022 period, but nonetheless the values of capital ratios are above the regulatory requirements. These internal long-term estimates do not currently incorporate the effects of the "Hydra M" transaction described below, as the transaction has not yet been authorised by the ECB.

Moreover, the Group's business plan is expected to be revised in the second half of 2020, also in order to re-assess the strategic options and industrial levers available to the management.

In this context, it is in any case important to highlight that the MEF, as the controlling shareholder, in compliance with the Restructuring Plan, has also committed to proceed with the disposal of the equity investment by the end of 2021.

To appropriately handle the risks deriving from the COVID-19 economic emergency, in terms of the credit strategy, in the second quarter of 2020 the Parent Company revised its strategic policies for offering credit to customers, focusing its performing loan growth mission on measures to provide financial support to existing customers. This review should be applied for the second part of the year. In this sense, the Parent Company clustered 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 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 measures laid out by the Legislature in the various decrees issued throughout the first half of the year ("Cura Italia" decree and Liquidity decree) in the form of the restructuring of outstanding loans and granting additional liquidity backed by the State. Furthermore, the Parent Company fully participated in the Sector Agreements promoted by the Italian Banking Association which make it possible to offer customers additional benefits to overcome the economic and financial impacts of the emergency situation. Likewise, the Group 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, tool for verifying financial requirements, etc.).

Starting from the second quarter, the crisis triggered by COVID-19 negatively impacted the cure capacity and recoveries of NPE exposures; in particular, the suspension of judicial auctions influenced the trend of recoveries in the second part of the half, although out-of-court transactions have been defined which in part should contribute to softening the slowdown. The above-mentioned trends triggered growth in the coverage on the portfolio valued analytically, accompanied by an update in the macroeconomic component within statistical expected losses.

As regards the Group's commercial strategy, all the strategic projects launched in the beginning of the year and described below continued according to the work plan defined for the quarter, until mid-March. Subsequently, some priorities were redefined to take into account the requirements imposed by the COVID-19 emergency, with particular reference to issues of digitisation and commercial processes, and as a result the projects linked to bancassurance, agrifood and the restyling experienced a slowdown in their executive phases, which however resumed again in July. The remaining project activities continued in smart-working mode, without reporting any particular problems.

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

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

- ***improving the customer experience and continuing the digital transformation***, through the extension of the NPS (Net Promoter Score) surveys with "close-the-loop" processes for managing customer feedback and improving the service based on reports collected; the launch of Customer journeys designed for 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; the search for a superior experience in the internet banking platform for retail customers, also through the creation of new smartphone apps and the enhancement of tools that allow remote contract signing, enabling products and services to be subscribed without having to go to the branch; inclusion in the open banking environment; upgrading of the branch technology platform and the optimisation of media centre activities and remote customer service;
- ***activating the new Wealth Management platform***, with solutions in line with market best practices aimed at structuring 360° advisory services and maximising commercial benefits by enhancing the front end, overcoming technology constraints of the current platform, and focusing on "value" advisory, by maximising the manager's commercial efforts, obtained by automating activities with lower added value. The goal is to continue to improve the advisory service through constant monitoring of the quality of the service provided and the continuous strengthening and evolution of the offer range with the introduction of non-financial analysis services to completely cover customers' needs;
- ***reviewing commercial processes from a customer centricity perspective***, by optimising the commercial contact processes with 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;
- ***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***, based on the role that the Group intends to take on as a "Hub" for developing small businesses in the SME sector, consisting of relations with the players in the ecosystem, with specific reference to innovation and sustainability issues;
- ***accelerating growth in Bancassurance***, through interventions on the layout of branches and updates of the operating and commercial model, already successfully tested in the last months of 2019 on 86 pilot branches. The project was extended in early July to an additional 150 branches (with a possible additional boost of roughly 100-120 branches in the final quarter of 2020); these 150 branches were already involved in training activities in June, while the branding will take place starting in September 2020;
- ***restyling roughly 75 large/highly visible branches*** in order to improve commercial proactivity with a focus on the Value line. For these agencies, the lay-out of the lobby area will be updated, obsolete/former brand signs will be replaced and some monitors will be installed. These interventions act on the following performance drivers: increasing the privacy of workstations, improving the usability of spaces, appearance and brand identity.

With reference to some of the main commitments of the Restructuring Plan, pursuant to art. 114, paragraph 5 of Italian Legislative Decree 58/1998, the relative implementation status as at 30 June 2020 is described below:

- Exposure to sovereign debt:
  - financial assets measured at fair value through other comprehensive income (FVTOCI) are down by around EUR 0.7 bn compared to the end of 2019, mainly in reference to Italian government debt securities.
- Transfer of foreign banks:
  - with reference to the closing of the sale of Banca Monte dei Paschi Belgio S.A., finalised on 14 June 2019, on last 23 March, the procedure for calculating the price adjustment was completed through the intervention of an independent expert: as a result, the Parent Company recorded a write-back of approximately EUR 2 mln in the first quarter;
  - the Parent Company, as envisaged in Commitment no. 14 of the Plan, approved the orderly winding-down procedure of the subsidiary Monte Paschi Banque S.A., which consists of limiting the subsidiary's activities strictly to those targeted at the deleveraging of loans, excluding the development of new business. This procedure became necessary after attempts at disposal were unsuccessful with the timing set forth in the commitment. In this context, MP Banque has focused its efforts on existing customers

and activities: the performance for 2019 and the first half of 2020 is in line with the objectives of the subsidiary's orderly winding down plan.

- Closure of foreign branches:
  - following the suspension of banking activities and the extinction or transfer to Italy of residual assets (which began in 2019), the Hong Kong Branch ceased to exist in February 2020, with the return of the banking license to the local authority (HKMA), which formalised the confirmation of receipt.
- Cost reduction measures:
  - through the activation of the Solidarity Fund, departure of 2,550 resources from 2017 to 2019 (53% of the total 4,800 resources over the Plan period); The Parent Company has already launched the planned trade union negotiations procedure to define the voluntary departure of an additional 500 resources through recourse to the sector "Solidarity fund";
  - closure of 611 branches, achieving the overall target set for the period. Of these, 107 branches were closed in the fourth quarter of 2019, one in the first quarter of 2020 and one in early July, in line with the scheduled closures;
  - in 2019 the Parent Company did not achieve the profit targets established in the Restructuring Plan. The Plan commitment establishes that, if the profit objectives are not reached, a programme will be activated to reduce operating costs by 2021 by EUR 100 mln with respect to the Plan commitments.
- Sale of property assets:
  - the commitment calls for the closure of the Perimetro Consortium (concluded in 2019) as well as the disposal over the course of the Plan of owned properties for an equivalent value of EUR 500 mln. From the approval of the Plan (4 July 2017) to 30 July 2020, MPS Group sold 84 real estate assets for a value of roughly EUR 54.2 mln. Furthermore, preliminary agreements were entered into for the sale of real estate corresponding to a book value of roughly EUR 289.9 mln as at 30 June 2020, including the preliminary sale agreement entered into on 30 June 2020 with Ardian for the sale of a real estate portfolio of 28 properties owned by MPS Group (including the prestigious offices in Milan (via S. Margherita) and Rome (via del Corso 232 and via del Corso 518/520), the completion of which is expected, for the majority of the properties, by the end of 2020.
- 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.
- 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 M" transaction). Indeed, this transaction was planned with the ultimate goal of creating the conditions for the sale of the equity investment. On 16 July 2020, the Parent Company engaged Mediobanca as financial advisor in order to evaluate the alternative strategies available.

After the repayment of the senior bonds with government guarantee (GGB) for EUR 8 bn, in the months of January and March 2020, in the course of June 2020, the LTROs and auctions in USD to which the Parent Company had access in March of this year, for EUR 5 bn and USD 500 mln, respectively, reached their maturity; in June, the Parent Company also repaid the TLTRO II still outstanding, equal to EUR 6.5 bn, early.

The additional maturities planned for the 2020-2022 period are represented primarily:

- by bond maturities of roughly EUR 2.4 bn (of which EUR 1.7 bn in covered bonds, EUR 0.6 bn in senior institutional bonds and EUR 0.1 bn in securities placed with retail customers);
- by the first tranche of TLTRO III auctions in which the Parent Company participated in December 2019, for EUR 4 bn.

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

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

Starting from the end of February, the outbreak of the COVID-19 epidemic, the resulting economic and market crisis and the responses of governments and central banks have profoundly changed the macro scenario and the legislative and regulatory framework, which were the basis on which the Group's strategies, including in terms of funding, were designed. However, the effects of the epidemic have not yet had negative consequences on the Group's liquidity situation in 2020, which indeed improved in the second quarter of the year. On the other hand, it is not possible to rule out that negative consequences may arise in the coming months, based on trends in the epidemic and repercussions on the economic situation.

With regard to institutional funding, it is likely that access to the primary market of public bonds will be reduced during 2020, in particular in the senior preferred segment, in which the Group had planned issues for a total of EUR 1.75 bn. The drop in bond prices of unsecured bank issues, in particular for Italian issuers and, among these, institutions such as BMPS that are considered by market to be weaker in terms of capital, makes it difficult, at present, to envisage market access in the next few months for significant amounts.

On the other hand, the Group can benefit from the important extraordinary monetary policy measures announced by the ECB in March, with particular reference to the LTRO/PELTRO/TLTRO III refinancing operations. As previously mentioned, the Parent Company already had access, in March, to the new LTROs that matured in June 2020, for EUR 5 bn, while, as regards TLTRO III, the considerable increase in the maximum amount to which each bank has access led to a revision of the plans prepared by the Group: in the course of the month of June, the Parent Company again accessed the TLTRO III auctions for EUR 17 bn, thus bringing the total TLTRO III amount to EUR 21 bn (against a maximum amount available of approx. EUR 27 bn).

Any additional recourse to TLTRO III may be used to manage the evolution of the general context, in particular any impacts on the liquidity position resulting from the effects of the pandemic, for purposes of maintaining liquidity indicators at adequate levels, in particular the LCR and NSFR regulatory indicators.

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

The Parent Company defined a programme of issues for retail and institutional customers, consistent with the policy which calls for respect for the MREL targets and the Subordination Requirement according to the planned timing.

Given its potential impacts on banks' sources of liquidity, the health crisis could affect the expected development of the regulatory liquidity indicators (LCR - Liquidity Coverage Ratio and NSFR - Net Stable Funding Ratio). In this regard, the central bank has communicated the possibility for banks to temporarily operate below the minimum threshold of 100%, with particular reference to the LCR. Considering the solid liquidity position established in previous years and the satisfactory levels of its indicators (at 30 June 2020, LCR equal to 171.50% and NSFR equal to 118.28%), BMPS will keep its targets higher than the minimum threshold, with an adequate buffer, as it is able to benefit from the important channel provided by the ECB through the new LTRO/PELTRO/TLTRO programmes.

“Hydra M” Transaction - partial non-proportional demerger with asymmetric option of a compendium of non-performing loans by MPS in favour of AMCO

On 29 June 2020, the Board of Directors of Banca Monte dei Paschi di Siena and the Board of Directors of AMCO approved a project relating to the partial non-proportional demerger with asymmetric option by MPS in favour of AMCO of a set consisting of assets, liabilities and shareholders’ equity. The project is subject to the fulfilment of a series of conditions, first of all the positive assessment of the European Central Bank, which will also need to analyse the impacts and financial sustainability of the transaction for the BMPS Group.

The transaction calls for the demerger, at going concern values, by the Parent Company in favour of AMCO - both companies are subject to the joint control of the MEF - of a set of assets and liabilities on the basis of the data at 31.12.2019, consisting of:

<u>Assets</u>

- non-performing loans classified as bad loans for a net book value of EUR 2,313 mln (gross book value of EUR 4,798 mln);
- non-performing loans classified as unlikely to pay for a net book value of EUR 1,843 mln (gross book value of EUR 3,345 mln);
- bond and equity instruments for a book value of EUR 5 mln;
- derivative contracts for a book value of EUR 1 mln;
- deferred tax assets (DTA), transferred on the basis of the amount of shareholders’ equity demerged with respect to total shareholders’ equity of the Parent Company, for a net book value of EUR 104 mln.

<u>Liabilities and shareholders’ equity:</u>

- liabilities deriving from a bridge loan soon to be disbursed to the Parent Company by the banks JPMorgan Chase Bank, N.A., Milan Branch (“JP Morgan”) and UBS Europe SE (“UBS”) equal to EUR 3,179 mln (“Bridge Loan”);
- derivative contracts for a book value of EUR 0.1 mln;
- shareholders’ equity for an amount of EUR 1,087 mln.

Part of the above-mentioned assets and liabilities are currently owned by MPS Capital Services Banca per le Imprese S.p.A., a company wholly-owned by Banca MPS, and will be subject to the compendium defined within the plan for demerger by MPS CS in favour of the Parent Company, the effectiveness of which will be prior to the demerger of Banca MPS to AMCO. The Banca MPS and MPS CS demerger constitutes in turn a condition for the effectiveness of the overall transaction.

JP Morgan and UBS made the commitment to sign and disburse the Bridge Loan prior to the extraordinary shareholders’ meetings that the Parent Company and AMCO will call to approve the demerger, once authorisation is received from the ECB (as already noted, a condition precedent). The effectiveness and disbursement of the Bridge Loan are subject to a series of conditions including the approval of the bodies of the lending banks also in relation to the final contractual documentation and the absence of events that have a significant and negative effect on the Parent Company or on the compendium.

The demerger plan will entail for the MPS Group:

- a significant improvement in the risk profile, with a Gross NPE ratio that will drop from 12.4% to 4.3%, coming in below the average of the Italian banking system and the threshold of 5% laid out in the EBA guidelines; an improvement in the Texas Ratio as well, which will fall from approximately 86% to around 43% (pro-forma on data as at 31 December 2019);
- a reduction in several capital ratios: Phase-in CET1 from 14.7% to 13.3%; Fully-loaded CET1 from 12.7% to 11.1% (pro-forma on data as at 31 December 2019);
- a recovery in profitability thanks to the lower cost of credit and a reduction in the cost of funding, which could allow for an improvement in Banca MPS’s competitive positioning in the Italian market and easier access to the institutional funding market, resulting in the potential reinforcement of the liability structure.

Lastly, with reference to the expected impacts on the Parent Company’s shareholding structure, the non-proportionality of the demerger will result in the dilution of the MEF investment in the Bank’s share capital and a proportional increase in the investment in Banca MPS by the non-controlling shareholders. The asymmetric option, insofar as its exercise is a right left up to individual shareholders, will make it possible to expand the

extent of this effect. For further details, please refer to the press release on the website www.mps.it of the Parent Company.
The transaction, subject to certain conditions, including the release of the ECB's authorization and the posivite vote of the shareholding'meeting, is expected to be finalised in the last two months of 2020.

CONDENSED CONSOLIDATED HALF-YEARLY FINANCIAL STATEMENTS

Consolidated balance sheet

	Assets	30 06 2020	00 01 1900
10.	Cash and cash equivalents	679.9	835.1
20.	Financial assets measured at fair value through profit and loss	12,390.1	10,666.4
	a) financial assets held for trading	11,649.9	9,902.5
	c) other financial assets mandatorily measured at fair value	740.2	763.9
30.	Financial assets measured at fair value through other comprehensive income	6,067.8	6,726.8
40.	Financial assets measured at amortised cost	113,434.7	104,707.5
	a) Loans to banks	21,577.4	15,722.4
	b) Loans to customers	91,857.3	88,985.1
50.	Hedging derivatives	51.9	73.0
60.	Fair value change of financial assets in hedged portfolios (+/-)	1,051.3	636.0
70.	Equity investments	953.9	931.0
90.	Property, plant and equipment	2,373.3	2,709.1
100.	Intangible assets	187.3	176.1
	- of which goodwill	*7.9*	*7.9*
110.	Tax assets	*2,193.1*	*2,763.0*
	a) current	921.1	953.5
	b) deferred	1,272.0	1,809.4
120.	Non-current assets and groups of assets held for sale and discontinued operations	349.8	159.8
130	Other assets	1,923.0	1,812.2
	Total Assets	**141,656.1**	**132,196.0**

continued: Consolidated balance sheet

	Total Liabilities and Shareholders' Equity	30 06 2020	31 12 2019
10.	Financial liabilities measured at amortised cost	123,529.0	114,148.3
	a) due to banks	26,184.5	20,178.1
	b) due to customers	85,335.0	76,526.9
	c) debts securities issued	12,009.5	17,443.3
20.	Financial liabilities held for trading	3,836.3	3,882.6
30.	Financial liabilities designated at fair value	240.7	247.1
40.	Hedging derivatives	1,775.0	1,315.9
50.	Change in value in macro-hedged financial liabilities (+/-)	50.0	31.4
60.	Tax liabilities	*3.0*	*3.3*
	a) current	*0.1*	*0.4*
	b) deferred	2.9	2.9
80.	Other liabilities	3,491.4	2,898.0
90.	Provision for employees severance pay	180.3	178.7
100.	Provision for risks and charges:	*1,390.6*	*1,209.8*
	a) financial guarantees and other commitments	*152.6*	*158.8*
	b) post-employment benefits	34.0	36.1
	c) other provisions	1,204.0	1,014.9
120.	Valuation reserves	35.2	66.4
150.	Reserves	(1,803.0)	(769.2)
170.	Share capital	10,328.6	10,328.6
180.	Treasury shares (-)	(313.7)	(313.7)
190.	Non-controlling interests (+/-)	1.4	1.8
200.	Net Profit (loss) for the period (+/-)	(1,088.7)	(1,033.0)
	Total Liabilities and Shareholders' Equity	**141,656.1**	**132,196.0**

Consolidated income statement

Items		30 06 2020	30 06 2019
10.	Interest income and similar revenues	964.8	1,104.2
	of which interest income calculated applying the effective interest rate method	*908.9*	*1,071.6*
20.	Interest expense and similar charges	(320.5)	(298.5)
30.	**Net interest income**	**644.3**	**805.7**
40.	Fee and commission income	790.1	849.6
50.	Fee and commission expense	(120.3)	(127.8)
60.	**Net fee and commission income**	**669.8**	**721.8**
70.	Dividends and similar income	9.7	9.7
80.	Net profit (loss) from trading	21.1	60.8
90.	Net profit (loss) from hedging	0.5	(0.6)
100.	Gains/(losses) on disposal/repurchase of:	76.7	17.5
	a) financial assets measured at amortised cost	70.5	10.0
	b) Financial assets measured at fair value through other comprehensive income	1.3	8.4
	c) financial liabilities	4.9	(0.9)
110.	Net profit (loss) from other financial assets and liabilities measured at fair value through profit and loss	(0.4)	(47.5)
	a) financial assets and liabilities designated at fair value	(0.7)	(13.2)
	b) other financial assets mandatorily at fair value	0.3	(34.3)
120.	**Net interest and other banking income**	**1,421.7**	**1,567.4**
130.	Net impairment (losses)/reversals on	(534.6)	(251.3)
	a) financial assets measured at amortised cost	(532.0)	(250.4)
	b) financial assets measured at fair value through other comprehensive income	(2.6)	(0.9)
140.	Modification gains/(losses)	(2.8)	(3.3)
150.	**Net income from banking activities**	**884.3**	**1,312.8**
180.	**Net income from banking and insurance actitivies**	**884.3**	**1,312.8**
190.	Administrative expenses:	(1,219.2)	(1,242.1)
	a) personnel expenses	(707.5)	(713.2)
	b) other administrative expenses	(511.7)	(528.9)
200.	Net provision for risks and charges:	(350.9)	(23.9)
	a) commitments and guarantees issued	6.2	34.3
	b) other net provisions	(357.1)	(58.2)
210.	Net adjustments to/recoveries on property, plant and equipment	(85.1)	(87.8)
220.	Net adjustments to/recoveries on intangible assets	(37.7)	(54.5)
230.	Other operating expenses/income	111.1	63.6
240.	**Operating expenses**	**(1,581.8)**	**(1,344.7)**
250.	Gains (losses) on investments	38.4	37.8
280.	Gains (losses) on disposal of investments	3.1	0.7
290.	**Profit (loss) before tax from continuing operations**	**(656.0)**	**6.6**
300.	Tax (expense)/recovery on income from continuing operations	(432.8)	95.8
310.	**Profit (loss) after tax from continuing operations**	**(1,088.8)**	**102.4**
320.	Profit (loss) after tax from groups of assets held for sale and discontinued operations	-	(9.3)
330.	**Profit (loss) for the period**	**(1,088.8)**	**93.1**
340.	Net Profit (loss) attributable to non-controlling interests	(0.1)	-
350.	**Parent company's net profit (loss) for the preriod**	**(1,088.7)**	**93.1**

	30 06 2020	30 06 2019
Basic Earnings per Share (Basic EPS)	**(0.986)**	**0.084**
of continuing operations	(0.986)	0.093
Diluted Earnings per Share (Diluted EPS)	**(0.986)**	**0.084**
of continuing operations	(0.986)	0.093

Consolidated statement of comprehensive income

	Items	30 06 2020	30 06 2019
10.	**Profit (loss) for the period**	**(1,088.8)**	**93.1**
	Other comprehensive income after tax not recycled to profit and loss	**(10.4)**	**10.5**
20.	Equity instruments designated at fair value through other comprehensive income	(3.8)	12.7
30.	Financial liabilities designated at fair value through profit or loss (change in the entity's own credit risk)	(0.3)	(0.6)
70.	Actuarial gains (losses) on defined benefit plans	(0.5)	(6.4)
80.	Non current assets held for sale	-	0.4
90.	Share of valuation reserves of equity-accounted investments	(5.8)	4.4
	Other comprehensive income after tax recycled to profit and loss	**(21.1)**	**151.2**
110.	Exchange differences	-	(2.4)
120.	Cash flow hedges	0.1	2.2
140.	Financial assets (other than equity securities) measured at fair value through other comprehensive income"	(15.4)	69.7
150.	Non-current assets and disposal groups classified as held for sale	-	2.2
160.	Share of valuation reserves of equity-accounted investments	(5.8)	79.5
170.	**Total other comprehensive income after tax**	**(31.5)**	**161.7**
180.	**Total comprehensive income (Item 10+130)**	**(1,120.3)**	**254.7**
190.	Consolidated comprehensive income attributable to non-controlling interests	(0.1)	-
200.	**Consolidated comprehensive income attributable to Parent Company**	**(1,120.2)**	**254.7**

Consolidated Statement of changes in equity – 30 June 2020

	Balance as at 31 12 2019	Changes in opening balances	Balance as at 01 01 2020	Allocation of profit from prior year: Reserves	Allocation of profit from prior year: Dividends and other payout	Change during the period: Changes in reserves	Shareolder's equity transactions: Issue of new shares	Shareolder's equity transactions: Purchase of treasury shares	Shareolder's equity transactions: Extraordinary distribution of dividends	Shareolder's equity transactions: Change in equity instruments	Shareolder's equity transactions: Treasury shares derivatives	Shareolder's equity transactions: Stock options	Shareolder's equity transactions: Change in equity investments	Total Comprehensive income for 30 06 2020	Total Equity as at 30 06 2020	Group equity as at 30 06 2020	Non-controlling interest as at 30 06 2020
Share capital	10,329.3	-	10,329.3	-	-	-	-	-	-	-	-	-	-	-	10,329.3	10,328.6	0.7
a) ordinary shares	10,329.3	-	10,329.3	-	-	-	-	-	-	-	-	-	-	-	10,329.3	10,328.6	0.7
Reserves:	(769.2)	-	(769.2)	(1,033.2)	-	(0.9)	-	-	-	-	-	-	-	-	(1,803.3)	(1,803.0)	(0.3)
a) from profits	(734.2)	-	(734.2)	(1,033.2)	-	(0.9)	-	-	-	-	-	-	-	-	(1,768.3)	(1,768.0)	(0.3)
b) other	(35.0)	-	(35.0)	-	-	-	-	-	-	-	-	-	-	-	(35.0)	(35.0)	-
Valuation reserves	67.6	-	67.6	-	-	0.1	-	-	-	-	-	-	-	(31.5)	36.2	35.2	1.0
Treasury shares	(313.7)	-	(313.7)	-	-	-	-	-	-	-	-	-	-	-	(313.7)	(313.7)	-
Net profit (loss)	(1,033.1)	-	(1,033.1)	1,033.2	(0.1)	-	-	-	-	-	-	-	-	(1,088.8)	(1,088.8)	(1,088.7)	(0.1)
Total equity	8,280.9	-	8,280.9	-	(0.1)	(0.8)	-	-	-	-	-	-	-	(1,120.3)	7,159.7	7,158.4	1.4
Group equity	8,279.1	-	8,279.1	-	-	(0.6)	-	-	-	-	-	-	-	(1,120.2)	7,158.4	-	X
Non-controlling interests	1.8	-	1.8	-	(0.1)	(0.2)	-	-	-	-	-	-	-	(0.1)	1.4	X	1.4

As at 30 June 2020 the Group's shareholders' equity, including non-controlling interests and result for the period, amounts to EUR 7,159.7 mln, compared to EUR 8,280.9 mln as at 31 December 2019, with a total net decrease of EUR 1,121.2 mln. This trend can be mainly attributed to the loss for the period of EUR 1,088.8 mln and the negative change in the valuation reserves of EUR 31.4 mln, the latter largely attributable to debt securities measured at fair value through other comprehensive income, including those relating to associates measured according to the equity method, which were impacted by the trends in the spread on Italian government securities.

Consolidated Statement of changes in equity – 30 June 2019

	Balance as at 31 12 2018	Changes in opening balances	Balance as at 01 01 2019	Allocation of profit from prior year		Change during the period										Total Equity as at 30 06 2019	Group equity as at 30 06 2019	Non-controlling interest as at 30 06 2019
							Shareolder's equity transactions											
				Reserves	Dividends and other payout	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Treasury shares derivatives	Stock options	Change in equity investments	Total Comprehensive income for 30 06 2019			
Share capital	10,329.6	-	10,329.6	-	-	(0.2)	-	-	-	-	-	-	-	-	10,329.4	10,328.6	0.8
a) ordinary shares	10,329.6	-	10,329.6	-	-	(0.2)	-	-	-	-	-	-	-	-	10,329.4	10,328.6	0.8
Reserves:	(1,124.8)	-	(1,124.8)	278.6	-	89.6	-	-	-	-	-	-	-	-	(756.7)	(756.6)	(0.1)
a) from profits	(999.5)	-	(999.5)	278.6	-	(0.7)	-	-	-	-	-	-	-	-	(721.6)	(721.6)	(0.1)
b) other	(125.3)	-	(125.3)	-	-	90.3	-	-	-	-	-	-	-	-	(35.1)	(35.1)	-
Valuation reserves	(175.5)	-	(175.5)	-	-	-	-	-	-	-	-	-	-	161.7	(13.7)	(15.0)	1.2
Treasury shares	(313.7)	-	(313.7)	-	-	-	-	-	-	-	-	-	-	-	(313.7)	(313.7)	-
Net profit (loss)	278.7	-	278.7	(278.6)	(0.1)	-	-	-	-	-	-	-	-	93.1	93.1	93.1	-
Total equity	8,994.2	-	8,994.2	-	(0.1)	89.5	-	-	-	-	-	-	-	254.8	9,338.4	9,336.4	2.0
Group equity	8,992.0	-	8,992.0	-	-	89.7	-	-	-	-	-	-	-	254.7	9,336.4	9,336.4	X
Non-controlling interests	2.2	-	2.2	-	(0.1)	(0.2)	-	-	-	-	-	-	-	-	2.0	X	2.0

As at 30 June 2019 the Group's shareholders' equity, including non-controlling interests and result for the period, amounted to EUR 9,338.4 mln, compared to EUR 8,994.2 mln as at 31 December 2018, with a total increase of EUR 344.2 mln.

The most significant phenomena impacting shareholders' equity, in addition to the profit for the period of EUR 93.1 mln were:

1. the item "Reserves - b) other" in the "Changes in reserves" column includes the reclassification from financial liabilities at amortised cost of EUR 76 mln referring to the indemnity issued to the Bank of New York on 10 March 2009, as the ten-year term had been completed;
2. valuation reserves recognised a total increase of EUR 161.7 mln, almost fully attributable to debt securities measured at fair value through other comprehensive income, including those relating to associates measured according to the equity method, essentially due to the trends in the spread on Italian government securities.

Consolidated cash flow statement - indirect method

A. OPERATING ACTIVITIES	30 06 2020	31 12 2019
1. Cash flow from operations	**395.1**	**915.4**
profit (loss) (+/-)	(1,088.8)	(1,033.1)
capital gains/losses on financial assets held for trading and on assets/liabilities measured at fair value (+/-)	(44.3)	(140.5)
Net gains (losses) on hedging activities"	(0.5)	4.6
net loss/recoveries on impairment (+/-)	602.3	788.2
Net adjustments/ recoveries on property, plant and equipment and intangible assets"	122.8	281.2
net provisions for risks and charges and other costs/revenues (+/-)	354.8	81.3
Unpaid charges, taxes and tax credits	432.8	1,068.7
Net adjustments to/recoveries on discontinued operations after tax (+/-)	-	(1.8)
other adjustments	16.0	(133.2)
2. Cash flow from (used in) financial assets	**(10,783.9)**	**(2,929.6)**
financial assets held for trading	(1,688.9)	(1,257.0)
other financial assets mandatorily measured at fair value	20.1	7.9
Financial assets measured at fair value through other comprehensive income	731.2	4,662.3
Financial assets measured at amortised cost	(9,613.6)	(6,206.3)
other assets	(232.7)	(136.5)
3. Cash flow from (used in) financial liabilities	**10,300.0**	**1,957.8**
Financial liabilities measured at amortised cost	9,342.0	1,605.0
financial liabilities held for trading	(56.2)	707.8
financial liabilities designated at fair value	(8.0)	(27.3)
other liabilities	1,022.2	(327.7)
Net cash flow from (used in) operating activities	**(88.8)**	**(56.4)**

B. INVESTMENT ACTIVITIES	30 06 2020	31 12 2019
1. Cash flow from	**1.9**	**80.0**
sales of equity investments	-	1.6
dividends collected on equity investments	0.2	22.8
sales of property, plant and equipment	1.7	13.4
sales of intangible assets	-	0.2
sales of subsisidaries and business units	-	42.0
2. Cash flow used in	**(68.0)**	**(134.0)**
purchase of property, plant and equipment	(19.9)	(89.8)
purchase of intangible assets	(48.1)	(44.2)
Net cash flow from (used in) investment activities	**(66.1)**	**(54.0)**

C. FUNDING ACTIVITIES		
dividend distribution and other	(0.3)	(0.1)
Net cash flow from (used in) funding activities	**(0.3)**	**(0.1)**

NET CASH FLOW FROM (USED IN) OPERATING, INVESTMENT AND FUNDING ACTIVITIES DURING THE PERIOD	**(155.2)**	**(110.5)**

Reconciliation

Accounts	30 06 2020	31 12 2019
Cash and cash equivalents at beginning of the period	835.1	945.6
Net increase (decrease) in cash and cash equivalents	(155.2)	(110.5)
Cash and cash equivalents at end of the period	679.9	835.1

EXPLANATORY NOTES

Accounting Policies

General accounting standards

The Half-Yearly Report as at 30 June 2020 of the Monte dei Paschi di Siena Group, approved by the Board of Directors on 6 August 2020, includes the Half-Yearly Report on Operations and the Condensed Consolidated Half-Yearly Financial Statements and has been prepared in accordance with financial disclosure requirements set forth in art. 154-ter of Italian Legislative Decree no. 58 of 24 February 1998 (Consolidated Law on Finance), and in accordance with the IAS/IFRS international accounting standards issued by the International Accounting Standards Board (IASB) including interpretations by the IFRS Interpretations Committee (IFRIC), as endorsed by the European Commission and effective as at 30 June 2020, pursuant to EC Regulation no. 1606 of 19 July 2002.

The Condensed Consolidated Half-Yearly Financial Statements, prepared using the Euro as the reporting currency, drawn up succinctly and in compliance with the IAS 34 standard “Interim financial reporting” comprises the Consolidated Balance Sheet, the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement and the Explanatory Notes; the tables of the Condensed Consolidated Half-Yearly Financial Statements and the Explanatory Notes, unless otherwise noted, are prepared in millions of Euro.

In preparing the Condensed Consolidated Half-Yearly Financial Statements, the provisions of Bank of Italy Circular no. 262 of 22 December 2005 “Banks’ financial statements: layouts and preparation”, and subsequent updates (most recently, the 6th update, published on 30 November 2018) were applied. The Condensed Consolidated Half-Yearly Financial Statements show, in addition to the amounts pertaining to the relevant period, also the corresponding comparison data as at 31 December 2019 for the Consolidated Balance Sheet and for the first half of 2019 for:

- the Consolidated Income Statement;
- the Consolidated Statement of Comprehensive Income;
- the Consolidated Statement of Changes in Equity; and
- the Consolidated Cash Flow Statement.

The Condensed Consolidated Half-Yearly Financial Statements as at 30 June 2020 are prepared with transparency and provide a true and fair view, financial position and results of operations for the period, the changes in shareholders’ equity and the cash flows generated.

With reference to the classification, recognition, valuation and derecognition of the various asset and liability entries, as well as the methods for recognising revenue and costs, the accounting principles used for the preparation of these Condensed Consolidated Half-Yearly Financial Statements are the same as those used for preparation of the Consolidated Financial Statements as at 31 December 2019, to which the reader is referred for more detail.

Assets held for sale include properties for which preliminary sale agreements had been entered into at the date of 30 June 2020. They include the portfolio of 28 properties owned by the Parent Company, subject to the preliminary sale agreement entered into on 30 June 2020 between Banca MPS and Ardian France S.A. The relative notary deed is expected to be entered into by 30 November 2020 for nearly the entirety of the portfolio (26 properties); the remainder (2 properties) will be sold by the end of 2023 and in any event not before the end of 2021.

Lastly, assets held for sale also include non-performing credit exposures subject to the sale transactions already approved and expected to be finalised during the second half of this year.

The Condensed Consolidated Half-Yearly Financial Statements as at 30 June 2020 are accompanied by the certification of the Financial Reporting Officer, pursuant to art. 154-bis of the Consolidated Law on Finance, and are subjected to a limited review by the Independent Auditors PricewaterhouseCoopers S.p.A.

An illustration of the new accounting standards, or the changes to existing standards approved by the IASB is provided below, as well as the new interpretations or changes to existing interpretations published by IFRIC, with separate reporting on those applicable in 2020 from those applicable in subsequent years.

IAS/IFRS accounting standards and SIC/IFRIC interpretations endorsed and subject to mandatory application for the purpose of preparing the 2020 financial statements

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

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

On 15 January 2020, with publication of Regulation (EU) no. 2020/34, the European Commission endorsed the document issued by the IASB on the "**Interest Rate Benchmark Reform (Amendments to IFRS 9 Financial instruments, IAS 39 Financial instruments: recognition and measurement and IFRS 7 Financial instruments: disclosure)**". The Regulation, which orders the compulsory application of the relative provisions as of the date of 1 January 2020, introduced several amendments on hedge accounting, with the purpose of avoiding that uncertainties concerning the amount and timing of cash flows deriving from the rate reform may entail the interruption of existing hedges and difficulty in designating new hedging relationships. The Group decided to opt for early application of the Regulation already in the 2019 Financial Statements. As already highlighted in the 2019 Financial Statements, to which the reader is referred for additional details, the matter relates to recent developments connected to the review or replacement of certain reference indexes for the determination of interest rates in various jurisdictions.

The IASB is handling the possible accounting impacts of the benchmark rate reform with a project structured in two phases: the first regarded in particular the possible accounting impacts in the period prior to the replacement of existing benchmark rates with new rates ("pre-replacement issue") and concluded with the publication of the above-mentioned Regulation no. 34/2020; the second phase of the project, still under way, instead regards the analysis of possible accounting impacts deriving from the application of the new rates and other less urgent topics ("replacement issue").

On 22 April 2020, Regulation (EU) no. 2020/551 was published, adopting the document "**Definition of a Business (Amendments to IFRS 3)**" in order to respond to the concerns highlighted by the post implementation review of IFRS 3 Business combinations with regard to the difficulties identified in the practical application of the definition of "business". Companies are to apply the amendments, at the latest, as of the start date of their first annual period beginning on or after 1 January 2020.

The amendments to the accounting standards laid out above did not have a material impact on the Group's financial situation.

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

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

On 14 May 2020, the IASB published the following documents:

- **"Reference to the Conceptual Framework (Amendments to IFRS3)"** which updates the reference present in IFRS 3 to the Conceptual Framework in the revised version, without this entailing amendments to the provisions of the standard;
- **"Property, Plant and Equipment - Proceeds before Intended Use (Amendment to IAS 16)"** which prohibits deducting from the cost of property, plant and equipment the amount received from the sale of items produced in the asset testing phase. These sales revenues and the relative costs will be recognised in the income statement;
- **"Onerous Contracts — Cost of Fulfilling a Contract (Amendment to IAS 37)"** which clarifies which costs must be considered in the assessment of the onerousness of the contract. More specifically, the cost to fulfil a contract includes the costs that refer directly to the contract. They

may be incremental costs (for example, costs for the direct material used in processing), but also the costs that the company cannot avoid as it has entered into the contract (e.g., the share of the personnel costs and the depreciation of the machinery used to fulfil the contract);
- **"Annual Improvements to IFRS Standards 2018–2020"** which contains proposed amendments to four standards: IFRS 1 – "Subsidiary as a first-time adopter"; IFRS 9 – "Fees in the '10 per cent' test for derecognition of financial liabilities": the amendment clarifies which fees should be considered in performing the test in application of par. B3.3.6 of IFRS 9, to evaluate the derecognition of a financial liability; IFRS 16 – "Lease incentives": the amendment regards an illustrative example and lastly IFRS 41 – "Taxation in fair value measurements".

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

On 28 May 2020, the IASB published the amendment to IFRS 16 "**Leases Covid 19 – Related Rent Concessions"**, introducing a practical expedient to the "**lease modifications**" chapter, enabling the lessee (not the lessor) to not consider any rent payment concessions deriving from the effects of COVID-19 as a modification of the original contract; therefore, the above-mentioned modifications will need to be accounted for as if the contract has not been amended. In order to apply this exemption, all of the following conditions must be met:
- the payment concession must be a direct consequence of the COVID-19 pandemic;
- the payment modification has left unchanged - with respect to the original conditions - the amount to be paid or has reduced it;
- the payment reduction refers only to those originally due until June 2021 (for example, the condition is met if the rescheduling agreement calls for a payment reduction until June 2021 and a subsequent increase as of July 2021);
- there are no substantial amendments in the other contractual terms or conditions of the lease.

Furthermore, if the lessee adopts the practical expedient described above, it must provide a disclosure in the financial statements. The amendments in question may be applied starting from financial statements for annual periods beginning on or after 1 June 2020. Lastly, lessees will need to adopt the practical expedient retroactively by accounting for the cumulative effect of the initial application of the amendment to IFRS 16 as a modification of the opening balance (on retained earnings or other accounting items in shareholders' equity) relating to the financial statements in which the above-mentioned practical expedient was applied for the first time.

The exemption provided by the above-mentioned amendment to IFRS 16 - currently being endorsed - is not applicable to the Group at the date of these condensed consolidated half-yearly financial statements due to the absence of cases of this type.

On 25 June 2020, the IASB published the amendments to IFRS 4 "**Extension of the Temporary Exemption from Applying IFRS 9**" and "**Amendments to IFRS 17**". In particular, the changes introduced concern:
- the reduction of costs through the simplification of several requirements of the accounting standards;
- the simplification of communications relating to financial services;
- the postponement of the date of entry into force of the standard to 2023.

The IASB also modified the previous standard on insurance contracts, IFRS 4, further postponing the entry into force of IFRS 9 to 1 January 2023 for insurance companies with the aim of maintaining the alignment of the entry into force of the two accounting standards.

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

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

As it is impossible to precisely measure certain elements of the financial statements, the application of the accounting standards thus entails the use by the management of estimates and assumptions that could also have a significant impact on the values of revenues, costs, assets and liabilities recognised in the financial statements and the disclosure relating to contingent assets and liabilities. An estimate may be adjusted following changes in the circumstances on which it was based or after new information or new experience is obtained. For a more detailed description of the most significant measurement processes for the Group, refer in general to Part A.2, paragraph "Other information" of the Notes to the Consolidated Financial Statements as at 31 December 2019.

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 2019, with the exception primarily of the quantification of the expected loss on financial instruments which, pursuant to IFRS 9, are subject to forecasts concerning impairment, based on the update in the outlook scenarios relating to the 2020-2022 period, estimated last June.

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

Quantification of impairment losses on loans

Updating macroeconomic scenarios for purposes of calculating expected loss and staging

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

The supervisory authorities (ESMA, EBA and ECB) and the standard setters (IASB) provided instructions in March and April of this year 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.

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.

For the purposes of the Interim Report on Operations as at 31 March 2020, as the most recent estimates available pointed to a variance with respect to those referring to the date of 31 December 2019 and used for the estimates to draft the 2019 Financial Statements, higher than the above-mentioned threshold, the Group used the macroeconomic information provided by a leading external supplier referring to 31 March 2020 to update the forward-looking estimates of expected loss on the performing and non-performing portfolio. The updated information included an average GDP value over the 2020-2022 period in the "baseline" scenario of -0.7%; in particular, the downturn in GDP for 2020 was set at 6.5%. Updating the "scenario" component of the performing and non-performing portfolio resulted in the recognition, as at 31 March 2020, of additional adjustments for EUR 119 mln and EUR 74 mln, respectively.

Subsequently, the Group developed a new scenario in house, which overall was more severe than that contributed by the external supplier for 31 March 2020, in order to take into account the consensus analysis on Italian GDP, which projected an even more significant decline in the second quarter of 2020. The new scenario, used for the revision of the 2020 budget, the update of the 2020-22 RAS, the 2020-2024 long-term projections and the impairment of performing loans and non-performing loans as at 30 June 2020, calls for a deep recession in 2020 (8% decline in GDP) followed by a recovery in the subsequent years (2021: +3.9% and 2022: +2%). The average value of this variable in the 2020-2022 period is substantially in line with macroeconomic projections for the Italian economy announced by the Bank of Italy last 5 June, following the ECB's publication on 4 June of the macroeconomic projections for the Eurozone. Although these estimates show a variance lower than the referenced threshold of 0.5%, they were likewise updated with respect to those referring to 31 March and used for the purposes of the Report on Operations at that date.

In addition, as regards performing corporate loans, in order to reflect the severe repercussions that the pandemic and the containment measures launched by governments to limit the spread of contagion have had on specific sectors, the scenario provided by Cerved was used. In particular, the Group relied on an outlook scenario contributed by that provider, which shows a GDP decline for the year 2020 of 8.2%[12] which, compared to the macroeconomic scenarios usually developed and the "satellite" model in use for estimating the multi-year PD curves (which for the corporate segment requires a distinction in 5 macro-segments: agriculture, commerce, building, industry and services) made it possible to differentiate the effects of the COVID-19 pandemic by sector of economic activity and geographical location. The forward-looking shock applied to the multi-year PD curves was determined in terms of the change in probabilities of default in 30 sectors of economic activity, on the basis of the changes (weighted for the relative counterparty exposures) observed between the Cerved forecasts pre and post COVID-19. This approach made it possible to identify the credit relationships of the corporate counterparties for which the pandemic triggered a significant increase in credit risk, resulting in a redetermination of the staging and the calculation of the lifetime ECL.

At 30 June 2020, updating the "scenario" component of the performing and non-performing portfolio compared to that developed at 31 March 2020, resulted in the recognition of total additional adjustments of EUR 86 mln and EUR 21 mln. Within the performing portfolio, EUR 83 mln refers to the corporate segment (of which EUR 53 mln due to the integration of the Cerved scenario for the year 2020 and EUR 30 mln referring to the application of the new scenario) and EUR 3 mln to the retail segment.

Overall, the adjustments recorded in the first half of the year linked to the "scenario" component are equal to roughly EUR 300 mln. These adjustments take into account significant aspects of uncertainty linked to developments in the pandemic as well as the breadth and effects of the government measures to support the economy.

IFRS 9 staging

The drivers for identifying a significant increase in credit risk (SICR), a necessary and sufficient condition for classifying the financial assets subject to assessment in stage 2, used for the staging allocation at the reference date of these condensed consolidated half-yearly financial statements, were unchanged with respect to the financial statements as at 31 December 2019, to which reference is made for more details. In this regard, note that the updates in the macroeconomic scenarios applied in the first half of 2020 (see section "Updating macroeconomic scenarios for purposes of calculating expected loss and staging") resulted in an overall increase in stage 2 as at 30 June 2020 of roughly EUR 2.72 bn, of which approx. EUR 1.7 bn recorded as at 31 March 2020 and an additional EUR 1.02 bn in the second quarter of the year. This last amount refers for EUR 1.0 bn to the corporate segment and EUR 0.02 bn to the retail segment. This change in status is due to surpassing the quantitative threshold - set forth in Group policies - of the variation in lifetime forward looking cumulative PD between the reporting date and the origination date.

The above-mentioned increase of EUR 1.0 bn for corporate segment loans refers to the Group's use as at 30 June 2020 of the "collective assessment" - established by IFRS 9 par. B5.5.1 and favoured by the regulators and standard setters - in order to intercept the sectors most exposed to the increase in credit risk (e.g., transport, hotels, tourism, cultural, recreational and retail commerce) within the context of the COVID-19 pandemic. This approach was implemented by using the "Cerved" scenario, the detailed components of which are described in the previous paragraph.

Lastly, with reference to the moratoria granted in the context of the COVID-19 pandemic, ESMA reiterated that these measures are not in themselves representative of an automatic trigger for transfer to stage 2 and that the related presumption of increased risk, if more than thirty days past due, is reasonably rebutted if the issuers, carefully considering the specific circumstances linked to the COVID-19 pandemic and the relative economic support and public support announced, believe that they constitute a sufficient justification to rebut that presumption.

[12] This scenario integrated that developed in house by the Group only for the year 2020 and only for corporate counterparties within the reference three-year time horizon.

Impacts of customer and bank support measures on ECL calculation

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

Instead, issuing public guarantees on loans seeks to facilitate the granting of liquidity at favourable terms by the financial system. In this regard, the Group made efforts after the end of the first quarter to implement the legislative provisions regarding guarantees of the Central Guarantee Fund/Ismea, Cassa Depositi e Prestiti and SACE (arts. 1 and 13 of the Liquidity Law Decree, converted with law no. 40/2020 and art. 57 of the Cura Italia Decree, converted with law no. 27/2020). At 30 June 2020, the Group disbursed loans backed by those guarantees for a total of roughly EUR 1.4 bn.

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

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

Article 56 of the "Cura Italia" decree, converted with law no. 27/2020, envisages, *inter alia*, that credit facilities for amounts outstanding as at 29 February 2020 cannot be revoked until 30 September 2020, in reference to both utilised funds and those yet to be utilised.

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

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

The Group estimated the EAD of these credit facilities, as at 30 June 2020, in line with what was done at 31 March 2020, not incorporating the specific features of the "Cura Italia" decree, in consideration of the temporary nature of the legislative measure and the additional liquidity support interventions (such as debt renegotiation and new lending backed by guarantees). Moreover, this assessment is supported by the fact that as at 30 June 2020 and also subsequently, increases in the uses of short-term credit lines are extremely limited.

Impairment test on equity investments and goodwill

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

Specifically with regard to equity investments, the methodology adopted by the MPS Group involves using specific triggers, or key operational indicators which are compared with specific benchmarks (for more details on the indicators used by the Group, please refer to part A of the Notes to the 2019 Consolidated Financial Statements, section "Use of estimates and assumptions - Methods for calculating impairment on equity investments"); if this comparison provides an indication of trends not aligned with expectations, the value of the asset to which they refer may have suffered from impairment and, therefore, in that case the recoverable amount is estimated. Specifically, this value is determined pursuant to IAS 36 as the higher value of its fair value, net of costs to sell, and the value in use, equal to the present value of future cash flows that the company expects from the continuous use of the asset and its disposal at the end of its useful life. If the recoverable amount of an asset is lower than its book value, the asset in question is written down.

The monitoring of the main impairment indicators performed by the Group at 30 June 2020 also considered the impacts of the deterioration in the macroeconomic scenario deriving from the COVID-19 pandemic and the resulting reduction in profitability of the assets subject to analysis. In particular, for the associated insurance companies AXA-MPS Vita and AXA-MPS Danni, elements emerged that were indicative of a potential impairment of the investees, and therefore the recoverable amount was estimated. This amount was higher than the book value of these equity investments, and therefore it was not necessary to proceed with any write-downs.

With reference to goodwill, it is allocated only to the Widiba CGU consisting of the customers of the subsidiary Widiba, a Group company established to relaunch the presence of MPS in direct channels, which has also been assigned the financial advisor network. As at 30 June 2020 the verification of the presence of any triggers of impairment of the CGU, based on a comparison between indicators of the June 2020 budget targets and the actual values at the same date, did not show any evidence of an impairment loss, thus confirming the book value.

Estimation and assumptions on recoverability of deferred tax assets

As at 30 June 2020, the Group accounted for write-downs of EUR 475.7 mln on DTAs due to the adoption for probability test purposes of the forecast plans and the discount factor updated to take into account the different macroeconomic scenario emerging as a result of the COVID-19 pandemic.

As at 30 June 2020, the discount factor used to reflect the uncertainty connected to the realisation of future income suitable to enable the recovery of deferred tax assets is equal to 9% (the rate used as at 31 December 2019 for the probability test in the Financial Statements closed at that date was 8%).

Rights of use in lease agreements

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

In order to identify events or situations that could lead to impairment, IAS 36 specifies that reference should be made to indicators obtained from:

- internal sources, such as signs of obsolescence and/or physical deterioration of the asset, restructuring plans or branch closures;
- external sources, such as the increase in interest rates or other rates of return on the market for investments that may cause a significant decrease in the recoverable amount of the asset.

As at 30 June 2020, the Group performed the following verifications:

- trend in interest rates used for discounting the payments;
- presence of unused leased properties.

Please note that this last verification was also performed considering the temporary branch closures triggered by the COVID-19 pandemic; indeed, starting from late February, several Group branches, especially in the Italian regions most impacted by the health emergency, were required to suspend operations. Subsequently, thanks to the progressive easing of the emergency, nearly all branches resumed operations.

At the reference date of these condensed consolidated half-yearly financial statements, given the temporary nature of the closure resulting from the pandemic and the absence of further indicators of impairment, no critical factors emerged as concerns the recoverable amount of right of use assets.

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

As at 30 June 2020, the method for determining the fair value of financial instruments and the inputs of the measurement techniques used have not been changed with respect to the financial statements as at 31 December 2019. There were no significant changes in level 3 of the fair value hierarchy. For more details, refer to the "Fair value disclosure" of these condensed consolidated half-yearly financial statements.

Other significant aspects within the context of the COVID-19 pandemic

Contractual changes and forbearance

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

- suspension of instalment payments and/or extension of due dates on instalment transactions, in application of both the legislative rules suspending instalments until 30 September 2020[13] as well as the ABI moratorium tool, which allows the suspension of up to 12 months extendable up to 24 for companies belonging to specific sectors or production areas having more difficulties with recovery;
- extension of due dates for outstanding advances;
- new medium/long-term financing products to meet the working capital needs of borrowers.

Furthermore, the Group and the banking system in general are researching other support measures, including the acquisition of the tax credit linked to the execution of the interventions laid out in the Relaunch Decree converted with law no. 77 of 17 July 2020.

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

As reaffirmed in the statements from the EBA and ESMA, contractual changes in response to COVID-19 are granted to offer broad support to all companies and individuals temporarily in difficulty due to the current pandemic, in order to prevent a systemic risk. In particular, since these difficulties are independent of the specific financial situation of each customer, they are not classified as contractual changes, that is, the relative exposures are not identified as forborne. These guidelines are valid until 30 September 2020.

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

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

In this regard, to handle as promptly as possible the high number of requests received due to the emergency caused by the pandemic crisis, the Group authorised a simplified approval procedure which establishes a preventive freeze of instalments for the requests accepted, pending the finalisation of contractual documentation. As at 30 June, roughly 115.6 thousand requests were received, for a residual debt of around EUR 16.7 bn, of which EUR 113.4 thousand accepted with the resulting freeze of the next instalments. With respect to this last aggregate, roughly 25% of total requests for a residual debt of EUR 5.2 bn have been finalised by means of a credit line approval, the finalisation of contractual documentation and the adjustment of amortisation plans in the reference operational services.

As at 30 June 2020, income statement item 140 "Modification gains/(losses)" includes a loss related to the COVID-19 suspensions finalised for roughly EUR 1.6 mln.

[13] The suspension is up to a maximum of 18 months for moratoria on the payment of first home mortgages linked to the "First home mortgage solidarity fund" ("Fondo Gasparrini").

Classification criteria applied (moratoria, defaults)

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

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

1) system legislative suspensions and other suspensions as well as concessions (reformulation/rescheduling) granted for purposes of COVID-19 credit facilities were not identified as forborne exposures;
2) suspensions and concessions other than those in point 1) are subject to specific assessment and considered forborne, with the resulting transfer to stage 2, in all cases in which the financial difficulty and/or the type of support provided is not attributable exclusively to the COVID-19 pandemic and/or when they are not commensurate with handling its effects;
3) the automatic default classification triggers in the presence of forbearance measures that were previously active on performing customers originating from a previous non-performing status have been deactivated in order to avoid, in the event of a past due equal to thirty days, the automatic transfer of the customer to non-performing loans, and recategorised as non-binding parameters with high importance, to monitor, in any case, the riskiness of these positions. Likewise, the application of a second moratorium, since it is not considered a forborne exposure, is not considered a binding parameter of unlikeliness to pay;
4) in the preliminary assessment for a COVID-19 concession, continuous and material overdrafts for 90 days do not entail automatic classification among past due non-performing exposures. The calculation of days past due is, in fact, suspended for the entire period that the suspension is valid.

Government bonds

The current context of volatility of sovereign spreads has had an impact on the measurement of debt securities owned by the Group, which posted declines in value as at 30 June 2020. For more details on the Group’s exposure to sovereign risk, please refer to the dedicated section of this half-yearly financial report.

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

Going concern

The Condensed Consolidated Half-Yearly Financial Statements as at 30 June 2020 were prepared based on a going concern assumption.

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 Group reasonably expects to continue operating as a going concern in the foreseeable future and has therefore prepared the condensed consolidated half-yearly financial statements as at 30 June 2020 under the going concern assumption.

In fact, the Group has a reasonable expectation that it will continue to operate also in the changed macroeconomic scenario, which is heavily penalised by the COVID-19 pandemic. In this regard, despite the expected negative repercussions on the performance of some types of revenues and the cost of credit, and the presence of elements of chance and risk described in the section "Disclosure on risks", it is believed that the Group can continue to operate as a going concern in the foreseeable future, with capital ratios exceeding regulatory requirements.

In this context, it is important to highlight that the MEF, as the controlling shareholder, in compliance with the 2017-2021 Restructuring Plan, has committed to proceed with the disposal of the equity investment by the end of 2021.

This conclusion also takes into consideration the significant government interventions in support of businesses and households, the targeted monetary policy initiatives of central banks, and the measures to temporarily loosen regulatory requirements.

Scope and methods of consolidation

Investments in wholly-owned subsidiaries

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

(*) Type of relationship:

1. = majority of voting rights at ordinary shareholders' meetings
2. = dominant influence at ordinary shareholders' meetings
3. = agreements with other shareholders
4. = other forms of control
5. = unified management under art. 39, paragraph 1 of "Leg. Decree 136/2015"
6. = unified management under art. 39, paragraph 2 of "Leg. Decree 136/2015"

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

The Condensed Consolidated Half-Yearly Financial Statements include the balance sheet and income statement data of the Parent Company and its direct and indirect subsidiaries. In particular, the scope of consolidation, as specifically set out in the IAS/IFRS, includes all subsidiaries, irrespective of their legal status, of business activity pursued in sectors other than the Parent Company's core business, of their being going concerns or wound-up companies, or of whether the equity investment consists of a merchant banking transaction. The scope of consolidation includes all types of entities, regardless of nature, for which the concept of control introduced by IFRS 10 applies. Structured entities are also consolidated when the requirement of actual control is satisfied, even if there is no stake in the entity.
For further information on the methods of consolidation, reference should be made to the Notes to the Full-Year 2019 Consolidated Financial Statements, Part A "Accounting Policies".

With respect to the situation as at 31 December 2019, please note the exit from the scope of consolidation of investee MONTEPASCHI LUXEMBOURG S.A. due to the liquidation and cancellation of the vehicle.

Income statement reclassification principles

Note that, to allow for a better interpretation of the Group's performance, starting from 2020, the value adjustments/recoveries and the gains/losses on disposal related to loans to customers have been included in a single aggregate called "**Cost of customer credit**". Hence, this aggregate includes:

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

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

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

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

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

- Item "**Net interest income**" was cleared of the negative contribution (equal to EUR -2.6 mln) of the Purchase Price Allocation (PPA), referring to past business combinations, which was reclassified to a specific item.
- Item "**Net fee and commission income**" was cleared of the negative contribution (equal to EUR 24.5 mln) represented by commission expense relating to the non-proportional demerger plan with asymmetric option of a compendium of non-performing loans in favour of AMCO, which was allocated to the reclassified item "Restructuring costs/One-off charges".
- 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 37.7 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 1.1 mln), reclassified to item "Net profit (loss) from trading, the fair value measurement of assets/liabilities and gains from disposals/repurchases".
- Item "**Net profit (loss) from trading, the fair value measurement of assets/liabilities and 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 +0.8 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 +5.6 mln) reclassified in the item "Cost of customer credit". In addition, the aggregate incorporates dividends earned on equity securities other than equity investments (EUR 1.1 mln).
- Item "**Other operating income (expenses)**" 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 128.4 mln) and net of other expenses recovered, which are posted to "Net value adjustments to property, plant and equipment" (EUR 10.2 mln).
- Item "**Personnel expenses**" includes the balance of item 190a "Personnel expenses" reduced by EUR 0.4 mln, linked to recoveries from INPS relating to provisions recognised for Solidarity Fund departures, reclassified to "Restructuring costs/One-off charges".
- Item "**Other administrative expenses**" includes the balance of income statement item 190b "Other administrative expenses", reduced by the following cost items:

- expenses, amounting to EUR 76.7 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 35.5 mln (posted to the reclassified item "DTA fee");
- extraordinary charges of EUR 5.8 mln, relating to initiatives also aimed at complying with the commitments undertaken with DG Comp, including expenses for the non-proportional demerger plan with asymmetric option of a compendium of non-performing loans in favour of AMCO, 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 128.4 mln) posted under item 230 "Other operating expenses/income".

- Item "**Net value adjustments to property, plant and equipment and intangible assets**" includes the values of items 210 "Net value adjustments to (recoveries on) property, plant and equipment" and 220 "Net value adjustments to (recoveries on) intangible assets" and was cleared of the negative contribution (EUR -0.4 mln) referring to the Purchase Price Allocation (PPA), which was recognised in a specific item, while it incorporates the amount of the expense recovery (EUR 10.2 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 +0.8 mln), item 110b "Net profit (loss) from other financial assets measured at fair value as per mandatory requirements" (EUR +5.6 mln), item 130a "Net impairment (losses)/reversals on financial assets measured at amortised cost" (EUR -529.1 mln), item 140 "Modification gains/(losses)" (EUR -2.8 mln) and item 200a "Net provisions for risks and charges - commitments and guarantees given" (EUR +6.2 mln).
- Item "**Net impairment losses on securities and loans to banks**" includes the portion related to securities (EUR -2.4 mln) and loans to banks (EUR -0.5 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 -2.6 mln).
- Item "**Gains (losses) on investments**" includes the balance of item 250 "Gains (losses) on investments", cleared of the portion of profit relative to the investments in AXA, consolidated at equity and equivalent to EUR 37.7 mln, reclassified under item "Dividends, similar income and gains (losses) on investments".
- Item "**Restructuring costs/One-off charges**" includes the following amounts:
  - commission expense of EUR 24.5 mln relating to the non-proportional demerger plan with asymmetric option of a compendium of non-performing loans in favour of AMCO, accounted for in the financial statements under item 60 "Net fee and commission income"
  - recoveries from INPS for previous early retirement/solidarity fund manoeuvres equal to EUR 0.4 mln, recognised in the financial statements under item 190a "Personnel expenses"
  - extraordinary charges of EUR 5.8 mln, relating to project initiatives also aimed at complying with the commitments undertaken with DG Comp, including expenses for the non-proportional demerger plan with asymmetric option of a compendium of non-performing loans in favour of AMCO, accounted for in the financial statements under item 190b "Other administrative expenses"
  - gains of EUR 2 mln linked to the definition of the price adjustment on the sale of BMP Belgio S.A., accounted for in the financial statements under item 280 "Gains (losses) on disposal of investments".
- 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 76.7 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 35.5 mln.
- Item "**Gains (losses) on disposal of investments**" includes the balance of the financial statement item 280 "Gains (losses) on disposal of investments" less the positive effect linked to the definition of the price adjustment resulting from the disposal of MP Belgio (EUR +2 mln), which was stated under the reclassified item "Restructuring costs/One-off charges".
- 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 1 mln.

- The overall negative effects of the **Purchase Price Allocation (PPA)** were reclassified to a specific item, excluding them from affected income statement items (in particular "Net interest income" for EUR -2.6 mln and "Net value adjustments to property, plant and equipment and intangible assets" for EUR -0.4 mln, net of a theoretical tax burden of EUR +1 mln which was added to the item).

Balance sheet reclassification principles

Note that, to allow a better interpretation of the Group's performance, starting from 2020, the reclassified balance sheet schedules were revised to ensure better consistency between the aggregates and the instruments that comprise them. The principal changes regarded:

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

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

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

- Asset item "**Loans to central banks**" includes the portion relating to operations with central banks of item 40 "Financial assets measured at amortised cost".
- Asset item "**Loans to banks**" includes the portion relating to operations with banks of item 40 "Financial assets measured at amortised cost" and item 20 "Financial assets measured at fair value through profit and loss".
- Asset item "**Loans to customers**" includes the portion relating to loans to customers of item 20 "Financial assets measured at fair value through profit and loss", item 30 "Financial assets measured at fair value through other comprehensive income", item 40 "Financial assets measured at amortised cost" and item 120 "Non-current assets held for sale and discontinued operations".
- Asset item "**Securities assets**" includes the portion relating to securities of item 20 "Financial assets measured at fair value through profit and loss", item 30 "Financial assets measured at fair value through other comprehensive income", item 40 "Financial assets measured at amortised cost" and item 120 "Non-current assets held for sale and discontinued operations".
- Asset item "**Derivative 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 "Fair value change of financial assets in hedged portfolios"", item 130 "Other assets", and the amounts in item 120 "Non-current assets held for sale and discontinued operations" not included in the previous items.
- Liability item **"Due to customers"**, includes item 10b "Financial liabilities measured at amortised cost – due to customers" and the component relating to customer securities of 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 designated 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 "**Specific provisions**" includes item 90 "Employee severance pay" and item 100 "Provisions for risks and charges".
- Liability item "**Other liabilities**" includes item 50 " Fair value change of financial liabilities in hedged portfolios ", 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

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

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

- the Cost of Customer Credit was penalised by the effects deriving from the changed macroeconomic scenario due to the spread of the pandemic, which influenced the portfolio's risk levels,
- Net fee and commission income was impacted by the reduction of Network operations during the months of the lockdown, with a recovery of full operations only starting from late June,
- the results of trading activities and the contribution of AXA-MPS were impacted by financial market volatility, with negative effects in the first quarter of the year and a subsequent recovery in the second quarter,
- taxes recorded a negative contribution due almost entirely to the modification of the value of deferred tax assets (DTAs) recorded in the financial statements, by virtue of the update in long-term internal estimates (2020-2024) of income statement and balance sheet values performed to take into account the evolution of the macroeconomic scenario as a result of the pandemic.

Reclassified Consolidated Income Statement				
MONTEPASCHI GROUP	30 06 2020	30 06 2019	Change Abs.	%
Net interest income	646.9	813.2	(166.3)	-20.5%
Net fee and commission income	694.3	722.5	(28.2)	-3.9%
Income from banking activities	**1,341.1**	**1,535.7**	**(194.6)**	**-12.7%**
Dividends, similar income and gains (losses) on equity investments	46.3	43.4	2.9	6.6%
Net profit (loss) from trading, the fair value measurement of assets/liabilities and gains from disposals/repurchases	92.1	79.1	13.0	16.4%
Net profit (loss) from hedging	0.5	(0.6)	1.1	n.m.
Other operating income (expenses)	(27.5)	(71.3)	43.8	-61.4%
Total Revenues	**1,452.5**	**1,586.3**	**(133.8)**	**-8.4%**
Administrative expenses:	(973.2)	(1,017.9)	44.7	-4.4%
a) personnel expenses	(707.9)	(726.0)	18.1	-2.5%
b) other administrative expenses	(265.3)	(291.9)	26.6	-9.1%
Net value adjustments to property, plant and equipment and intangible assets	(112.2)	(128.5)	16.3	-12.7%
Operating expenses	**(1,085.4)**	**(1,146.4)**	**61.0**	**-5.3%**
Pre-provision operating profit	**367.1**	**439.9**	**(72.8)**	**-16.5%**
Cost of customer credit	**(519.3)**	**(253.8)**	**(265.5)**	**n.m.**
Net impairment (losses)/reversals on securities and loans to banks	**(5.5)**	**(0.7)**	**(4.8)**	**n.m.**
Net operating income	**(157.7)**	**185.4**	**(343.1)**	**n.m.**
Net provisions for risks and charges	*(357.1)*	(58.4)	(298.7)	n.m.
Gains (losses) on investments	0.7	3.2	(2.5)	-78.1%
Restructuring costs / One-off costs	(27.9)	3.1	(31.0)	n.m.
Risks and charges related to the SRF, DGS and similar schemes	(76.7)	(87.5)	10.8	-12.3%
DTA Fee	(35.5)	(35.2)	(0.3)	0.9%
Gains (losses) on disposal of investments	1.1	0.7	0.4	57.1%
Profit (loss)for the period before tax	**(653.0)**	**11.3**	**(664.3)**	**n.m.**
Tax expense (recovery) on income from continuing operations	(433.8)	91.2	(525.0)	n.m.
Profit (loss) after tax	**(1,086.8)**	**102.5**	**(1,189.3)**	**n.m.**
Net profit (loss) for the period including non-controlling interests	**(1,086.8)**	**102.5**	**(1,189.3)**	**n.m.**
Net profit (loss) attributable to non-controlling interests	(0.1)	-	(0.1)	n.m.
Parent Company's Profit (loss) for the period before PPA	**(1,086.7)**	**102.5**	**(1,189.2)**	**n.m.**
PPA (Purchase Price Allocation)	(2.0)	(9.4)	7.4	-78.7%
Parent company's net profit (loss) for the preriod	**(1,088.7)**	**93.1**	**(1,181.8)**	**n.m.**

Quarterly trend in reclassified consolidated income statement						
	2020		2019			
Montepaschi Group	2°Q 2020	1°Q 2020	4°Q 2019	3°Q 2019	2°Q 2019	1°Q 2019
Net interest income	319.8	327.1	333.4	354.7	404.3	408.9
Net fee and commission income	324.4	369.9	371.1	355.9	363.7	358.8
Income from banking activities	**644.1**	**697.0**	**704.5**	**710.6**	**768.0**	**767.7**
Dividends, similar income and gains (losses) on equity investments	34.5	11.8	15.3	36.9	27.5	15.9
Net profit (loss) from trading, the fair value measurement of assets/liabilities and gains from disposals/repurchases	62.3	29.8	141.1	102.0	50.5	28.6
Net profit (loss) from hedging	3.3	(2.8)	(5.8)	1.8	(0.6)	-
Other operating income (expenses)	(21.1)	(6.4)	2.2	(11.1)	(63.0)	(8.3)
Total Revenues	**723.1**	**729.4**	**857.3**	**840.2**	**782.4**	**804.0**
Administrative expenses:	(480.2)	(493.0)	(524.6)	(491.9)	(509.7)	(508.2)
a) personnel expenses	(351.2)	(356.7)	(352.5)	(354.5)	(357.4)	(368.6)
b) other administrative expenses	(129.0)	(136.3)	(172.1)	(137.4)	(152.3)	(139.6)
Net value adjustments to property, plant and equipment and intangible assets	(56.7)	(55.5)	(69.4)	(57.3)	(67.6)	(60.9)
Operating expenses	**(536.9)**	**(548.5)**	**(594.0)**	**(549.2)**	**(577.3)**	**(569.1)**
Pre-provision operating profit	**186.2**	**180.9**	**263.3**	**291.0**	**205.0**	**234.9**
Cost of customer credit	**(204.8)**	**(314.5)**	**(191.8)**	**(137.1)**	**(109.9)**	**(143.9)**
Net impairment (losses)/reversals on securities and loans to banks	**(4.4)**	**(1.1)**	**(2.4)**	**(2.2)**	**(0.6)**	**(0.1)**
Net operating income	**(23.0)**	**(134.7)**	**69.1**	**151.7**	**94.5**	**90.9**
Net provisions for risks and charges	(317.0)	(40.1)	(85.6)	(11.9)	(19.4)	(39.0)
Gains (losses) on investments	0.5	0.2	(9.3)	0.5	2.3	0.9
Restructuring costs / One-off costs	(30.4)	2.6	2.2	(5.6)	0.9	2.2
Risks and charges related to the SRF, DGS and similar schemes	(18.4)	(58.3)	(0.2)	(35.7)	(26.6)	(60.9)
DTA Fee	(17.7)	(17.8)	(17.7)	(17.7)	(17.3)	(17.9)
Gains (losses) on disposal of investments	(0.8)	1.9	1.9	0.4	0.1	0.6
Profit (loss)for the period before tax	**(406.8)**	**(246.2)**	**(39.6)**	**81.7**	**34.6**	**(23.3)**
Tax expense (recovery) on income from continuing operations	(437.6)	3.8	(1,179.0)	13.3	34.4	56.7
Profit (loss) after tax	**(844.4)**	**(242.4)**	**(1,218.6)**	**95.0**	**69.0**	**33.5**
Net profit (loss) for the period including non-controlling interests	**(844.4)**	**(242.4)**	**(1,218.6)**	**95.0**	**69.0**	**33.5**
Net profit (loss) attributable to non-controlling interests	(0.1)	-	-	(0.1)	(0.2)	0.2
Parent Company's Profit (loss) for the period before PPA	**(844.3)**	**(242.4)**	**(1,218.6)**	**95.1**	**69.2**	**33.3**
PPA (Purchase Price Allocation)	(0.9)	(1.1)	(1.3)	(1.3)	(4.0)	(5.4)
Parent company's net profit (loss) for the preriod	**(845.2)**	**(243.5)**	**(1,219.9)**	**93.8**	**65.2**	**27.9**

Revenue trends

As at 30 June 2020, the Group achieved total **Revenues** of **EUR 1,453 mln**, down 8.4% compared to the same period of the previous year, in particular due to the decrease in Net interest income attributable to the drop in interest-bearing commercial assets and the related yields and Net fee and commission income. Other revenues from banking business improved, due to the greater contribution from AXA and higher profits from the sale of securities, only partially offset by the decline in results from trading, negatively impacted in the first quarter of the year by the tensions in financial markets linked to the COVID-19 emergency. Lastly, there was also an improvement in Other operating income (expenses), which in the first half of 2019 included the recognition of the indemnity linked to the exercise of the right of withdrawal from the agreement entered into with Juliet for around EUR 49 mln.

In the comparison with the previous quarter, Revenues were basically stable (EUR-6 mln) thanks to the higher contribution of AXA and the recovery in results from trading/hedging, both penalised in 1Q20 by unfavourable financial market trends linked to the COVID-19 emergency. Net interest income deteriorated compared to the prior quarter, as did Net fee and commission income, penalised by the sharp reduction in Network operations during the lockdown period resulting from the COVID-19 emergency, and Other operating income (expenses), in relation to higher contingent liabilities.

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

SEGMENT REPORTING	Operating Segments						Corporate Center		Total Montepaschi Group	
Primary segment	Retail banking		Wealth Management		Corporate banking					
(EUR mln)	30/06/20	Chg % Y/Y	30/06/20	Chg % Y/Y	30/06/20	Chg % Y/Y	30/06/20	Chg % Y/Y	30/06/20	Chg % Y/Y
PROFIT AND LOSS AGGREGATES										
Net interest income	438.7	-19.0%	3.6	-53.9%	208.9	-17.9%	(4.4)	n.m.	646.9	-20.5%
Net fee and commission income, of which	532.0	-10.5%	54.5	2.0%	146.9	-0.6%	(39.1)	-46.5%	694.3	-3.9%
Fee and commission income	*566.4*	-10.5%	*55.0*	1.2%	*169.8*	-0.1%	*(1.1)*	-99.7%	*790.1*	*87.6%*
Fee and commission expense	*(34.4)*	-10.2%	*(0.5)*	-49.6%	*(22.9)*	3.1%	*(38.0)*	n.m.	*(95.8)*	*-131.8%*
Other Revenues from Banking and Insurance Business	30.5	5.7%	8.4	7.8%	31.5	3.2%	68.5	25.1%	138.9	13.9%
Other operating expenses/income	7.1	44.5%	(0.4)	n.m.	(1.5)	-84.8%	(32.7)	-51.0%	(27.5)	-61.4%
Total Revenue	1,008.3	-13.8%	66.1	-4.5%	385.8	-8.8%	(7.7)	-89.8%	1,452.5	-8.4%

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

Net interest income, equal to **EUR 647 mln** as at 30 June 2020, was down by 20.5% compared to the same period of 2019, mainly due to the drop in interest-bearing commercial assets and the related yields, which were also impacted by disposals of Unlikely to Pay loans carried out in the course of 2019 and the conclusion in June 2019 of the sale of the subsidiary BMP Belgio S.A. The aggregate also reflects the increase in the cost of market funding, mainly linked to the return on the market of bond issues that took place in the second half of 2019 and continued in 1Q20. The result of 2Q20 was down compared to the previous quarter (-2.2%), mainly due to the lower contribution from commercial loans and the security portfolio.

Items	30 06 2020	30 06 2019	Chg. Y/Y		2°Q 2020	1°Q 2020	Chg. Q/Q	
			Abs.	%			Abs.	%
Loans to customers measured at amortised cost	768.4	867.1	(98.7)	-11.4%	382.4	386.0	(3.6)	-0.9%
Securiries issued	(165.9)	(113.2)	(52.7)	46.6%	(83.6)	(82.3)	(1.3)	1.6%
Net Differentials on hedging derivatives	(2.8)	(7.5)	4.7	-62.6%	(4.1)	1.3	(5.5)	n.m.
Loans to Banks measured at amortised cost	(5.6)	(7.8)	2.2	-28.2%	1.7	(7.3)	9.0	n.m.
Trading portfolios	21.5	21.9	(0.4)	-1.8%	12.0	9.5	2.5	26.3%
Portfolios measured at fair value	4.0	6.7	(2.7)	-40.3%	3.0	1.0	2.0	n.m.
Financial assets measured at fair value through other comprehensive income	22.4	45.4	(23.0)	-50.7%	5.3	17.1	(11.8)	-69.0%
Other net interest income	4.9	0.6	4.3	n.s.	3.1	1.8	1.3	72.2%
Net interest income	**646.9**	**813.2**	**(166.3)**	**-20.5%**	**319.8**	**327.1**	**(7.3)**	**-2.2%**
of which: interest income on impaired financial assets	*84.7*	*122.7*	*(38.0)*	*-31.0%*	*40.7*	*44.0*	*(3.3)*	*-7.5%*

Net fee and commission income, totalling **EUR 694 mln** in the first half of 2020, posted a downturn of 3.9% compared to the same period of the previous year.
This trend was influenced by the reduced Network operations during the months of the lockdown, which penalised commissions on loans due to lower fees on brokered loans and commissions from services. On the other hand, commissions on asset management were basically stable, thanks to the positive placement trends during the first two months of the year and the recovery observed in June, as well as the contribution of income deriving from the placement of the "BTP Italia XVI issue" in May. Lastly, other net fee and commission income improved, due to the lower cost of the state guarantee following the repayment of Government-Guaranteed Bonds that took place in 1Q20.
The contribution of 2Q20 was down in the comparison with the prior quarter (-12.3%), with respect to which there was a decline in income from asset management, in particular on product placement, commissions on loans, due to lower fees on brokered loans, and commissions from services. This trend can primarily be ascribed to reduced Network operations resulting from the COVID-19 emergency. By contrast, other net fee and commission income improved, due to the lower cost of the state guarantee following the abovementioned repayment of Government-Guaranteed Bonds.

Services/value	30 06 2020	30 06 2019	Change Y/Y		2°Q 2020	1°Q 2020	Change Y/Y	
			abs.	%			abs.	%
Assets under management fee	**312.2**	**313.2**	**(1.0)**	**-0.3%**	**138.6**	**173.6**	**(35.0)**	**-20.1%**
Product placement	97.8	101.4	(3.6)	-3.5%	34.8	63.0	(28.2)	-44.7%
Continuing fees	170.5	170.2	0.3	0.2%	82.0	88.4	(6.4)	-7.2%
Placement of securities	22.8	19.1	3.7	19.4%	12.4	10.4	2.1	19.8%
Sales of Protection	21.2	22.6	(1.4)	-6.1%	9.4	11.8	(2.4)	-20.5%
Fee and commisions from traditional activities	**430.1**	**496.1**	**(66.1)**	**-13.3%**	**202.5**	**227.6**	**(25.1)**	**-11.0%**
Credit fees	197.8	237.8	(40.0)	-16.8%	91.1	106.7	(15.5)	-14.6%
Fees from foreign service	23.4	25.7	(2.3)	-9.0%	10.7	12.7	(2.0)	-15.5%
Other services	208.9	232.7	(23.8)	-10.2%	100.7	108.2	(7.6)	-7.0%
Other fee and commission income	**(48.1)**	**(86.8)**	**38.8**	**-44.6%**	**(16.8)**	**(31.3)**	**14.5**	**-46.3%**
Net fees and commission income	**694.3**	**722.5**	**(28.2)**	**-3.9%**	**324.4**	**369.9**	**(45.5)**	**-12.3%**

SEGMENT REPORTING	Operating segment			Corporate Center	Total Montepaschi Group
Primary segment	Retail banking	Wealth Management	Corporate banking		
	30/06/20	30/06/20	30/06/20	30/06/20	30/06/20
Assets under management fee	**261.4**	**50.0**	**2.5**	**-**	**313.9**
Product placement	92.9	4.9	0.1	-	97.9
Continuing fees	128.2	40.7	1.8	-	170.7
Placement of securities	19.4	4.3	0.4	-	24.1
Sales of Protection	21.0	0.1	0.1		21.2
Fee and commisions from traditional activities	**301.9**	**3.2**	**144.7**	**-**	**449.8**
Credit fees	100.0	1.0	105.3		206.3
Fees from foreign service	5.6	0.1	19.7	-	25.4
Other services	196.3	2.1	19.7		218.1
Other fee and commission income	3.1	1.8	22.6	(1.1)	26.4
Net fees and commission income	**566.4**	**55.0**	**169.8**	**(1.1)**	**790.1**

Dividends, similar income and gains (losses) on investments totalled **EUR 46 mln** and include the AXA-MPS contribution[14]. This component was up compared to 30 June 2019 (EUR +3 mln) with a 2Q20 contribution that improved over the previous quarter (EUR +23 mln), which was negatively impacted by tensions in the financial markets associated with the COVID-19 emergency.

Net profit (loss) from trading, fair value measurement of assets/liabilities and gains on disposal/repurchase at 30 June 2020 amounted to **EUR 92 mln**, an increase compared to the values recorded in the same period of the previous year (+16.4%) and with a 2Q20 contribution that was up compared to 1Q20 (EUR +32.5 mln). The analysis of the main aggregates shows the following:

- **Net profit (loss) from trading of EUR +22 mln**, down compared to 30 June 2019, due to the lower contribution from the subsidiary MPS Capital Services, penalised in the first quarter of the year by the unfavourable performance of financial markets associated with the COVID-19 emergency, and BMPS, in relation to the elimination of the positive effects recorded on derivatives hedging liabilities at fair value. The contribution of 2Q20 was up compared to the previous quarter, thanks to the results of the subsidiary MPS Capital Services, which benefitted from the financial market recovery in 2Q20.
- **Net profit (loss) from financial assets/liabilities measured at fair value through profit and loss was negative for EUR 6 mln**, a deterioration compared to the same period of the previous year (equal to EUR +2 mln), which benefitted from the revaluation of securities recognised in assets resulting from the debt restructuring transactions of Sorgenia Group. The contribution of 2Q20 deteriorated from the substantially null contribution of 1Q20, primarily due to the recognition of capital losses on securities and UCITS units.
- **Gains on disposal/repurchase** (excluding loans to customers measured at amortised cost) **was positive for EUR 76 mln**, up compared to EUR 18 mln in the same period of the previous year, thanks to higher gains on sales of securities, in particular Italian government bonds, carried out in the first half of the year. The contribution of 2Q20, equal to EUR 24 mln, was down by EUR 27 mln compared to 1Q20, due to the lower profits deriving from the sale of securities.

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

Items	30 06 2020	30 06 2019	Chg. Y/Y		2°Q 2020	1°Q 2020	Chg. Q/Q	
			Abs.	%			Abs.	%
Financial assets held for trading	(28.6)	66.5	(95.1)	n.m.	95.7	(124.3)	220.0	n.m.
Financial liabilitis held for trading	33.0	(54.9)	87.9	n.m.	(29.4)	62.4	(91.8)	n.m.
Exchange rate effects	9.7	13.5	(3.8)	-28.1%	4.5	5.2	(0.7)	-13.5%
Derivatives	8.1	34.1	(26.0)	-76.2%	(26.8)	34.9	(61.7)	n.m.
Trading results	**22.2**	**59.2**	**(37.0)**	**-62.5%**	**44.0**	**(21.8)**	**65.8**	**n.m.**
Net profit (loss) from financial assets and liabilities measured at fair value through profit and loss	(6.0)	1.7	(7.7)	n.m.	(6.1)	0.1	(6.2)	n.m.
Disposal / repurchase (excluding loans to customers measured at amortised cost)	75.9	18.2	57.7	n.m.	24.4	51.5	(27.1)	-52.6%
Net profit (loss) from trading, financial assets and liabilities measured at fair value and gains/losses from disposals/ purchases	**92.1**	**79.1**	**13.0**	**16.4%**	**62.3**	**29.8**	**32.5**	**n.m.**

The following items also make up Revenues:

- **Net profit (loss) from hedging at EUR +0.5 mln**, an improvement compared to 30 June 2019 (equal to EUR -0.6 mln) and with a contribution of 2Q20 (EUR +3.3 mln) which improved compared to that of 1Q20 (equal to EUR -2.8 mln);
- **Other operating income/expenses negative for EUR 28 mln**, better than the result recorded in the first half of 2019 (EUR -71 mln), which included the recognition of the compensation linked to the exercise of the right of withdrawal from the contract entered into with Juliet for EUR 49 mln and with a 2Q20 contribution, equal to EUR -21 mln, which was worse than that of 1Q20 (equal to EUR -6 mln), in relation to higher contingent liabilities.

Operating expenses

Operating expenses totalled **EUR 1,085 mln** as at 30 June 2020, down 5.3% on the previous year and with a contribution from 2Q20 that was down compared to 1Q20 (-2.1%). A closer look at the individual aggregates reveals the following:

- **Administrative expenses** were **EUR 973 mln**, down by approximately EUR 45 mln from the same period of the previous year, with a 2Q20 contribution of EUR 480 mln, down by roughly EUR 13 mln compared to 1Q20. A breakdown of the aggregate shows:
    - **Personnel expenses**, equal to **EUR 708 mln**, fell 2.5% compared to 30 June 2019, benefitting from the lower average workforce (in relation, in particular, to the 750 departures for the Solidarity Fund recorded in 2019 and the deconsolidation of BMP Belgio S.A. in June 2019). This trend was only partially offset by the contractual increases/adjustments related primarily to the effects of the renewal of the National Collective Bargaining Agreement. The aggregate declined by 1.5% Q/Q also due to the savings deriving from the extension of smart working as a result of the COVID-19 emergency.
    - **Other administrative expenses** amounted to **EUR 265 mln**, down by 9.1% compared to the same period of the previous year. Despite the higher expenses for the acquisition of Personal Protection Equipment (PPE) required to handle the COVID-19 emergency, the aggregate benefitted from the deconsolidation of BMP Belgio S.A. in June 2019, the savings linked to branch closures in 2019 and reduced operations during the lockdown period, as well as the savings initiatives carried out. The aggregate was down by roughly 5.4% Q/Q despite the higher expenses incurred to purchase Personal Protection Equipment
- **Net value adjustments to property, plant and equipment and intangible assets** totalled **EUR 112 mln** as at 30 June 2020, a deterioration of 12.7% compared to the same period of the previous year, principally due to lower amortisation of intangible assets. They were basically stable in the Q/Q comparison.

Type of transaction	30 06 2020	30 06 2019	Chg Y/Y		2°Q 2020	1°Q 2020	Chg Q/Q	
			Abs.	%			Abs.	%
Wages and salaries	(511.4)	(519.4)	8.0	-1.5%	(256.6)	(254.8)	(1.8)	0.7%
Social-welfare charges	(140.0)	(142.6)	2.6	-1.8%	(70.3)	(69.7)	(0.6)	0.9%
Other personnel expenses	(56.5)	(64.0)	7.5	-11.8%	(24.3)	(32.2)	7.8	-24.3%
Personnel expenses	**(707.9)**	**(726.0)**	**18.1**	**-2.5%**	**(351.2)**	**(356.7)**	**5.4**	**-1.5%**
Taxes	(116.3)	(122.8)	6.5	-5.3%	(56.7)	(59.6)	2.9	-4.9%
Furnishing, real estate and security expenses	(36.4)	(44.6)	8.2	-18.4%	(17.1)	(19.3)	2.2	-11.4%
General operating expenses	(100.8)	(96.4)	(4.4)	4.6%	(45.7)	(55.1)	9.4	-17.1%
Information technology expenses	(61.2)	(70.1)	8.9	-12.7%	(33.8)	(27.4)	(6.4)	23.4%
Legal and professional expenses	(51.2)	(51.3)	0.1	-0.2%	(29.9)	(21.3)	(8.6)	40.4%
Indirect personnel costs	(3.5)	(5.5)	2.0	-36.4%	(1.9)	(1.6)	(0.3)	18.8%
Insurance	(20.0)	(21.7)	1.7	-7.8%	(10.7)	(9.3)	(1.4)	15.1%
Advertising, sponsorship and promotions	(2.5)	(2.1)	(0.4)	19.0%	(1.3)	(1.2)	(0.1)	8.3%
Other	(1.8)	(8.1)	6.3	-77.9%	1.6	(3.4)	5.0	n.m.
Expenses recovery	128.4	130.7	(2.3)	-1.8%	66.5	61.9	4.6	7.4%
Other administrative expenses	**(265.3)**	**(291.9)**	**26.6**	**-9.1%**	**(129.0)**	**(136.3)**	**7.3**	**-5.4%**
Tangible assets	(74.9)	(83.8)	8.9	-10.7%	(37.5)	(37.4)	(0.1)	0.3%
Intangible assets	(37.3)	(44.6)	7.3	-16.4%	(19.2)	(18.1)	(1.1)	6.1%
Net value adjustments to property, plant and equipment and intangible assets	**(112.2)**	**(128.4)**	**16.2**	**-12.6%**	**(56.7)**	**(55.5)**	**(1.2)**	**2.2%**
Operating expenses	**(1,085.4)**	**(1,146.4)**	**61.0**	**-5.3%**	**(536.9)**	**(548.5)**	**11.5**	**-2.1%**

As a result of these trends, the Group's **Gross Operating Income** totalled **EUR 367 mln** (EUR 440 mln as at 30 June 2019), with a contribution of 2Q20 up by roughly EUR 5 mln compared to the previous quarter.

Cost of customer credit

As at 30 June 2020, the Group recognised a **Cost of customer credit** equal to **EUR 519 mln**, an increase of EUR 266 mln compared to the corresponding period of the previous year (EUR 254 mln).
The figure in the first half of 2020 includes roughly EUR 300 mln from the increase in adjustments deriving from the changed macroeconomic scenario due to the spread of the COVID-19 pandemic, which influenced the portfolio's risk levels. The value in the first half of 2019 instead included a negative effect of around EUR 37 mln linked to the changed macroeconomic scenario and a net positive effect of roughly EUR 209 mln connected to the exercise of the right of withdrawal from the servicing agreement entered into with Juliet (positie effect of around EUR 457 mln, which resulted in the elimination of forecasted costs for the agreement, reflected in value adjustments) and the simultaneous revision of the NPE reduction strategy, which entailed an acceleration in the 2019 disposal plan (negative effect of around EUR 248 mln). Excluding these effects, the aggregate was down Y/Y primarily due to lower provisions on positions that are already non-performing and the lower impact of transfers to bad loans.
2Q20 made a lower contribution than the previous quarter due to increases in adjustments deriving from the above-mentioned changed macroeconomic scenario which were recognised for EUR 193 mln in 1Q20 and EUR 107 mln in 2Q20.

The ratio between the Cost of customer credit for the half, annualised linearly, and Loans to customers as at 30 June 2020 reflects a **Provisioning Rate of 126 bps** (73 bps as at 31 December 2019). The Provisioning Rate is equal to 89 bps including the EUR 300 mln increase in adjustments linked to the scenario update as a one-off effect solely for the first half of 2020.

	30 06 2020	30 06 2019	Chg. Y/Y Abs.	Chg. Y/Y %	2°Q 2020	1°Q 2020	Chg. Q/Q Abs.	Chg. Q/Q %
Loans to customers measured at amortised cost	(529.1)	(247.8)	(281.3)	n.m.	(209.6)	(319.5)	109.9	-34.4%
Modification gains/(losses)	(2.8)	(3.3)	0.5	-15.2%	(1.8)	(1.0)	(0.8)	80.0%
Gains/(losses) on disposal/repurchase of loans to customers measured at amortised cost	0.8	(0.7)	1.5	n.m.	0.5	0.3	0.2	66.7%
Net change of Loans to customers mandatorily measured at fair value	5.6	(36.3)	41.9	n.m.	3.4	2.2	1.2	54.5%
Net provision for risks and charges on commitments and guarantees issued	6.2	34.3	(28.1)	-81.9%	2.7	3.5	(0.8)	-22.9%
Adjustments to cost of customer credit	**(519.3)**	**(253.8)**	**(265.5)**	**n.m.**	**(204.8)**	**(314.5)**	**109.7**	**-34.9%**

The Group's **Net Operating Income** was **negative for approximately EUR 158 mln**, compared to a positive value of EUR 185 mln in the same period of the previous year.

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

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

- **Net provisions for risks and charges** in the amount of **EUR -357 mln**, mainly linked to legal risks and risk associated with contractual arrangements. As at 30 June 2019, the balance was negative for EUR 58 mln, mainly attributable to provisions for commitments assumed by the Parent Company against the compensation relating to transactions in diamonds.
- **Gains on investments** of approx. **EUR 0.7 mln**, against a gain of EUR 3 mln in the same period of the previous year and a contribution of EUR +0.5 mln recorded in 2Q20, against roughly EUR +0.2 mln recorded in 1Q20.
- **Restructuring costs/One-off charges** of **EUR -28 mln**, primarily relating to expenses for the non-proportional demerger plan with asymmetric option of a compendium of non-performing loans in favour of AMCO, accounted for in 2Q20. As at 30 June 2019, the aggregate was positive for EUR 3 mln.
- **Risks and charges associated with SRF, DGS and similar schemes**, amounting to **EUR -77 mln**, comprised of the contribution due from the Group to the Single Resolution Fund (SRF) accounted for in the first quarter of 2020, amounting to EUR 58 mln, and the additional amount of EUR 18 mln paid to the National Resolution Fund (NRF) accounted for in the second quarter of 2020. The figure for the first half of 2019 (EUR -87.5 mln) included the annual contribution to the Single Resolution Fund (SRF) of EUR 54 mln, the extraordinary contribution to the National Resolution Fund (NRF) of EUR 20 mln and the loss of EUR 13 mln on the exposure to the IDPF Voluntary Scheme (for the Carige intervention).
- **DTA fee**, amounting to **EUR -36 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 30 June 2020 on DTA (Deferred Tax Assets) that can be converted into a tax credit.
- **Gains (losses) on disposal of investments** of **EUR 1 mln** related to the sale of property. As at 30 June 2019, the aggregate was positive for EUR 0.7 mln.

Due to the trends discussed above, the Group's **Loss before tax for the period** stood at **EUR -653 mln**, compared to 30 June 2019, which had recorded a positive result of EUR +11 mln.

Tax expense (recovery) on income from continuing operations recorded a negative contribution of **EUR 434 mln** (a positive EUR 91 mln in the first half of 2019), due almost entirely to the modification of the value of deferred tax assets (DTAs) recorded in the financial statements, by virtue of the update in long-term internal estimates (2020-2024) of income statement and balance sheet values performed to take into account the evolution of the macroeconomic scenario as a result of the pandemic.

Considering the net effects of the PPA (EUR -2 mln), **the Loss for the period attributable to the Parent Company amounted to EUR -1.089 mln**, compared to a profit of EUR 93 mln in the same period of 2019.

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

Reconciliation between Parent Company and Consolidated Net Equity and Profit (Loss) for the period	Shareholders' equity	Net profit (loss)
Parent Company's net equity	6,362.3	(1,194.2)
of which Parent Company's valuation reserves	*(49.2)*	-
Impact of line-by-line consolidation of subsidiaries	(2,113.8)	(62.5)
Impact of consolidation of jointly controlled entities and associates	*337.8*	36.6
Reversal of dividends from subsidiaries	-	(0.6)
Reversal of written-down equity investments	*3,045.6*	99.0
Other adjustments	(558.0)	33.0
Subsidiaries and associates' valuation reserves	*84.4*	-
Consolidated balance	**7,158.4**	**(1,088.7)**
of which valuation reserves	*35.2*	

Reclassified balance sheet

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

Note that the first half of 2020 was affected by the health emergency created by the spread of the COVID-19 virus, starting from the end of February. In particular, with reference to the balance sheet aggregates, note the reduction in Indirect Funding, which reflected the negative performance of financial markets in the first quarter of the year as a result of the COVID-19 emergency.

Reclassified Balance Sheet				
Assets	**30 06 2020**	**31 12 2019**	**Chg**	
			abs.	**%**
Cash and cash equivalents	679.9	835.1	(155.2)	-18.6%
Loans to central banks	15,037.8	9,405.4	5,632.4	59.9%
Loans to banks	5,757.3	5,542.7	214.6	3.9%
Loans to customers	82,510.6	80,135.0	2,375.6	3.0%
Securities assets	25,569.4	24,185.1	1,384.3	5.7%
Derivatives	3,129.1	3,041.2	87.9	2.9%
Equity investments	953.9	931.0	22.9	2.5%
Property, plant and equipment / Intangible assets	2,850.6	2,909.2	(58.6)	-2.0%
of which:				
a) goodwill	*7.9*	*7.9*	-	0.0%
Tax assets	2,193.1	2,763.0	(569.9)	-20.6%
Other assets	2,974.4	2,448.3	526.1	21.5%
Total assets	**141,656.1**	**132,196.0**	**9,460.1**	**7.2%**

Liabilities	**30 06 2020**	**31/12/19**	**Chg**	
			abs.	**%**
Direct funding	97,585.2	94,217.3	*3,367.9*	*3.6%*
a) Due to customers at amortised cost	86,139.8	80,063.2	6,076.6	7.6%
b) Securities issued	11,445.4	14,154.1	*(2,708.7)*	*-19.1%*
Due to central banks at amortised cost	21,330.6	16,041.5	5,289.1	33.0%
Due to banks at amortised cost	4,853.9	4,136.6	717.3	17.3%
On-balance-sheet financial liabilities held for trading	2,192.1	2,436.0	(243.9)	-10.0%
Derivatives	3,419.2	2,762.5	*656.7*	*23.8%*
Provisions for specific use	1,570.9	1,388.5	182.4	13.1%
a) Provisions for staff severance indemnities	180.3	178.7	1.6	0.9%
b) Provisions related to guarantees and other commitments given	152.6	158.8	(6.2)	-3.9%
c) Pensions and other post-retirement benefit obligations	34.0	36.1	(2.1)	-5.8%
d) Other provisions	1,204.0	1,014.9	189.1	18.6%
Tax liabilities	3.0	3.3	(0.3)	-9.1%
Other liabilities	3,541.4	2,929.4	612.0	20.9%
Group net equity	7,158.4	8,279.1	(1,120.7)	-13.5%
a) Valuation reserves	35.2	66.4	(31.2)	-47.0%
d) Reserves	(1,803.0)	(769.2)	(1,033.8)	n.m.
f) Share capital	10,328.6	10,328.6	-	0.0%
g) Treasury shares (-)	(313.7)	(313.7)	-	0.0%
h) Net profit (loss) for the period	(1,088.7)	(1,033.0)	(55.7)	5.4%
Non-controlling interests	1.4	1.8	(0.4)	-22.2%
Total Liabilities and Shareholders' Equity	**141,656.1**	**132,196.0**	**9,460.1**	**7.2%**

Reclassified Balance Sheet - Quarterly Trend						
Assets	**30/06/20**	**31/03/20**	**31/12/19**	**30/09/19**	**30/06/19**	**31/03/19**
Cash and cash equivalents	679.9	611.2	835.1	675.8	650.1	609.1
Loans to central banks	15,037.8	8,109.5	9,405.4	7,275.7	6,932.3	5,772.8
Loans to banks	5,757.3	4,938.8	5,542.7	5,577.2	4,776.8	4,571.0
Loans to customers	82,510.6	82,206.1	80,135.0	81,642.2	80,385.8	81,900.5
Securities assets	25,569.4	26,006.3	24,185.1	24,646.6	24,859.6	25,749.4
Derivatives	3,129.1	3,233.8	3,041.2	3,374.1	3,462.5	3,288.6
Equity investments	953.9	892.0	931.0	1,053.4	958.2	901.7
Property, plant and equipment / Intangible assets	2,850.6	2,870.5	2,909.2	2,921.8	2,943.1	2,992.6
of which:						
a) goodwill	*7.9*	*7.9*	*7.9*	*7.9*	*7.9*	*7.9*
Tax assets	2,193.1	2,763.6	2,763.0	3,913.6	4,065.7	4,062.6
Other assets	2,974.4	2,636.9	2,448.3	2,794.8	2,504.8	2,274.0
Total assets	**141,656.1**	**134,268.7**	**132,196.0**	**133,875.2**	**131,538.9**	**132,122.3**

Liabilities	**30/06/20**	**31/03/20**	**31/12/19**	**30/09/19**	**30/06/19**	**31/03/19**
Direct funding	97,585.2	95,367.1	94,217.3	92,246.3	92,215.9	92,686.1
a) Due to customers at amortised cost	86,139.8	83,680.4	80,063.2	79,263.3	80,639.8	80,728.1
b) Securities issued	11,445.4	11,686.7	14,154.1	12,983.0	11,576.1	11,958.0
Due to central banks at amortised cost	21,330.6	15,997.9	16,041.5	16,561.7	16,566.8	16,694.4
Due to banks at amortised cost	4,853.9	4,752.1	4,136.6	4,484.9	4,570.5	5,475.8
On-balance-sheet financial liabilities held for trading	2,192.1	2,407.1	2,436.0	1,777.7	1,379.9	1,041.3
Derivatives	3,419.2	3,174.4	2,762.5	3,346.6	2,811.3	2,480.9
Provisions for specific use	1,570.9	1,310.3	1,388.5	1,417.2	1,462.5	1,513.7
a) Provisions for staff severance indemnities	180.3	166.4	178.7	184.7	182.8	182.1
b) Provisions related to guarantees and other commitments given	152.6	155.3	158.8	205.0	208.1	220.6
c) Pensions and other post-retirement benefit obligations	34.0	35.2	36.1	35.9	36.6	37.2
d) Other provisions	1,204.0	953.4	1,014.9	991.6	1,035.0	1,073.7
Tax liabilities	3.0	3.3	3.3	3.9	3.8	30.8
Other liabilities	3,541.4	3,327.8	2,929.4	4,448.0	3,189.9	3,108.3
Group net equity	7,158.4	7,927.0	8,279.1	9,587.0	9,336.3	9,088.6
a) Valuation reserves	35.2	(41.5)	66.4	153.0	(15.1)	(123.7)
d) Reserves	(1,803.0)	(1,802.9)	(769.2)	(767.8)	(756.6)	(830.5)
f) Share capital	10,328.6	10,328.6	10,328.6	10,328.6	10,328.6	10,328.6
g) Treasury shares (-)	(313.7)	(313.7)	(313.7)	(313.7)	(313.7)	(313.7)
h) Net profit (loss) for the period	(1,088.7)	(243.5)	(1,033.0)	186.9	93.1	27.9
Non-controlling interests	1.4	1.7	1.8	1.9	2.0	2.4
Total Liabilities and Shareholders' Equity	**141,656.1**	**134,268.7**	**132,196.0**	**133,875.2**	**131,538.9**	**132,122.3**

Customer funding

Total Funding of the Group at 30 June 2020 amounted to **EUR 196.3 bn**, with an increase of EUR 11.8 bn compared to 31 March 2020, concentrated, in particular, on Indirect Funding (EUR +9.6 bn). The aggregate was also up compared to 31 December 2019 (EUR +0.3 bn) thanks to the increase in Direct Funding (EUR +3.4 bn), which more than offset the decline in Indirect Funding, which suffered from negative market trends.

Background

In the first half of the year, the uncertainty that already characterised the market scenario increased immensely at the end of February, with the outbreak of the pandemic and the effects of the consequent health and economic emergency. Restrictions on certain forms of consumption and the reduction in revenues lead to increasing difficulties for households in the lower income decile of the population and an increase in the propensity to save and the retention of liquidity in the higher strata; the production sector was required to reorganise its activities and experienced a decline in demand. Bank deposits posted significant growth, around +6% on an annual basis. In keeping with the context, current accounts were the driver (with an increase rising from 6.5% at the end of 2019 to +9% in May), but deposits redeemable at notice accelerated as well. Deposits of consumer households were up (EUR +27 bn on the end of 2019, with a limited acceleration of the annual increase, reaching just above 6%), also thanks to the reduction in expenses more subject to restrictions, such as transport, culture, leisure time and eating out, and fears concerning riskier investments. Non-financial companies also increased their deposits at banks (EUR +31 bn over last December, with an annual trend that rose above +10%, a level which was also reached in the final quarter of 2019); although the financial surplus is distributed unevenly across the various companies, this demonstrates how liquidity shortfalls are not generalised and the impact of investments not made is considerable. Instead, the downturn in bank bonds has resumed, after certain positive signs in the second half of 2019; in May, the stock was down roughly EUR 9 bn compared to the end of 2019 and 5% on an annual basis. In April, the yields on bank bonds in the secondary market gradually declined: at the end of June they stood at 2%, a value still higher than those prior to the outbreak of the pandemic, but significantly more limited than the 3.9% reached at the end of March.

Interest rates on deposits of non-financial companies and households decreased further, having fallen to 0.35% in May (-2 bps compared to December 2019); the interest rate on current accounts is at an all-time low (0.03%), while on time deposits, it rose to nearly 1.1%. The rate on the stock of bonds continued its downward trend, decreasing by a few basis points compared to 2.15% at the end of 2019.

After the particularly negative result in the first quarter (EUR -12.1 bn in net funding), investments in units of mutual investment funds again became positive, with an unprecedented rally compared to other crisis phases, due to the rise in financial market indexes and the significant liquidity in circulation. In May, cumulative net flows remain negative, but declined to EUR 3.5 bn, while assets under management returned to above EUR 1,000 bn, still below the figure posted at the end of 2019 (by 6%) but up by 0.6% Y/Y. Net flows on retail individual asset management were negative only in March, and the cumulative amount in May was positive by more than EUR 800 mln. After two spectacular months, the new production of savings policies suffered from the lockdown, with an annual drop of 16% in the first four months of the year, despite the modest staying capacity demonstrated by larger banks and the agency channel; in the first three months, net funding remained positive (over EUR 7 bn).

Customer Funding

					Chg Q/Q		Chg 31/12		Chg Y/Y	
	30/06/20	31/03/20	31/12/19	30/06/19	Abs.	%	Abs.	%	Abs.	%
Direct funding	97,585.2	95,367.1	94,217.3	92,215.9	2,218.1	2.3%	3,367.9	3.6%	5,369.3	5.8%
Indirect funding	98,702.9	89,139.5	101,791.5	100,156.8	9,563.4	10.7%	(3,088.7)	-3.0%	(1,454.0)	-1.5%
Total funding	**196,288.1**	**184,506.6**	**196,008.8**	**192,372.7**	**11,781.5**	**6.4%**	**279.2**	**0.1%**	**3,915.3**	**2.0%**

Volumes of **Direct Funding**, which came to **EUR 97.6 bn**, posted an increase of EUR 2.2 bn compared to the value at the end of March 2020, with growth in Current Accounts (EUR +1.6 bn), Repurchase Agreements (EUR +0.8 bn) and Other forms of funding (EUR +0.2 bn). Time deposits (EUR -0.2 bn) and bonds (EUR -0.2 bn) were down. The aggregate was up by EUR 3.4 bn compared to the end of December 2019 due to the increase in Current Accounts (EUR +4.9 bn) and Repurchase Agreements (EUR +4.1 bn). Decreases were recorded with respect to 31 December 2019 for other forms of funding (EUR -2.6 bn) and bonds (EUR -2.7 bn) mainly as a result of the aforementioned effects from the repayment of the Government-Guaranteed Bonds and the closure of the associated structured funding transactions in 1Q20.

The Group's market share[15] of Direct Funding stood at 3.80% (updated in April 2020), up from December 2019 (3.70%).

Direct funding										
					Change Q/Q		Change 31.12		Change Y/Y	
Type of transaction	30/06/20	31/03/20	31/12/19	30/06/19	Abs.	%	Abs.	%	Abs.	%
Current accounts	60,943.2	59,299.3	56,045.6	56,150.1	1,643.9	2.8%	4,897.6	8.7%	4,793.1	8.5%
Time deposits	9,273.1	9,449.4	9,594.2	9,438.6	(176.3)	-1.9%	(321.1)	-3.3%	(165.5)	-1.8%
Reverse repurchase agreements	10,283.2	9,515.5	6,173.7	6,355.3	767.7	8.1%	4,109.5	66.6%	3,927.9	61.8%
Bonds	11,445.4	11,686.7	14,154.0	11,576.1	(241.4)	-2.1%	(2,708.7)	-19.1%	(130.8)	-1.1%
Other types of direct funding	5,640.3	5,416.2	8,249.8	8,695.8	224.1	4.1%	(2,609.5)	-31.6%	(3,055.5)	-35.1%
Total	**97,585.2**	**95,367.1**	**94,217.3**	**92,215.9**	**2,218.0**	**2.3%**	**3,367.8**	**3.6%**	**5,369.2**	**5.8%**

Indirect funding came to **EUR 98.7 bn**, an increase from 31 March 2020 by EUR +9.6 bn. Specifically, the Assets under Custody component (EUR +6.3 mln Q/Q) benefitted from the positive market effect as well as the deposit with the Parent Company by a large industrial group of shares that had been withdrawn in 1Q20 and the placement of the "BTP Italia XVI issue" in May.

Assets under Management, at **EUR 57.7 bn**, posted growth of EUR 3.3 bn compared to March 2020 across all segments thanks to the positive market effect linked to the recovery in the financial markets, which in the first quarter were impacted by tensions linked to the spread of the COVID-19 emergency.

In the comparison with 31 December 2019, there was a decline of EUR 3.1 bn due to a negative market effect, reflected in both the Assets under Management and Assets under Custody components.

Indirect Funding										
					Change Q/Q		Change 31/12		Change Y/Y	
	30/06/20	31/03/20	31/12/19	30/06/19	Abs.	%	Abs.	%	Abs.	%
Assets under management	57,737.0	54,436.0	59,302.0	57,813.4	3,301.0	6.1%	(1,565.0)	-2.6%	(76.4)	-0.1%
Mutual Funds/Sicav	*25,761.2*	*23,859.3*	*27,181.4*	*26,966.2*	*1,901.9*	*8.0%*	*(1,420.3)*	*-5.2%*	*(1,205.0)*	*-4.5%*
Individual Portfolio under Management	*4,939.4*	*4,601.5*	*5,103.1*	*5,061.8*	*337.9*	*7.3%*	*(163.7)*	*-3.2%*	*(122.4)*	*-2.4%*
Insurance Products	*27,036.4*	*25,975.2*	*27,017.4*	*25,785.4*	*1,061.2*	*4.1%*	*19.0*	*0.1%*	*1,251.0*	*4.9%*
Assets under custody	40,965.9	34,703.5	42,489.6	42,343.4	6,262.4	18.0%	(1,523.7)	-3.6%	(1,377.6)	-3.3%
Government bonds	*13,419.9*	*12,777.4*	*13,567.3*	*13,323.4*	*642.5*	*5.0%*	*-147.4*	*-1.1%*	*96.5*	*0.7%*
Others	*27,546.0*	*21,926.1*	*28,922.2*	*29,020.1*	*5,619.9*	*25.6%*	*(1,376.3)*	*-4.8%*	*(1,474.1)*	*-5.1%*
Total funding	**98,702.9**	**89,139.5**	**101,791.5**	**100,156.8**	**9,563.4**	**10.7%**	**-3,088.7**	**-3.0%**	**-1,454.0**	**-1.5%**

[15] 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

The Group's **Loans to customers** stood at **EUR 82.5 bn** as at 30 June 2020, up EUR 0.3 bn compared to the end of March 2020, due to the increase in Repurchase Agreements (EUR +0.7 bn) and mortgages (EUR +1.4 bn), the latter also influenced by the effect of disbursements and moratoria linked to the government decrees issued following the COVID-19 emergency. There was a drop in current accounts (EUR -0.7 bn) and Other loans (EUR -1.2 bn). The aggregate was also up compared to 31 December 2019 (EUR +2.4 bn), primarily due to more transactions in Repurchase Agreements (EUR +2.0 bn) as well as growth in mortgages (EUR +1.9 bn), also influenced by the effects mentioned above. By contrast, there was a drop in current accounts (EUR -0.7 bn), Other loans (EUR -0.6 bn) and net non-performing loans (EUR -0.3 bn).

Background

The pandemic caused the national government to take significant measures to support credit, to address its economic and financial consequences. In particular, since March, the government has launched a complex set of measures aimed at seeking to prevent liquidity tensions from translating into a long-lasting decline in production activities or the closure of businesses. In particular, the new rules seek to provide support for loans to households and businesses, including through the use of the Central Guarantee Fund (CGF) for SMEs, SACE and Cassa Depositi e Prestiti. Moreover, the rules include provisions blocking the revocation of some types of loans, and extending and suspending the repayment terms on some types of existing loans, such as first home loans. The objective of the interventions is also to limit the development of non-performing loans by mitigating the increase in the rate of deterioration which, in the first quarter, was confirmed at around 1.3%, a historically low level. In March, bank lending trends showed signs of acceleration; the annual growth in loans to the private sector, adjusted for disposals, was indeed around +1.4%, accelerating compared to the trends observed last year (roughly +0.7%), substantially replicated in the first two months of 2020. The trend described resulted from a significant rebound in lending to businesses and a slowdown for households. Indeed, businesses had greater and stronger demand for bank lending in order to cover liquidity shortfalls and replace working capital, accompanied by a decline in loans required for investments. The capacity of intermediaries to meet that demand benefitted from the measures adopted by the ECB as well as the government. Overall, loans to non-financial companies marked significant growth starting from March, after months of long-lasting declines; this annual trend also reached positive territory, at close to +1.7%. First, the acceleration regarded especially the short-term component and larger companies, while later on medium/long-term guaranteed financing increased, in part extending the duration of outstanding loans, as did lending to income-generating households and artisans. Estimates on moratoria indicate, in mid-June, requests for EUR 187 bn in loans, while those on loans with the CGF amounted to EUR 68 bn at 26 June, with a share of amounts disbursed reaching 80%. The larger loans are aimed at preventing many businesses from transitioning from a liquidity crisis to a solvency crisis, but they risk inverting the process of capitalisation and decreasing debt undertaken after 2008 and laying the groundwork for a future increase in non-performing loans. For the segment of consumer households, on the other hand, there was a reduction in lending, aligned with the deterioration in the climate of confidence and the downturn in consumption and real estate market transactions. The trend slowed from +2.5% p.a. at the end of 2019 to +1.3% last May, impacted especially by the evolution in consumer credit, down by nearly EUR 3 bn compared to the end of the year. Mortgages to purchase homes instead maintained a stable trend (around +1% per annum), supported by moratoria and transfers, which also benefitted from increasing service digitalisation. The evidence and data available seem to confirm a progressive fluidity in access to the regulations adopted to alleviate the negative impacts of the ongoing economic emergency. Banks have worked to get resources to households and businesses quickly, within a context made more difficult by the complexity of disbursement processes and the exceptionally high number of requests, while working to avoid financing highly risky ventures or those linked to unlawful activities. Furthermore, they needed to perform and document a creditworthiness assessment on borrowers in order not to commit offences related to anomalous lending.

With regard to interest rates, there was a further decline both for loans to businesses, whose rate fell below to 1.90% in May (-10 bps on the end of 2019), and those to households, with the rate at 2.91% (-6 bps); the overall rate on the stock of loans fell to 2.40%. On new transactions, rates recorded a more significant decline; on loans to purchase homes, they fell to 1.40% (roughly -10 bps compared to the final quarter of last year) and on consumer credit to below 6% (roughly -40 bps), while for non-financial companies they fluctuated around 1.10%, lower than the 1.30% recorded in the final months of 2019.

In the initial months of the year, transactions for the disposal of non-performing loans slowed, but the reduction in bad loans continued: indeed, at the end of May they were down by just over EUR 1 bn compared to December 2019 and 22% on an annual basis; net of disposals, the aggregate increased less than the 4% p.a. that was recorded in the final months of 2019. The effect of the weakness in the economic cycle on the emergence of new non-performing loans was limited by low interest rates. According to ABI, the impact of bad loans, net of loss provisions, on bank loans fell to around 1.5% (from 1.9% in the first half of 2019).

The Group's market share[16] stood at 4.85% (last available figure from April 2020), down 8 basis points from the end of 2019.

Loans to customers

Type of transaction	30/06/20	31/03/20	31/12/19	30/06/19	Change Q/Q		Change 31.12		Change Y/Y	
					Abs.	%	Abs.	%	Abs.	%
Current accounts	3,896.2	4,552.2	4,626.0	4,710.3	(656.0)	-14.4%	(729.8)	-15.8%	(814.1)	-17.3%
Mortgages	50,978.9	49,548.5	49,046.0	49,328.3	1,430.4	2.9%	1,932.9	3.9%	1,650.6	3.3%
Other forms of lending	15,330.5	16,549.6	15,921.2	15,976.2	(1,219.1)	-7.4%	(590.7)	-3.7%	(645.7)	-4.0%
Repurchase agreements	6,450.1	5,722.8	4,434.0	3,121.3	727.3	12.7%	2,016.1	45.5%	3,328.8	n.m.
Non performing loans	5,854.9	5,833.0	6,107.8	7,249.7	21.9	0.4%	(252.9)	-4.1%	(1,394.8)	-19.2%
Total	**82,510.6**	**82,206.1**	**80,135.0**	**80,385.8**	**304.5**	**0.4%**	**2,375.6**	**3.0%**	**2,124.8**	**2.6%**
Stage 1	*61,767.5*	*63,694.9*	*62,402.3*	*61,596.5*	*(1,927.4)*	*-3.0%*	*(634.8)*	*-1.0%*	*171.0*	*0.3%*
Stage 2	*14,734.7*	*12,524.2*	*11,475.3*	*11,391.2*	*2,210.5*	*17.6%*	*3,259.4*	*28.4%*	*3,343.5*	*29.4%*
Stage 3	*5,779.2*	*5,768.3*	*5,933.7*	*7,043.3*	*10.9*	*0.2%*	*(154.5)*	*-2.6%*	*(1,264.1)*	*-17.9%*
Performing loans measured at fair value	*153.5*	*154.0*	*149.6*	*148.3*	*(0.5)*	*-0.3%*	*3.9*	*2.6%*	*5.2*	*3.5%*
Non performing loans measured at fair value	*75.7*	*64.7*	*174.1*	*206.4*	*11.0*	*17.0%*	*(98.4)*	*-56.5%*	*(130.7)*	*-63.3%*

In 2Q20, the medium/long-term component recorded new disbursements of EUR 3.3 bn, up compared to 1Q20 (EUR +1.0 bn) and up Y/Y also thanks to disbursements linked to the "Liquidity Decree".

Loans to customers measured at amortised cost		Stage 1	Stage 2	Stage 3	**Total**
30 06 2020	Gross exposure	61,843.0	15,292.3	11,354.0	**88,489.3**
	Adjustments	75.6	557.6	5,574.8	**6,208.0**
	Net exposure	61,767.4	14,734.7	5,779.2	**82,281.3**
	Coverage ratio	*0.12%*	*3.65%*	*49.10%*	***7.0%***
	% on Loans to customers measured at amortised cost	*75.07%*	*17.91%*	*7.02%*	***100.0%***

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

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	*0.12%*	*3.67%*	*49.28%*	***7.0%***
	% on Loans to customers measured at amortised cost	*77.69%*	*15.28%*	*7.04%*	***100.0%***

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

Loans to customers measured at amortised cost		Stage 1	Stage 2	Stage 3	Total
30 06 2019	Gross exposure	61,666.4	11,831.2	15,280.1	**88,777.7**
	Adjustments	69.9	440.0	8,236.8	**8,746.7**
	Net exposure	61,596.5	11,391.2	7,043.3	**80,031.0**
	Coverage ratio	*0.11%*	*3.72%*	*53.91%*	***9.9%***
	% on Loans to customers measured at amortised cost	*76.97%*	*14.23%*	*8.80%*	***100.0%***

Loans classified in stage 1 declined compared to 1Q20 as well as 31 December 2019. Indeed, the gross exposure to such loans amounted to EUR 61.8 bn as at 30 June 2020, compared to EUR 62.5 bn at the end of 2019 and EUR 63.8 bn as at 31 March 2020. On the other hand, positions classified in stage 2, the gross exposure of which amounted to EUR 15.3 bn as at 30 June 2020, rose compared to EUR 11.9 bn as at 31 December 2019 and EUR 13 bn as at 31 March 2020. This trend was impacted by the deterioration in macroeconomic forecasts due to the spread of the COVID-19 emergency.

Non-performing exposures of loans to customers

As at 30 June 2020, the Group's **Total non-performing loans to customers** totalled **EUR 11.6 bn**, in line with the figure as at 31 March 2020 and down compared to 31 December 2019 (EUR -0.3 bn) due to the disposals carried out during the half and the closure of several significant positions.

In particular, the gross exposure to Bad Loans was substantially stable compared to 31 March 2020 (EUR +30.7 mln) and down (EUR -128 mln) compared to 31 December 2019, mainly due to the above-mentioned disposals, recoveries and the closure of several large positions, only in part offset by new positions transferred to that category during the period. The gross exposure of Unlikely to Pay also decreased by EUR 77 mln compared to 31 March 2020 and EUR 281 mln compared to 31 December 2019, mainly following transfers to bad loans, the cure rate and disposals in part offset by positions transferred to this category. Gross non-performing past due loans increased compared to 31 March 2020 (EUR +69 mln) and 31 December 2019 (EUR +96 mln).

As at 30 June 2020, the Group's **Net exposure in terms of non-performing loans to customers** totalled **EUR 5.9 bn**, stable with respect to 31 March 2020 and down compared to 31 December 2019 (EUR -253 mln) thanks to the reduction in gross exposures accompanied by the growth in average coverage due to the increase in adjustments deriving from the changed macroeconomic scenario emerging with the spread of the pandemic, which influenced portfolio risk levels.

The ratio between net non-performing loans and net loans to customers as at 30 June 2020 was 7.1%, stable compared to March 2020 and down compared to December 2019 (7.6%). During the half, the incidence of Unlikely to Pay decreased (from 3.8% in December 2019 to 3.4% in June 2020), as did that of Bad Loans (from 3.7% in December 2019 to 3.5% in June 2020). The incidence of non-performing past due loans instead rose from 0.1% in December 2019 to 0.2% in June 2020.

Loans to customers		Bad loans	Unlikely to pay	Non-performing Past due	**Total Non-performing loans to customers**	Perfoming loans	**Total**
30 06 2020	Gross exposure	6,295.4	5,105.1	194.6	**11,595.1**	77,288.8	**88,883.9**
	Adjustments	3,433.6	2,260.1	46.4	**5,740.1**	633.2	**6,373.3**
	Net exposure	2,861.8	2,845.0	148.2	**5,855.0**	76,655.6	**82,510.6**
	Coverage ratio	*54.5%*	*44.3%*	*23.8%*	***49.5%***	*0.8%*	***7.2%***
	% on Loans to customers	*3.5%*	*3.4%*	*0.2%*	***7.1%***	*92.9%*	***100.0%***
31 03 2020	Gross exposure	6,264.7	5,182.1	125.4	**11,572.2**	76,927.8	**88,500.0**
	Adjustments	3,412.2	2,295.1	31.9	**5,739.2**	554.7	**6,293.9**
	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%***
31 12 2019	Gross exposure	6,423.5	5,386.1	98.3	**11,907.9**	74,501.0	**86,408.9**
	Adjustments	3,441.5	2,335.5	23.1	**5,800.1**	473.8	**6,273.9**
	Net exposure	2,982.0	3,050.6	75.2	**6,107.8**	74,027.2	**80,135.0**
	Coverage ratio	*53.6%*	*43.4%*	*23.5%*	***48.7%***	*0.6%*	***7.3%***
	% on Loans to customers	*3.7%*	*3.8%*	*0.1%*	***7.6%***	*92.4%*	***100.0%***
30 06 2019	Gross exposure	8,287.7	7,330.4	160.4	**15,778.5**	73,645.9	**89,424.4**
	Adjustments	5,118.8	3,369.1	40.7	**8,528.7**	509.9	**9,038.6**
	Net exposure	3,168.9	3,961.3	119.7	**7,249.9**	73,136.0	**80,385.9**
	Coverage ratio	*61.8%*	*46.0%*	*25.4%*	***54.1%***	*0.7%*	***10.1%***
	% on Loans to customers	*3.9%*	*4.9%*	*0.1%*	***9.0%***	*91.0%*	***100.0%***

As at 30 June 2020, the **coverage ratio** of total non-performing loans to customers stood at 49.5%, substantially stable compared to 31 March 2020 (49.6%) and up compared to 31 December 2019 (48.7%), primarily following the increase in adjustments deriving from the changed macroeconomic scenario that emerged following the spread of the COVID-19 emergency.

Change in gross exposures

abs/%		Bad loans	Unlikely to pay	Non performing past due	**Total Non-performing loans to customers**	Performing loans	**Total**
Q/Q	abs.	30.7	(77.0)	69.2	**22.9**	361.0	**383.9**
	%	0.5%	-1.5%	55.2%	**0.2%**	0.5%	**0.4%**
31.12	abs.	(128.1)	(281.0)	96.3	**(312.8)**	2,787.8	**2,475.0**
	%	-2.0%	-5.2%	98.0%	**-2.6%**	3.7%	**2.9%**
Y/Y	abs.	(1,992.3)	(2,225.3)	34.2	**(4,183.4)**	3,642.9	**(540.5)**
	%	-24.0%	-30.4%	21.3%	**-26.5%**	4.9%	**-0.6%**

Changes in coverage ratios

	Bad loans	Ulikely to pay	Non performing past due	**Total Non-performing loans to customers**	Performing loans	**Total**
Q/Q	*0.07%*	*-0.02%*	*-1.59%*	***-0.09%***	*0.10%*	***0.06%***
31.12	*0.96%*	*0.91%*	*0.34%*	***0.80%***	*0.18%*	***-0.09%***
Y/Y	*-7.22%*	*-1.69%*	*-1.55%*	***-4.55%***	*0.13%*	***-2.94%***

Trend of non-performing loans to customers	30 06 2020		2°Q 2020		1°Q 2020		30 06 2019		Chg. 2°Q 2020/1°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	**11,907.9**	***6,423.5***	**11,572.2**	***6,264.7***	**11,907.9**	***6,423.5***	**16,719.0**	***8,565.4***	**(335.7)**	**-2.8%**	**(4,811.1)**	**-28.8%**
Increases from performing loans	565.5	*29.3*	277.4	*5.4*	288.1	*23.9*	543.5	*543.5*	(10.7)	-3.7%	22.0	4.0%
Transfers to performing loans	(124.5)	*(0.4)*	(45.0)	*(0.2)*	(79.5)	*(0.2)*	(251.8)	*(251.8)*	34.5	-43.4%	127.3	-50.6%
Collections	(500.4)	*(214.9)*	(236.8)	*(105.9)*	(263.6)	*(109.0)*	(645.7)	*(645.7)*	26.8	-10.2%	145.3	-22.5%
Write-offs and loss on disposal	(145.8)	*(82.3)*	(48.5)	*(18.6)*	(97.3)	*(63.7)*	(554.1)	*(554.1)*	48.7	-50.1%	408.3	-73.7%
+/- Other changes	(107.6)	*140.2*	75.8	*150.0*	(183.4)	*(9.8)*	(32.4)	*630.4*	259.3	n.m	(75.2)	n.m
Gross exposure, closing balance	**11,595.1**	***6,295.4***	**11,595.1**	***6,295.4***	**11,572.2**	***6,264.7***	**15,778.5**	***8,287.7***	***22.9***	**0.2%**	**(4,183.4)**	**-26.5%**
Opening balance of overall adjustments	**(5,800.1)**	***(3,441.5)***	**(5,739.2)**	***(3,412.2)***	**(5,800.1)**	***(3,441.5)***	**(8,906.1)**	***(5,341.4)***	**60.9**	**-1.0%**	**3,106.0**	**-34.9%**
Adjustments / write-backs	(365.9)	*(129.4)*	(138.2)	*(1.0)*	(227.7)	*(128.4)*	(407.2)	*(171.2)*	89.5	-39.3%	41.3	-10.2%
+/- Other changes	425.9	*137.3*	137.3	*(20.4)*	288.6	*157.7*	784.7	*393.8*	(151.3)	-52.4%	(358.8)	-45.7%
Closing balance of overall adjustments	**(5,740.1)**	***(3,433.6)***	**(5,740.1)**	***(3,433.6)***	**(5,739.2)**	***(3,412.2)***	**(8,528.7)**	***(5,118.8)***	**(0.9)**	**0.0%**	**2,788.6**	**-32.7%**
Net exposure closing balance	**5,855.0**	***2,861.8***	**5,855.0**	***2,861.8***	**5,833.0**	***2,852.5***	**7,249.9**	***3,168.9***	***22.0***	**0.4%**	***(1,394.9)***	**-19.2%**

Other financial assets/liabilities

As at 30 June 2020, the Group's **Securities assets** totalled **EUR 25.6 bn**, up EUR 1.4 bn compared to 31 December 2019, principally as a result of the growth in Financial assets held for trading (EUR +1.6 bn) attributable to MPS Capital Services, for higher transactions in Italian government securities. Instead, Financial assets measured at fair value through other comprehensive income declined (EUR -0.7 bn), referring, in particular, to the Parent Company for sales and maturities only partially offset by purchases.

The aggregate was down compared to 31 March 2020 (EUR -0.4 bn) due to the decrease in the trading component referring to the subsidiary MPS Capital Services, only partially offset by the net transactions of securities purchases and sales, classified under Loans to customers at amortised cost of the Parent Company. Financial assets measured at fair value through other comprehensive income were basically stable. Note that the market value of the securities in Loans to customers at amortised cost is EUR 9,720.9 mln (with implicit capital gains of around EUR 85.4 mln).

On-balance-sheet financial liabilities held for trading as at 30 June 2020 were down compared to the end of December 2019 (EUR -0.2 bn) as well as 31 March 2020 (EUR -0.2 bn).

As at 30 June 2020, the **Net position in derivatives** posted a drop compared to both 31 December 2019 (EUR -0.6 bn) as well as 31 March 2020 (EUR -0.3 bn).

Items	30 06 2020	31 03 2020	31 12 2019	30 06 2019	Chg. Q/Q		Chg. 31.12		Chg. Y/Y	
					Abs.	%	Abs.	%	Abs.	%
Securities assets	25,569.4	26,006.3	24,185.1	24,859.6	(436.9)	-1.7%	1,384.3	5.7%	709.8	2.9%
Financial assets held for trading	*8,572.7*	*9,383.3*	*6,934.3*	*6,670.2*	*(810.6)*	-8.6%	*1,638.4*	23.6%	*1,902.5*	28.5%
Financial assets mandatorily measured at fair value	*511.0*	*537.4*	*440.2*	*292.3*	*(26.4)*	-4.9%	*70.8*	16.1%	*218.7*	74.8%
Financial assets measured at fair value through other comprehensive income	*6,067.8*	*6,094.0*	*6,726.8*	*9,187.8*	*(26.2)*	-0.4%	*(659.0)*	-9.8%	*(3,120.0)*	-34.0%
Loans to customers measured at amortised cost	*9,635.5*	*9,206.1*	*9,309.5*	*7,944.0*	*429.4*	4.7%	*326.0*	3.5%	*1,691.5*	21.3%
Loans to banks measured at amortised cost	782.4	785.5	774.3	765.3	(3.1)	-0.4%	8.1	1.0%	17.1	2.2%
On-balance-sheet financial liabilities held for trading	(2,192.1)	(2,407.1)	(2,436.0)	(1,379.9)	215.0	-8.9%	243.9	-10.0%	(812.2)	58.9%
Net positions in Derivatives	(290.1)	59.4	278.7	651.2	(349.5)	n.m	(568.8)	n.m	(941.3)	n.m
Other financial assets and liabilities	**23,087.2**	**23,658.6**	**22,027.8**	**24,130.9**	**(571.4)**	**-2.4%**	**(2,103.1)**	**-8.7%**	**(1,043.7)**	**-4.3%**

Items	30 06 2020		31 03 2020		31 12 2019		30 06 2019	
	Securities assets	On-balance-sheet financial liabilities held for trading	Securities assets	On-balance-sheet financial liabilities held for trading	Securities assets	On-balance-sheet financial liabilities held for trading	Securities assets	On-balance-sheet financial liabilities held for trading
Debt securities	25,114.4	-	25,525.2	-	23,663.1	-	24,381.7	-
Equity instruments and Units of UCITS	455.0	-	481.1	-	522.0	-	477.9	-
Loans	-	2,192.1	-	2,407.1	-	2,436.0	-	1,379.9
Total	25,569.4	2,192.1	26,006.3	2,407.1	24,185.1	2,436.0	24,859.6	1,379.9

Interbank funding and lending

As at 30 June 2020, the Group's **net interbank position** stood at **EUR 5.4 bn** in funding, EUR 2.3 bn lower than the balance of EUR 7.7 bn in funding recorded as at 31 March 2020 due to the increase in ECB deposits as well as repo transactions, offset only in part by further access to the TLTRO3 auctions. Net interbank funding was stable compared to December 2019.

Interbank balances

	30/06/20	31/03/20	31/12/19	30/06/19	Change Q/Q		Change 31.12		Change Y/Y	
					Abs.	%	Abs.	%	Abs.	%
Loans to banks	5,757.3	4,938.8	5,542.7	4,776.8	818.5	16.6%	214.6	3.9%	980.5	20.5%
Deposits from banks	4,853.9	4,752.1	4,136.6	4,570.5	101.8	2.1%	717.3	17.3%	283.4	6.2%
Net position whit banks	**903.4**	**186.7**	**1,406.1**	**206.3**	**716.7**	**383.9%**	**(502.7)**	**-35.8%**	**697.1**	**337.9%**
Loans to Central banks	15,037.8	8,109.5	9,405.4	6,932.3	6,928.3	85.4%	5,632.4	59.9%	8,105.5	116.9%
Deposits from Central banks	21,330.6	15,997.9	16,041.5	16,566.8	5,332.7	33.3%	5,289.1	33.0%	4,763.8	28.8%
Net position whit Central banks	**(6,292.8)**	**(7,888.4)**	**(6,636.1)**	**(9,634.5)**	**1,595.6**	**-20.2%**	**343.3**	**-5.2%**	**3,341.7**	**-34.7%**
Net interbank position	**(5,389.4)**	**(7,701.7)**	**(5,230.0)**	**(9,428.2)**	**2,312.3**	**-30.0%**	**(159.4)**	**3.0%**	**4,038.8**	**-42.8%**

As at 30 June 2020, the operational liquidity position showed an **unencumbered Counterbalancing Capacity of approx. EUR 25.0 bn**, up by EUR 3.4 bn compared with 31 March 2020 and by EUR 0.3 bn compared with 31 December 2019, thanks to the implementation of the initiatives laid out in the funding plan (institutional issues, access to the TLTRO3 and repayments of LTRO and TLTRO2), which made it possible to repay the government-guaranteed bonds with no impacts on the Group's liquidity profile, and the growth in commercial funding.

Information on fair value

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

Asset and liabilities measured at fair value	30 06 2020				31 12 2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
1, Financial assets measured at fair value through profit and loss of which:	7,773.5	3,987.8	628.8	12,390.1	6,271.9	3,741.2	653.3	10,666.4
a) Financiale asset held for trading	7,759.7	3,890.2	-	11,649.9	6,271.9	3,630.6	-	9,902.5
c) other financial assets mandatorily measured at fair value	13.8	97.6	628.8	740.2	-	110.6	653.3	763.9
2. Financial assets measured at fair value through other comprehensive income	5,233.5	603.9	230.4	6,067.8	5,948.0	549.3	229.5	6,726.8
3. Hedging derivative	-	51.9	-	51.9	-	73.0	-	73.0
Total assets	**13,007.0**	**4,643.6**	**859.2**	**18,509.8**	**12,219.9**	**4,363.5**	**882.8**	**17,466.2**
1. Financial liabilities held for trading	2,190.7	1,645.6	-	3,836.3	2,435.9	1,446.7	-	3,882.6
2. Financial liabilities designated at fair value	-	240.7	-	240.7	-	247.1	-	247.1
3. Hedging derivative	-	1,775.0	-	1,775.0	-	1,315.9	-	1,315.9
Total liabilities	**2,190.7**	**3,661.3**	**-**	**5,852.0**	**2,435.9**	**3,009.7**	**-**	**5,445.6**

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

The fair value of some financial assets, particularly the bonds for approx. EUR 340 mln, worsened during the first half of 2020 from level 1 to level 2, essentially due to the deterioration in the liquidity conditions of those securities.

Of these, roughly EUR 220 mln are Italian government securities denominated in USD (this is an Italian public debt curve that is generally less liquid and has more limited issues compared to that in euro) which suffered from a deterioration in the liquidity conditions of the securities (measured in terms of bid-ask spread of the listed price), leading to the level transfer, in accordance with the Group's policy on the valuation of financial instruments. The additional EUR 120 mln are primarily Italian banking sector debt securities which in the first half of 2020 suffered from a general decline in liquidity due to fears of higher defaults and the compression in profit margins due to COVID-19.

As for OTC derivatives, in compliance with IFRS 13 the MPS Group calculates adjustments to values, obtained through valuation models using risk-free interest rates, to take account of the creditworthiness of the individual counterparties. This adjustment, known as Credit Value Adjustment (CVA), is estimated for all positions in OTC derivatives with non-collateralised institutional and commercial counterparties and with counterparties having a Credit Support Annex (CSA) not in line with market standards.

The methodology is based on the calculation of expected operational loss linked to counterparty rating and estimated on a position's duration. The exposure includes future credit variations represented by add-ons.

Market-consistent probability measurements are employed in the calculation of CVAs in order to gauge market expectations resulting from CDS, also taking into consideration the historical information available within the Group. As at 30 June 2020 the change for the correction of CVA had a negative value of approx. EUR 20.8 mln.

The Group calculates the value adjustment of OTC derivatives in a mirror image fashion and on the same perimeter to take into account its creditworthiness, known as Debit Value Adjustment (DVA). As at 30 June 2020 the DVA is positive and amounts to a total of EUR 4.6 mln.

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

30 06 2020

	Financial assets measured at fair value through profit and loss		Financial assets measured at fair value through other comprehensive income
	Total	of which: c) financial assets mandatorily measuerd at fair value	
1. Opening balance	**653.3**	**653.3**	**229.5**
2. Increases	**157.1**	**157.1**	**1.5**
2.1 Purchase	-	-	-
2.2 Profit charged to:	20.7	20.7	-
2.2.1 Income statemets	20.7	20.7	-
- of which capital gains	16.8	16.8	-
2.4 Other increases	136.4	136.4	1.5
3. Decreases	**181.6**	**181.6**	**0.6**
3.1 Sales	103.3	103.3	-
3.2 Repayments	53.0	53.0	-
3.3 Losses charged to:	25.0	25.0	0.6
3.3.1 Income statemets	25.0	25.0	-
- of which capital losses	25.0	25.0	-
3.3.2 Equity	-	-	0.6
3.5 Other decreases	0.3	0.3	-
4. Closing balance	**628.8**	**628.8**	**230.4**

The amount reported in the column "Other financial assets mandatorily measured at fair value" corresponding to the line item:

- "2.2.1 Profits charged to the income statement - of which capital gains" of EUR 20.7 mln refers for roughly EUR 12.5 mln to the revaluation of several loans during the half;
- "2.4 Other increases" equal to EUR 136.4 mln includes for around EUR 100 mln the notes of the securitisation (Norma SPV) of a bad loan position carried out in previous years and finalised in the first quarter of the year. It also includes for EUR 34 mln positions that during the half-year were reclassified from the loan portfolio at amortised cost to the portfolio of other assets mandatorily measured at fair value due to substantial credit changes not consistent with the SPPI test, as well as new disbursements;
- "3.1 Sales", equal to EUR 103.3 mln, refers almost entirely to the derecognition of bad loans connected to the above-mentioned securitisation transaction;
- "3.2 Repayments", equal to EUR 53 mln, refers to collections on loans for around EUR 31 mln;
- "3.3.1 Losses charged to the income statement - of which capital losses" of EUR 25 mln refers to write-downs during the half-year on non-performing loans (EUR 8 mln) and write-downs on debt securities (approx. EUR 17 mln, of which EUR 14 mln attributable to the junior notes of the Siena NPL securitisation).

As at 30 June 2020, there were no transfers from or to level 3 with respect to other levels in the fair value hierarchy.

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

The Group does not have liabilities measured at fair value on a level 3 recurring basis.

Information on "day one profit/loss"

The Group did not generate day one profit/loss from financial instruments pursuant to paragraph 28 of IFRS 7 and other related IAS/IFRS paragraphs.

Fair value level 2: measurement techniques and inputs used

Items	Fair value 30 06 2020: Financial assets held for trading	Financial assets mandatorily measured at fair value	Financial assets measured at fair value through other comprehensive income	Hedging deivatives	Financial liabilities held for trading	Financial liabilities designated at fair value	Hedging deivatives	Type	Valuation technique(s)	Inputs used
								Bonds	Discounted Cash Flow	Interest rate curve, CDS curve, Basi(yield), Inflation Curves
Debt securities	854.7	45.8	593.9	X	-	240.7	X	Structured bonds	Discounted Cash Flow	Interest rate curve, CDS curve, Basi(yield), Inflation Curves + inputs necessary to measure optional component
								Bonds	Market price	Market price
								Share/Equity Instruments	Market price	Market price, recent transactions, appraisals, manager reports
Equity instruments	-	-	10.0	X	X	X	X	Equity Instruments	Discount cash flow	Share price, beta sector, free risk rate
								Equity Instruments	Net asset adjusted	Carring Amount Asset/Liabilities
Units of UCITS	-	51.8	X	X	X	X	X	Funds/PE	Market price*	Management report, technical data sheet of assets held in portfolio
					1.4	-		Uncovered short positions	Market price, Interest rate curves, CDS Curves	Market price, Comparable approach
Debts		X	X	X			X			
					-	-		Due to customers		
								IR/Asset/Currency Swaps	Discounted Cash Flow	Interest rate curve, CDS Curve, Basi(yield), Inflation Curve, Foreign exchange rates and correlation
								Equity swaps	Discounted Cash Flow	Share price, Interest rate curve, Foreing exchange rates
								Forex Singlename Plain	Option Pricing Model	Interest rate curve, Foreing exchange rates, Forex volatility
								Forex Singlename Exotic	Option Pricing Model	Interest rate curve, Foreing exchange rates, Forex volatility (Surface)
								Equity Singlename Plain	Option Pricing Model	Interest rate curve, share price, foreign exchange rates, Equity volatility
Financial Derivatives	3,028.1	X	X	51.9	1,494.0	X	1,775.0	Equity Singlename Exotic	Option Pricing Model	Interest rate curve, share price, foreign exchange rates, Equity volatility (surface), Model inputs
								Equity Multiname Plain	Option Pricing Model	Interest rate curve, share price, foreign exchange rates, Equity volatility, Quanto correlations, Equity/Equity correlations
								Equity Multiname Exotic	Option Pricing Model	Interest rate curve, share price, foreign exchange rates, Equity volatility (surface), Model inputs, Quanto correlation, Equity/Equity correlation
								Plain Rate	Option Pricing Model	Interest rate curve, inflation curves,bond prices,foreign exchange rates, Rate volatility, rate correlations
								Spot-Forward	Market price*	Market price, Swap Point
Credit Derivatives	7.4	X	X	-	150.2	X	-	Default swaps	Discounted Cash Flow	CDS curves, Interest rate curve
Total assets	3,890.2	97.6	603.9	51.9	X	X	X			
Total liabilities	X	X	X	X	1,645.6	240.7	1,775.0			

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

Fair value level 3: measurement techniques and inputs used

Items	Fair value 30 06 2020		Type	Valuation techinque(s)	Unobservable inputs	Range (weighted average)
	Finacial assets mandatorily measured at fair value	Financial assets measured at fair value through other comprehensive income				
Debt securities	312.8	-	Bonds	Discounted Cash Flow	Yield	10.4%
			Junior Tranche NPL Securitization	Discounted Cash Flow	Yield	18%
			Convertible Bonds	Credit Model	Credit Data (LGD/PD)	42%/100%
			Investments	Credit Model	Credit Data (LGD/PD)	42%/100%
Equity instruments	9.1	230.4	Investments	DCF Model	Illiquidity spread	9.0%
			Equity's insturments	External pricing	Cet1 target, Cost of Equity, Growth rate	13,3%/10%/2%
			Investments	Discounted Cash Flow	Liquidity base/ Equity Risk Premium/Beta	20%/8%/0.4
			Investments	Cost/Net equity	Fair value asset	0-12.4 €/mln
Loans	229.2	-	Loans	Discounted Cash Flow	NPE spread	1.92% / 4.52%
			Loans	Discounted Cash Flow	LGD	0% / 82.7%
			Loans	Discounted Cash Flow	PD	0.03% / 45%
			Loans	Discounted Cash Flow	PE spread	0.01% / 2.43%
Units of UCITS	77.7	-	Real estate closed-end Fund	Nav Invetor report	NAV	7,8 mln€
			Alternative Investments Fund	Discounted Cash Flow	Discount rate	10.4%
	-		Closed-end Fund	External pricing	Fair value asset	10 mln€
Total Assets	628.8	230.4				
Total liabilities	X	X				

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

The column "Other financial assets mandatorily measured at fair value", in the "Debt securities" category valued according to the Credit Model method, essentially include two convertible bonds and participative financial instruments issued by Sorgenia S.p.A. and Nuova Sorgenia Holding S.p.A., respectively, as part of the restructuring of the original debt position for a total amount of around EUR 200 mln. The securities are measured according to the credit models and the value obtained is in line with the assumptions for asset recovery underlying the binding purchase offer for Sorgenia S.p.A. proposed by F2i and Asterion Capital Partners funds in December 2019 and culminating in the preliminary sale agreement signed by the above-mentioned funds and the Sorgenia shareholders on 3 June 2020. The sensitivity of these positions, defined as the loss deriving from the impact on non-observable parameters such as the probability of default (PD) and loss given default (LGD) following a (negative) change in the administrative status of the counterparties, is quantified at approximately EUR 43 mln.

The same category also includes:

- around EUR 9.6 mln relating to the position in the junior tranche of the Siena NPL securitisation of the Group's bad loans, which is valued with the Discounted Cash Flow method, or with the discounting of future cash flows on the basis of expected recoveries. The valuation as at 30 June 2020 declined significantly compared to 31 December 2019 due to the downturn in recoveries on non-performing loans resulting from the COVID-19 pandemic. The sensitivity of that position was defined as the change in value for each percentage point of total return of the security, and can be estimated at around EUR 7.4 mln;
- EUR 79.8 mln referring to the notes of the "Norma" securitisation, also valued with the Discounted Cash Flow method. For these positions, the non-observable parameter is the total return of the security, for each percentage point of return, the respective change in value can be estimated at around EUR 2.73 mln.

The column "Financial assets mandatorily measured at fair value" also includes loans (totalling EUR 229.2 mln) that are required to be measured at fair value, as the contractual cash flows do not exclusively provide for the repayment of principal and payment of interest on the principal to be repaid (i.e., do not pass the "SPPI test"), either by virtue of clauses originally envisaged in the contract or following subsequent amendments. The fair value is calculated using the Discounted Cash Flow (DCF) approach, applied in a different manner depending on whether they are performing or non-performing loans: in the former case, the contractual cash flows are discounted with a risk-adjusted curve that incorporates risks that affect the cost of credit, cost of funding, and capital; in the latter case, the recoverable amount is discounted by applying a spread to include risks inherent in a possible sale on the market. The unobservable parameters are Probability of Default (PD), Loss Given Default (LGD) and the different spreads for performing and non-performing assets. It is estimated that changes in these parameters of 10% / 5% / 1% / 1% would have an impact on the fair value equivalent to EUR -13 mln at Group level.

In the same category, "Equity instruments" include the investment in the Voluntary Scheme for a total of around EUR 6.3 mln represented almost entirely by the shares resulting from the conversion of the subordinated security issued by Banca Carige following the bank's overall capital strengthening transaction.

Finally, the majority of the units of UCITS refers to units of funds assumed following the sale of non-performing loans (Back2bonis, IDEA CCR I and II), equal to a total of EUR 59.1 mln. The Group has estimated the value of these units as the sum of the present values of the expected fund distributions (DCF). The inputs used are as follows:

- cash flows related to net distributions to investors envisaged in the business plans/management reports;
- discount rate of 10.4%, estimated as the implicit rate in the collections realised in the disposal transactions for unlikely to pay positions that the Group has implemented over the past two years.

A 1% change in the discount rate would result in a change in the value of the above-mentioned funds of around EUR 1.84 mln.

The same category of UCITS also includes:

- a position of EUR 7.8 mln held in the Athens Real Estate closed-end real estate investment fund that the Group assumed by way of "acceptance in return" as part of a loan restructuring transaction;
- the total of contributions, made from June 2016, to the Italia Recovery Fund (formerly Atlante due) for a book value of approximately EUR 10 mln. This position takes into account the fund's residual assets after the write-off of the two main equity investments in the fund's assets (BPVI and Veneto Banca).

The "Financial assets measured at fair value through other comprehensive income" accounting portfolio essentially includes the shareholding in Bank of Italy (EUR 187.5 mln). The shareholding was measured with the methodology identified by the Committee of Experts in the document "Revaluation of shareholdings in the Bank of Italy". This document not only details the valuation techniques adopted to reach the end result, but identified the following entity-specific parameters: the market beta, equity risk premium, and the cash flow base. The valuation of that equity investment is also confirmed in market transactions carried out in recent years by certain banks. The ranges of the possible values that can be assigned to these parameters cause the following changes in value: roughly EUR -42 mln for every 100 bps increase in the equity risk premium, around EUR -66 mln for every 10 percentage point increase in the market beta and roughly EUR -36 mln for every 10 percentage point increase in the cash flow base.

Lastly, this category also includes equity instruments valued at cost/equity representing all investments measured at fair value which could not be measured according to a market-based model. These positions amount to approximately EUR 42.9 mln.

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

Financial asset/liabilities not measured at fair value or measured at fair value on a non - recurring basis	30 06 2020		31 12 2019	
	Book value	Total Fair value	Book value	Total Fair value
1. Financial assets measured at amortised cost	113,434.7	120,834.0	104,707.5	111,300.0
2.Property, plant and equipment held for investment	254.8	281.7	328.8	357.3
3. Non-current assets and groups of assets held for sale	349.8	-	159.8	0.9
Total Assets	**114,039.3**	**121,115.7**	**105,196.1**	**111,658.2**
1. Financial liabilities measured at amortised costs	123,528.9	122,966.3	114,148.3	114,356.5
Total Liabilities	**123,528.9**	**122,966.3**	**114,148.3**	**114,356.5**

With reference to par. 93 lett. (i) of IFRS 13, the Group does not hold any non-financial assets measured at fair value on a recurring and non-recurring basis.

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

Shareholders' equity

As at 30 June 2020, the **Shareholders' equity of the Group and non-controlling interests** was roughly **EUR 7.2 bn**, down EUR 1.1 bn compared to 31 December 2019, due to the loss for the period.

It was also down compared to 31 March 2020 (-9.7%) primarily due to trends in the result for the period of 2Q20, in part offset by the improvement in valuation reserves.

Reclassified Consolidated Balance Sheet

Equity	30/06/20	31/03/20	31/12/19	30/06/19	Chg Q/Q		Chg 31/12		Chg Y/Y	
					Abs.	%	Abs.	%	Abs.	%
Group net equity	7,158.4	7,927.0	8,279.1	9,336.3	(768.6)	-9.7%	(1,120.7)	-13.5%	(2,177.9)	-23.3%
a) Valuation reserves	35.2	(41.5)	66.4	(15.1)	76.7	n.m.	(31.2)	-47.0%	50.3	n.m.
d) Reserves	(1,803.0)	(1,802.9)	(769.2)	(756.6)	(0.1)	0.0%	(1,033.8)	n.m.	(1,046.4)	n.m.
f) Share capital	10,328.6	10,328.6	10,328.6	10,328.6	-	n.m.	-	n.m.	-	n.m.
g) Treasury shares (-)	(313.7)	(313.7)	(313.7)	(313.7)	-	n.m.	-	n.m.	-	n.m.
h) Net profit (loss) for the period	(1,088.7)	(243.5)	(1,033.0)	93.1	(845.2)	n.m.	(55.7)	5.4%	(1,181.8)	n.m.
Non-controlling interests	1.4	1.7	1.8	2.0	(0.3)	-17.6%	(0.4)	-22.2%	(0.6)	-30.0%
Shareholders' equity of the Group and Non-controlling interests	**7,159.8**	**7,928.7**	**8,280.9**	**9,338.3**	**(768.9)**	**-9.7%**	**(1,121.1)**	**-13.5%**	**(2,178.5)**	**-23.3%**

Please note that due to the loss recorded as at 30 June 2020 of EUR 1.2 bn, the Parent Company is now in the situation envisaged in art. 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 31 December 2018 and taking into account the information received after that date, with the submission on 10 December 2019 of the 2019 SREP Decision, the ECB asked the Parent Company to maintain, effective 1 January 2020, a consolidated TSCR level of 11%, which includes 8% as a minimum requirement for Capital pursuant to Art. 92 of the CRR and 3% as Pillar II capital requirement, fully comprised of CET1.

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

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

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

Accordingly, the Group must meet the following requirements at the consolidated level as at 30 June 2020:

- CET1 Ratio of 8.82%
- Tier 1 Ratio of 10.88%
- Total Capital Ratio of 13.63%

These ratios include, in addition to the P2R, 2.5% for the Capital Conservation Buffer, 0.13% for the O-SII Buffer, and 0.001% for the Countercyclical Capital Buffer[17].

[17] Calculated considering the exposure as at 30 June 2020 in the various countries in which MPS Group operates and the requirements established by the competent national authorities.

As at **30 June 2020**, the Group's level of capital on a transitional basis was as shown in the following table:

Categories / Values	30 06 2020	31 12 2019	Chg. 31 12 2019	
			Abs.	%
OWN FUNDS				
Common Equity Tier 1 (CET1)	7,723.9	8,620.3	(896.4)	-10.40%
Tier 1 (T1)	7,723.9	8,620.3	(896.4)	-10.40%
Tier 2 (T2)	1,544.8	1,154.3	390.5	33.83%
Total capital (TC)	9,268.7	9,774.6	(505.9)	-5.18%
RISK ASSETS				
Credit and Counterparty Risk	43,659.8	45,236.1	(1,576.3)	-3.48%
Credit valuation adjustment risk	430.5	356.4	74.1	20.79%
Market risks	2,659.1	2,646.3	12.8	0.48%
Operational risk	11,050.4	10,320.3	730.1	7.07%
Risk-weighted assets	**57,799.8**	**58,559.1**	**(759.3)**	**-1.30%**
CAPITAL RATIOS				
CET1 capital ratio	**13.36%**	**14.72%**	**-1.36%**	
Tier1 capital ratio	**13.36%**	**14.72%**	**-1.36%**	
Total capital ratio	**16.04%**	**16.69%**	**-0.66%**	

Compared to 31 December 2019, CET1 decreased by a total of EUR -896 mln, essentially due to the following phenomena:

- loss for the period amounting to EUR -1.089 mln;
- reduction in the balance of the Other Comprehensive Income reserve for a total of EUR -31 mln;
- decrease in deductions associated with DTAs (EUR +222 mln) and deductions associated with prudential filters (EUR +7 mln, primarily due to the prudent valuation), partially offset by the increase in deductions associated with intangible assets (EUR -11 mln), as well as the increase in non-exempt deductions relating to significant financial investments (EUR -111 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 -102 mln, attributable to the transition of the filter from 85% to 70%;
- sterilisation of the capital impacts associated with the increase in credit value adjustments recognised in the period as at 30 June 2020 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 2020: as at 30 June, this positive effect amounts to EUR +210 mln;
- positive effect of EUR +9 mln deriving from the introduction of the prudential filter relating to the Other Comprehensive Income Reserve on government securities. This temporary treatment, applicable from 1 January 2020 to 31 December 2022, makes it possible to exclude from elements of CET1 the progressively decreasing amount (100% in 2020, 70% in 2021, 40% in 2022) of unrealised profits and losses accumulated starting from 31 December 2019, accounted for in the financial statement item "Changes in the fair value of debt instruments measured at fair value through other comprehensive income", with reference to exposures to central administrations, provided such exposures are not classified as non-performing financial assets.

Tier 2 marked an increase of EUR 391 mln compared to the end of December 2019, due to the equivalent value of the issue of subordinated T2 bonds (EUR 400 mln nominal value), concluded in January 2020 and the reduction in the contribution to Tier 2 of the excess value adjustments over expected losses (EUR -9 mln).

Hence, the Total Capital Ratio reflects an overall decrease in own funds of EUR -506 mln.

RWAs recorded an overall decrease of EUR 759 mln, due to lower RWAs relating to credit and counterparty risk (EUR -1,576 mln), resulting to a significant extent from the application of the amendments introduced by Regulation (EU) 2020/873 of 24 June 2020, particularly with reference to the calculation of the supporting factor relating to loans to small and medium enterprises, and higher RWAs relating to CVA risk (EUR +74 mln), market risks (EUR +13 mln), and operational risk (EUR +730 mln).

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

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

Disclosure on risks

Risk Governance

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

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

For the year 2020, in January 2020 the Board of Directors of Banca Monte Paschi di Siena S.p.A. approved the "Group Risk Appetite Statement 2020" (RAS 2020) for the Montepaschi Group and its breakdown by Legal Entity/Business Unit. The RAS 2020 is currently being updated in light of the COVID-19 scenario.

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

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

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

The Montepaschi Group is one of the Italian banks subject to the ECB's Single Supervisory Mechanism. In the first half of 2020, the Group has continued to actively support interaction with the ECB-Bank of Italy Joint Supervisory Team (JST).

For additional information, see the Consolidated Report on Operations as at 31 December 2019, available in the Investor Relations section on the website www.mps.it.

Internal Capital

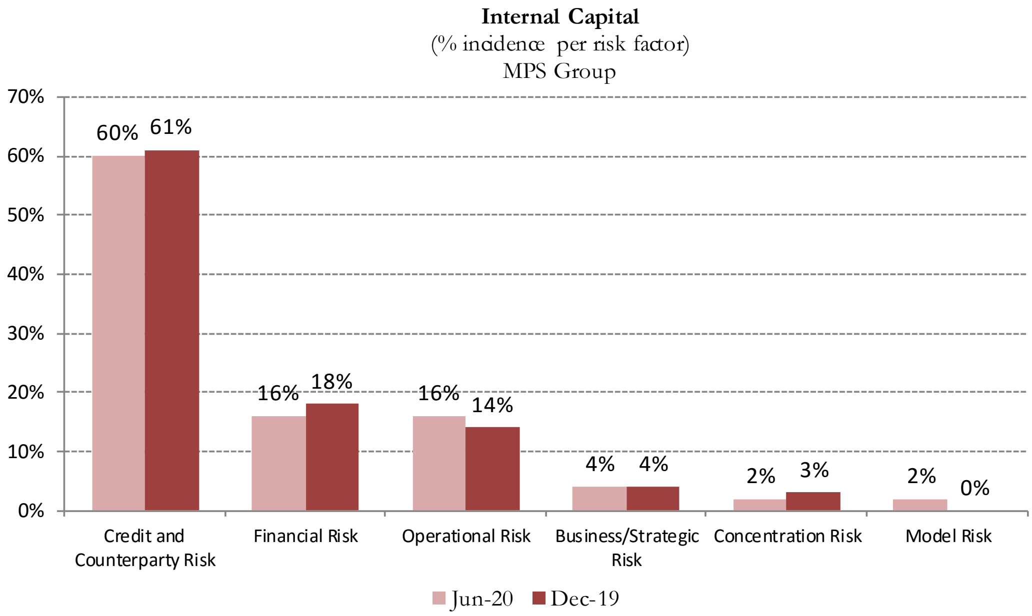
Risk assessment models

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

With regard to the methods used to estimate Internal Capital, with respect to what was highlighted in the Notes to the 2019 Consolidated Financial Statements, a methodology has been defined for quantifying internal capital against Model Risk. The approach used to quantify risks-to-capital with regard to which the Group is exposed is known in the literature as Pillar 1 Plus. This approach envisages that to the Pillar 1 requirements for Credit and Counterparty Risk, which already include those relating to Issuer Risk on the Banking Book, Equity Investment Risk, Real Estate Risk and Operational Risk, the requirements calculated from internal models relating to Market Risks, both Trading Book and Banking Book, as well as Banking Book Interest Rate Risk (Financial Risks), Concentration Risk, Business/Strategic Risk and Model Risk should be added.

Overall Internal Capital is calculated without considering inter-risk diversification, therefore simply by adding together the internal capital contributions of the individual risks (Building Block). This approach is consistent with the prudent approach suggested by the SREP (Supervisory Review and Evaluation Process) Guidelines published by the EBA in July 2018.

Risk exposure



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

Main risks and uncertainties

Risk identification

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

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

The medium significance class includes counterparty risk (risk that the counterparty in a transaction concerning certain financial instruments, e.g. derivatives and repurchase agreements, defaults before the transaction is settled), interest rate risk on the banking book, equity investment risk and reputational risk, as well as, on the liquidity side, asset concentration risk, funding concentration risk and intra-day liquidity risk.

The remaining risks are classified as low or insignificant.

Credit risk

Lending activity represents the Group's core business and the main risk component, representing approximately 50% of the Group's total RWA (around 60% on Pillar 1 RWA). The classification as high risk has therefore remained unchanged compared to the previous year, also based on the expected entry into force of new regulations for the definition of default and the addendum on the provisioning of non-performing loans.

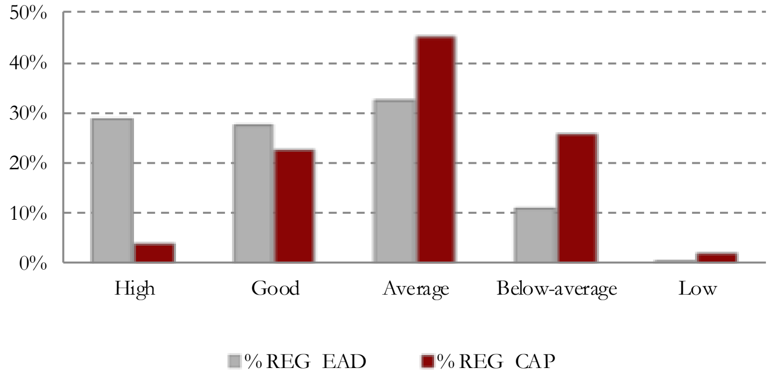
In general, a continuation of the crisis in the global economy could have a negative impact on the ability of the Group's customers to meet their obligations and hence cause a significant deterioration in the credit quality of the Parent Company and/or the Group, with possible negative effects on activities and the financial situation of the Parent Company and/or the Group.

In this context, activities aimed at increasing credit quality continued, with a particular focus on the credit quality of new disbursements.

Nevertheless, the non-performing portfolio disposal/reduction programme continued in 2019, achieving the Gross NPE ratio envisaged in the Restructuring Plan two years ahead of schedule. The chart provides a credit quality breakdown of the Group portfolio as at 30 June 2020 by Exposure to Risk and Regulatory Capital. The following graph shows that about 56% (53% as at 31 December 2019) of risk exposure relates to high and good quality customers (positions in financial assets are excluded). It should be noted that the ranking below also includes exposure to banks, government agencies and non-regulated financial and banking institutions, which are not included in the AIRB approaches. As borrowers, these entities are nevertheless subject to a credit standing assessment using official ratings, if any, or appropriate benchmark values that have been determined internally.

Performing loan book

Montepaschi Group - Quality as at 30 06 2020



Market Risk

Despite the reduction in sovereign exposures compared to last year, market risk remains a significant risk to which the Group is exposed, in particular given the potential volatility of the underlying market variables. Forecasts regarding capital requirements for the trading book (Fundamental Review of the Trading Book) were also taken into consideration.

In fact, the ECB has indicated, among the weaknesses/focal points, the high degree of sensitivity of the Italian government bond portfolio to unfavourable changes in market conditions, particularly the Italy credit spread for positions primarily classified at amortised cost (AC) and the overall portfolio exposure amount, in any event still considered significant.

As a condition for greater capital stability, in terms of market risks the Group has decided to apply the temporary prudential filter for the 2020-2022 period to positions at FVOCI as set forth in art. 468 of Regulation (EU) 2020/873 of the European Parliament and of the Council of 24 June 2020 as part of the adjustments in response to the COVID-19 pandemic, effective as of the reference date of 30 June 2020. Following the adoption of this treatment, the change in the FVOCI Reserve on government securities of EU States calculated with respect to the level at the end of 2019 is sterilised with the application of the phase-in percentages established by the regulation (100% for 2020, 70% for 2021 and 40% for 2022), resulting in a stabilisation of the outlook impacts on capital linked to variability in market parameters for the Group's FVOCI portfolio sensitive to Italy credit spread risk.

Operational risk

The exposure to operational risk is confirmed to be of high significance and is mainly linked to legal disputes over extraordinary events in the past, relating to share capital increases carried out between 2008 and 2015 and burden sharing realised in 2017 as part of the precautionary recapitalisation. Other important components for purposes of operational risk exposure are cyber security risk and IT risk - based on the attention dedicated to it by Supervisory Authorities - monitored through specific indicators. Note that in the last three years there have been no significant malfunctions in the IT systems or external IT attacks that have caused an interruption of activities or significant losses.

Business and strategic risk

The level of results expected in the Restructuring Plan, in terms of developments in the economic components (net interest income and net commissions, cost reductions) implies a high execution risk - current and prospective - for the Group. Moreover, the business results are one of the elements of particular interest to the Supervisory Authority, also at a systemic level.

Funding risk and liquidity risk

With regard to funding risk, the sustainability of the funding profile, understood as the ability to finance banking activities with stable resources, the current Restructuring Plan pursues the strengthening of a balanced medium/long-term liquidity structure. As of 2019, there has been an improvement in the capacity to access the senior and subordinate market; however, this channel remains highly dependent on the changes in market conditions, especially taking into consideration the current global pandemic situation.

With reference to liquidity risk, the funding plans are focused on maintaining adequate cash/counterbalancing reserves which allow for fully adequate liquidity, even in stress situations, taking into account the fact that, in the past, the Group has experienced liquidity stress periods.

Other risks

Risks associated with capital adequacy

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

Risks associated with audits by Supervisory Authorities

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

Reputational risk

As emerged in the 2019 SREP Decision, the Group's reputational profile continues to highlight certain weaknesses, mainly related to media exposure for past events, for certain proceedings still pending, for the debate regarding the Parent Company's mission following the Precautionary Recapitalisation and the exit of the Italian government from the Parent Company's shareholder structure. It cannot be excluded that in the future, including due to the possible negative media climate and in consideration of the characteristics of this type of risk, the dependency also on external factors beyond the control of the Group and despite the safeguards implemented, the Group may incur pressure on its liquidity situation.

Risk linked to representations and warranties issued as part of non-performing loan disposal transactions

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

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

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

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

In any event, the Transferors have a dual guarantee provided in the first place by the fact that the damage subject to compensation can never exceed the price paid for the acquisition of the defective loan plus any expenses incurred and an interest component at a rate set forth in the contract, but in any case at overall level a maximum amount (cap) is established beyond which the Transferors are not required to provide any compensation even in the presence of confirmed violations. The cap is generically determined as a percentage of the price paid for a specific portfolio (e.g., on the above-mentioned disposal to Siena NPL, it was 28% of the price).

For other bad loan disposal transactions for which a potential risk for the violation of R&Ws is still present, i.e. Merlino, Ismea and Race from 2019, the expiries are between 30 September 2020 and 31 August 2021, and envisage outlay caps equal to 15% of the disposal price for the individual portfolios.

Lastly, with reference to the disposals of unlikely to pay loans, the final expiry of the representations and warranties is in May 2023.

Risks associated with securitisations

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

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

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

Risks related to outsourcing certain services

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

Risks related to the economic-political context

The Group is exposed to the risk linked to the evolution of Italian economic conditions and to a general trend of the European and global economy, which continue to have significant downside risks, particularly related to the Coronavirus emergency (see "Reference context" chapter).

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

The prospects of a global recession and, in particular, of a prolonged loss of value for the Italian economy, together with any crises of the current administration, which could compromise its credibility in the European Union and influence the ability to implement growth support policies could result in an increased perception of country risk by financial markets and an expansion of the BTP-Bund spread, to which the Group is particularly exposed.

Risks related to the regulatory context

In general, the Group is exposed to the uncertainties arising from possible evolutions in the reference regulatory framework to which it is subject, which is particularly complex (as described below), i.e. any changes in regulations and/or changes in their methods of interpretation and/or application by the competent Supervisory Authorities.

More specifically in reference to the Basel IV implementation process within the European regulatory framework, the Group has given particular attention to the Fundamental Review of Trading Book (market risk) and the possible introduction of the Standardised Measurement Approach (operational risk) as among the components with even greater uncertainty in terms of the implementation programme.

Risks associated with future regulatory asset quality reviews

The EBA, in cooperation with the competent Supervisory Authorities, could decide in the future to recommend a new asset quality review of the major European banks, obviously including the Group, whose results would not currently be predictable.

<u>Risks associated with the COVID-19 pandemic</u>

The current macroeconomic scenario will lead to a deterioration in credit quality which, at present, it is not possible to reliably quantify. In fact, the Group observes that the lockdown imposed at a global level will lead to a reduction in revenues for a large number of customers/businesses and an increase in costs linked to the actions necessary to contain and prevent the spread of the virus, with repercussions on the payment capacity of the outstanding debt flows and on current employment levels.

Therefore, a gradual deterioration of the probability of default will become evident on performing loans, with a resulting increase in loans classified in stage 2 and a continual growth in the flow of defaults starting from 2021, as in 2020 that flow will be limited by the application of the moratoria established by the measures imposed by the Italian government. Similarly, on loans already classified as non-performing, there will be a gradual increase in the average collections times for bad loans (attributable, for example, to temporary closure of the courts in the first half of 2020) and a necessary revision of the existing restructuring agreements on loans classified as unlikely to pay, whose cure probability could suffer a sharp reduction. These effects may lead to a progressive increase in the cost of credit and in the NPE stock, which would only be mitigated in the medium to long term. Consequently, there will be an increase of the RWAs on capital requirements, due to the deterioration in the probability of default.

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

The legislative measures approved by the Italian government (payment moratoria, issue of state guarantees on new loans and debt consolidation, unemployment benefits and other support bonuses) will have positive effects on credit quality as they will allow for a realignment of maturities and flows of liquidity, with a resulting reduction in possible past due/overdrawn amounts that would have been recorded had those measures not been issued. On the RWAs and cost of credit, the guarantees issued by SACE, the Central Guarantee Fund and ISMEA will instead lead to a considerable drop in both the expected and unexpected loss, with the resulting mitigation of the impact expected from the deterioration in the parameters of internal models.

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

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

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

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

Credit risks

Risk assessment model

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

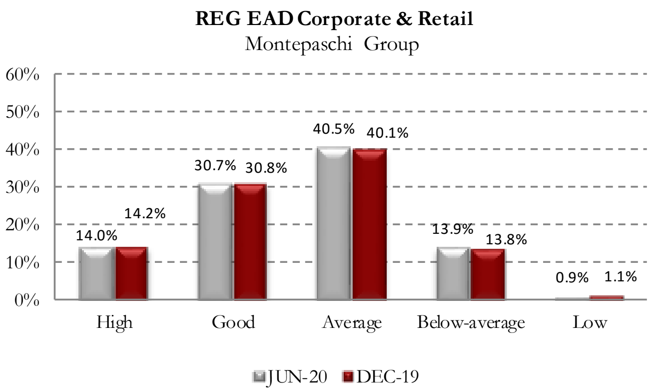
The Group is currently authorised to use the Advanced Internal Rating Based (AIRB) models to determine capital requirements against credit risk on the portfolios of "exposures to businesses" and "retail exposures" of the Parent Company, MPS Capital Services and MPS Leasing & Factoring, and is awaiting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

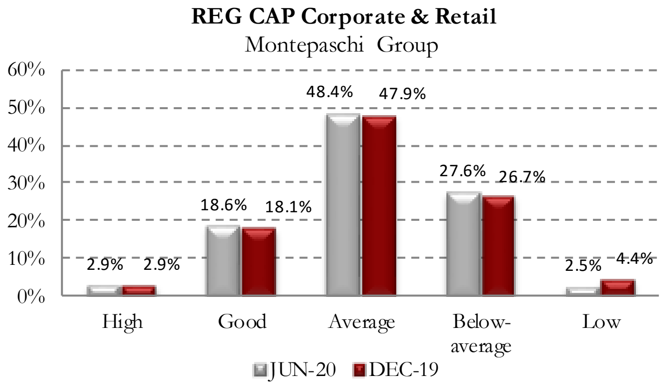
The Group has used PD, LGD and EAD parameters, estimated for regulatory purposes to calculate Risk Weighted Assets, also for other operational and internal management purposes. These provide the basis of calculation for different systems of measurement and monitoring, and specifically for the:

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

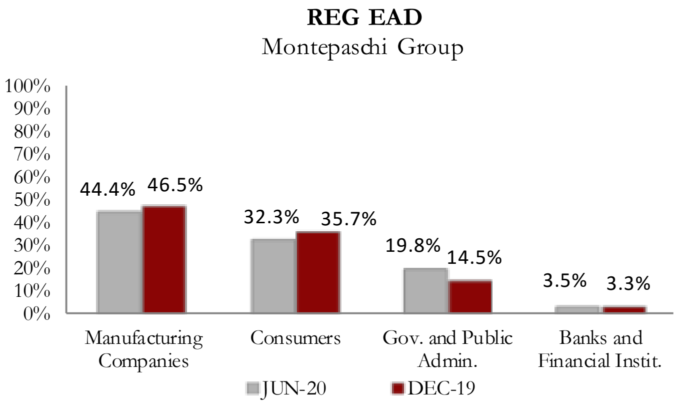
Risk exposure

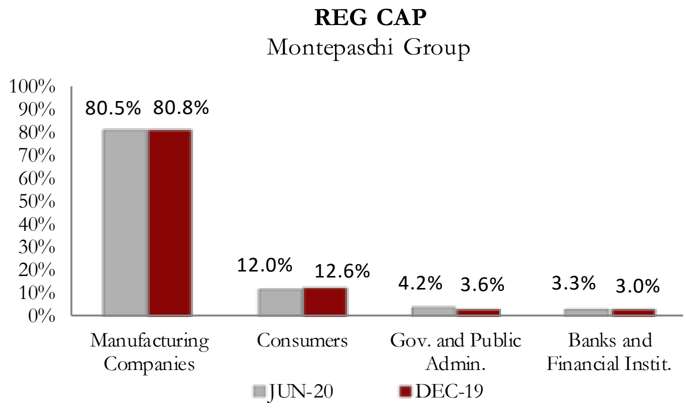
The charts below provide a credit quality breakdown of the MPS Group's portfolio (BMPS, MPS Capital Services, MPS L&F and Widiba) as at 30 June 2020 compared to the end of 2019 for Regulatory Exposure at Default (REG EAD) and Regulatory Capital (REG CAP) of the performing Corporate and Retail portfolios.





The charts below show the distribution of the MPS Group's REG EAD and REG CAP by type of client as at 30 June 2020 compared to the end of 2019.





Counterparty risk

Risk assessment model

With regard to the Counterparty Risk measurement methods, there are no significant changes to report compared to 2019.

- As envisaged by the regulatory provisions, in measuring exposure to counterparty risk the MPS Group used the regulatory market value approach to determine Exposure at Default (EAD) for derivative transactions and LST (Long Settlement Transactions), and the equity approach to determine the EAD for SFTs (Securities Financing Transactions).
- The counterparty risk measurement perimeter comprises all Group banks and subsidiaries, with regard to positions held in the Banking Book and Trading Book.
- The capital requirement for Credit Value Adjustment (CVA) along with the insolvency requirement covers unforeseen losses recorded in the OTC Derivatives segment following a change in counterparty creditworthiness, excluding central counterparties and non-financial counterparties below the EMIR clearing threshold. The MPS Group calculates the CVA requirement using the standardised method envisaged by the Basel/CRD IV regulatory framework.

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 30 June 2020.

The exposures are broken down by accounting categories.

COUNTRY	DEBT SECURITIES					LOANS	CREDIT DERIVATIVES
	Financial assets measured at fair value through profit and loss		Financial assets measured at fair value through other comprehensive income		Financial assets measured at amortised cost	Financial assets measured at amortised cost	Financial assets held for trading
	Nominal	Fair value=book value	Nominal	Fair value=book value	Book value	Book value	Nominal
Argentine	0.3	-	-	-	-	-	-
Azerbaijan	-	-	-	-	0.6	-	-
France	-	-	10.0	10.2	-	-	-
Italy	5,488.9	5,296.5	5,131.1	5,178.3	5,745.8	2,016.1	3,199.3
Portugal	-	-	15.0	17.6	-	-	-
Spain	4.0	4.6	10.0	10.2	1,408.8	-	5.2
Other Countries	0.1	0.2	-	0.1	-	-	-
Total 30 06 2020	**5,493.3**	**5,301.3**	**5,166.1**	**5,216.4**	**7,155.2**	**2,016.1**	**3,204.5**
Total 31 12 2019	**3,400.1**	**3,302.5**	**5,861.6**	**5,940.3**	**6,701.0**	**1,931.9**	**3,124.5**

As at 30 June 2020, the residual duration of the exposure to sovereign debt was 4.3 years.

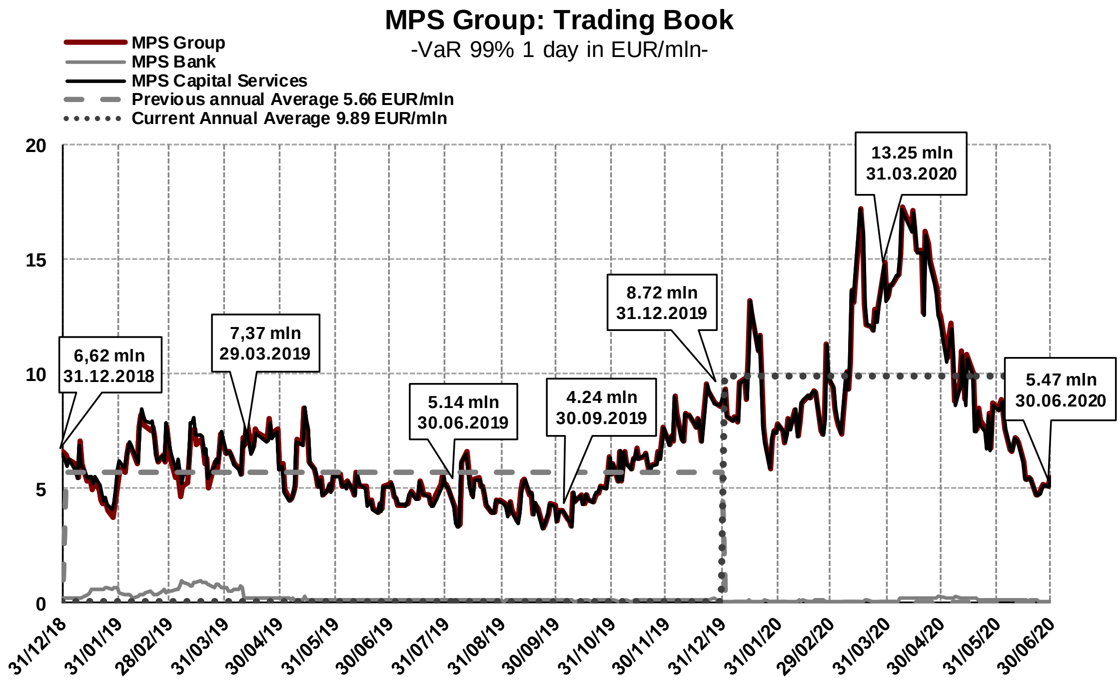
Market risks

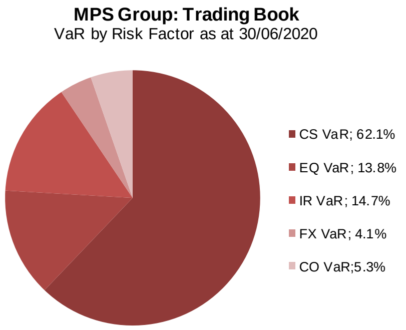
At the end of the first half of 2020, the market risks of the Group's Regulatory Trading Book, measured as VaR, declined sharply compared to the end of March, amounting to EUR 5.47 mln as at 30 June 2020, returning to the average levels of 2019.

During the second quarter, the market risks of the Group's Regulatory Trading Book showed, in terms of VaR, a performance influenced by the subsidiary MPS Capital Services, mainly for own trading activities in the Credit Spread – Interest Rate segment (transactions in Italian government bonds and long futures) and, to a lesser extent, Client-Driven activities in the Equity segment (structuring of bancassurance products and the relative hedges and, to a lesser extent, own trading, primarily in options and equity futures on the main market indices). The Parent Company's portfolio contribution to total VaR was negligibleThe first half of 2020 was heavily impacted by the crisis in the markets triggered by the outbreak of the COVID-19 pandemic, with particular effect on the VaR model due to the extreme variations recorded in most market parameters during March, predominantly affecting the primary dealer activities on Italian government bonds of the subsidiary MPS Capital Services.

In particular, the increase in the Italian Credit Spread in March caused a considerable increase in the VaR measure with the incorporation in the model of tail events represented by extreme and sudden increases on a daily basis in the yields of Italian government bonds in the short portion of the curve.

During the second quarter, with the attenuation of tensions on market parameters, the exposure to Italy credit spread risk by the subsidiary MPSCS reduced considerably, particularly in June. This contributed towards reducing the VaR for the quarter (EUR -3 mln, with a prevalent effect in May) and scrolling the time window of scenarios underlying the model, with the exit of the May-June 2018 Italy credit spread tail scenarios, triggered by the political crisis concerning the formation of the government.





The breakdown of the VaR shows that the Credit Spread is the main risk factor, accounting for 62.1% of the TB Gross VaR of the Group, while EQ accounts for 13.8%, IR for 14.7%, CO for 5.3% and FX for 4.1%.

MPS Group

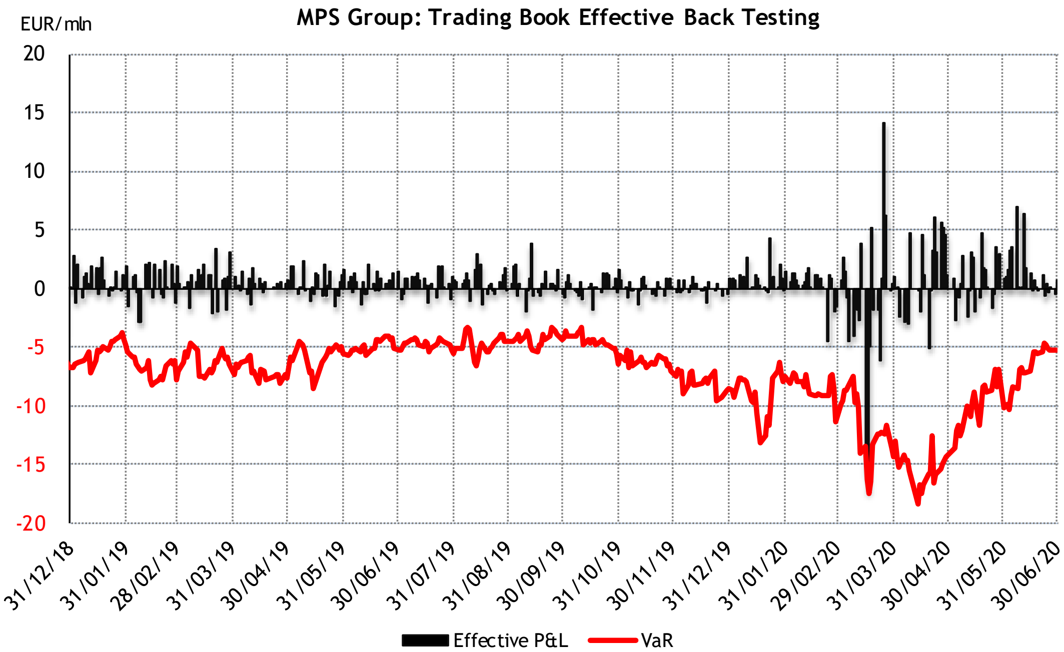
VaR PNV 99% 1 day in EUR/mln

	VaR	Data
End Period	5.47	30/06/2020
Min	4.67	22/06/2020
Max	17.32	09/04/2020
Average	9.89	

In 2020, the Group's VaR in the Regulatory Trading Book ranged between a low of EUR 4.67 mln recorded on 22 June 2020 and a high of EUR 17.32 mln on 9 April 2020 with an average value registered of EUR 9.89 mln. The Regulatory Trading Book VaR as at 30 June 2020 amounted to EUR 5.47 mln.

VaR model backtesting

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



Two exceptions were recorded in the first half of 2020, concentrated in March, referring entirely by the risk exposure of the subsidiary MPSCS. These exceptions were recorded on 16 and 17 March, as a result of the extreme increase in volatility on the markets following the health emergency linked to the spread of the COVID-19 pandemic. The days past due recorded simultaneous tension scenarios on all the main risk factors, with particular pressure in terms of P&L on the positions in Italian government securities (temporary widening of the Italian short-term credit spread, which for the most part had reversed by the end of the quarter due to effect of the ECB's new Quantitative Easing programme to cope with the economic emergency triggered by the pandemic) and on corporate and financial securities.

Structured credit product

As at 30 June 2020, the securities positions on structured credit products other than own securitisations had a book value of EUR 385.2 mln, compared to EUR 449.5 mln as at 31 December 2019.

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

With regard to the regulatory classification, the positions in securities on structured credit products are primarily held by the subsidiary MPS Capital Services (91.3%) and allocated mainly to the Trading Book (87.7% of the total). The remaining positions are held by the Parent Company. The main accounting classification is the category "Financial assets measured at fair value through profit and loss" (87.7%), followed by the categories "Financial assets measured at amortised cost" (7.2%) and "Financial assets measured at fair value through other comprehensive income" (3.5%).

The underlying assets transferred are predominantly residential mortgage loans (39.5%) and non-performing loans (22.8%). To be noted, for the latter type, 49.6% of the positions held have benefited from the public guarantee on securitisations (so-called Gacs).

Geographically speaking, the loans transferred were granted in Italy (57.5%), Ireland (15.6%) and Spain (7.7%).

In terms of structured credit product risk, 96.6% of the book value of the exposures consists of investment grade securities (with rating up to BBB-, inclusive); they are mostly senior tranches (69.7%), followed by mezzanine (26.2%) and junior (4.1%).

Liquidity risk

Risk assessment model

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

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

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

- the overall degree of encumbrance of total assets;
- the existence of a sufficient quantity of assets that may be encumbered but which are free;
- the Group's capacity to transform bank assets into eligible assets (or in an equivalent manner, to encumber non-eligible assets in bilateral transactions).

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

Risk exposure

The Group's Liquidity Reserves at the end of the half-year were up compared to the end of 2019, with the Liquidity Coverage Ratio (LCR) at 171.5%, while the Group's structural equilibrium was adequate with a Net Stable Funding Ratio (NSFR) of 118.3%.

The ratio of 1-month balance to the Group's consolidated assets is 16.9%.

Operational risks

Risk assessment model

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

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

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

Risk exposure

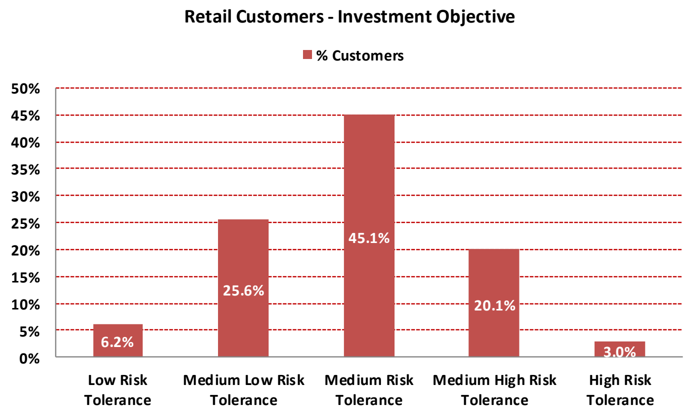
As at 30 June 2020, the number of operational risk events recognised in the first half of the year was reduced compared to that recorded in 2019, while the losses were up. The Regulatory Requirements were also up compared to December 2019.

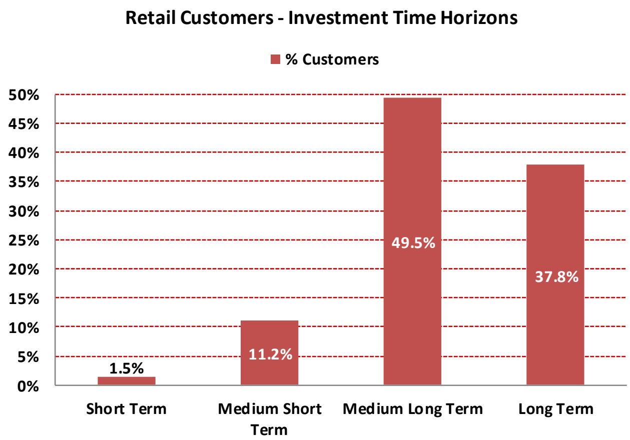
Financial risks of investment services

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

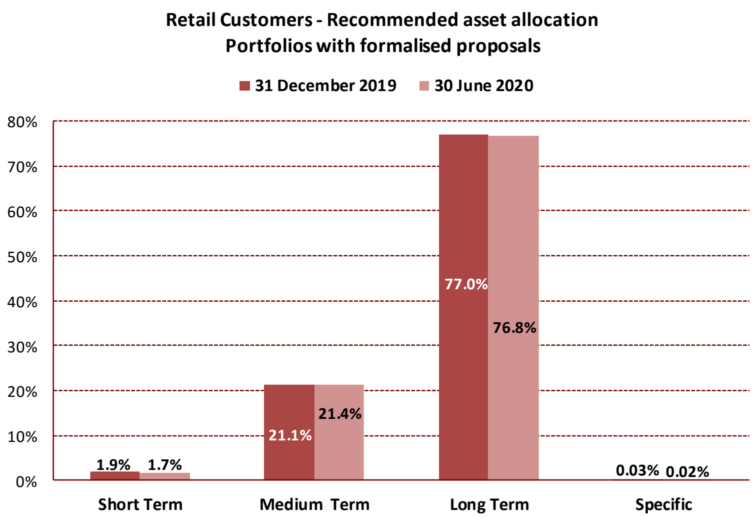
Banca MPS and Banca Widiba have revised the methods of customer profiling and the rules for determining the indicators underlying a customer's risk profile, adopting a new MiFID questionnaire introduced on 2 January 2018.

The graphs below show the distribution as at 30 June 2020 of the Investment Objective and Time Horizon indicators based on the Retail customers that completed the MiFID questionnaire in full and have positions in investment products.





At the end of June 2020, the portfolios held by Consumer/Retail customers on the basis of formalised "advanced" advisory proposals to obtain optimum asset allocation were mainly distributed into the recommended, long-term, asset allocation macro-classes.



Main types of legal, employment and tax risks

The healt emergency related to COVID-19 has led to the adoption of measures in the management and organization of civil and criminal justice.

In pariculare, the Law Decree 18/2020 *"Cura Italia"* and the Law Decree 23/2020 *"Decreto Liquidità imprese",* intervened providing for the general suspension (excluding specific exceptions) of the procedural terms of all hearings scheduled in the period from 09 March 2020 to 11 May 2020, leaving the individual Courts to regulate the so-called phase 2. In this contex, the proceedings involving MPS Group, have also suffered a slowdown and postponements, and the hearing tend to be fixed starting from September 2020, although with the partial maintenance of the "digital" methods for managing procedural disputes, always respecting the parties'right of defense as established by each Judicial Office.

Some information is reported below including, when relevant and/or advisable, that relating to individual claims with reference to significant issues involving the MPS Group and which are not considered completely groundless or normal within the context of the activities of the Group companies.

Legal disputes and out-of-court claims

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

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

The following were pending as at 30 June 2020:

- legal disputes with a total amount claimed, where quantified, of approximately EUR 5.2 bn. In particular:
  - approx. EUR 2.1 bn in claims regarding disputes for which there is a "probable" risk of losing the case, for which provisions of EUR 0.5 bn have been allocated;
  - approx. EUR 1.7 bn in claims attributable to disputes for which there is a "possible" risk of losing the case;
  - approx. EUR 1.4 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 1.0 bn. In particular:
  - approx. EUR 0.7 bn in claims for which there is a "probable" risk of losing the case;
  - approx. EUR 0.3 bn in claims for which there is a "possible" risk of losing the case.

On 31 July 2020, the Group received from the MPS Foundation, additional out-of-court claims for approx EUR 3.8 bn, of which EUR 3.6 bn with a "probable" risk of losing the case and EUR 0.2 bn with a "possible" risk of losing the case. These requests were evaluated for the puposes of the Consolidated half-yearly financial statements. In fact, even if they occurred after 30 June 2020, they provide evidence of situation existing at the reporting date of the Half-yearly Finacial statements.

Considering these requests, subsequent to 30 June 2020, out-of-cout claims is equal to EUR 4.8 bn. In particular

  - approx. EUR 4.3 bn in claims for which there is a "probable" risk of losing the case;
  - approx. EUR 0.5 bn in claims for which there is a "possible" risk of losing the case.

Note that the Group has exercised the possibility granted by IAS 37 of not providing detailed disclosures on the provisions allocated in the financial statements if such information may seriously jeopardise its position in disputes and in potential settlement agreements.
The main information of the most significant cases, by macro-category or individually, is provided below.

Disputes regarding compound interest, interest and conditions

Following the change in orientation by the Supreme Court of Cassation (*Corte di Cassazione*) on the legitimacy of the practice of capitalising on a quarterly basis the interest payable accrued on current accounts, as of 1999 there has been a progressive increase in claims for the return of interest expense resulting from quarterly compound interest. In these lawsuits, the plaintiffs also contest the legitimacy of the interest rate and the methods to determine the commissions applied to the accounts. In this regard, the interpretation introduced since 2010 by the Supreme Court on usury - according to which overlimit fees (*Commissioni di Massimo Scoperto*), even before Italian Law no. 2/2009 was enforced, should have been calculated on the basis of the effective global rate (*Tasso Effettivo Globale - TEG*), contrary to Bank of Italy guidelines - is frequently the pretext for the actions brought by customers. The plaintiffs most often claim irregularities in current account balances; however, claims concerning compound interest are also increasingly frequent: these cases are based on the alleged illegitimacy of the so-called "French-style amortisation" in mortgage loans, and violation of Italian Law no. 108/1996 on usury in term loans. Aware that the jurisprudential interpretation is often disadvantageous (although not univocal), at least with respect to certain issues, the Group is committed to maximising the arguments in its defence - which do exist, particularly concerning the statute of limitations - identifiable in the regulatory and interpretative framework. For this type of dispute, provisions for risks of EUR 135.0 mln were allocated (against a total claim amount of EUR 311.4 mln), compared to EUR 133.8 mln recognised as at 31 December 2019 (against a claim of EUR 316.7 mln).

Dispute regarding bankruptcy rescindments

The reform implemented from 2005 has reduced and limited the scope of bankruptcy rescindments, particularly those relating to current account remittances. For those that can still be filed, or already pending at the effective date of the reform, the Group is giving maximum emphasis to all the arguments available in defence. The provisions for risks recognised for this type of dispute as at 30 June 2020 amounted to EUR 29.4 mln (total claim of EUR 141.1 mln), compared to EUR 31.1 mln as at 31 December 2019 (against a claim of EUR 150.7 mln).

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

The considerable defensive efforts made in this type of lawsuit resulted over the years in the emergence of some favourable jurisprudential orientations, at least with respect to certain specific cases, which are allowing balanced risk control. It should be noted that starting from 2015, several unfavourable rulings were issued by the Supreme Court – with its latest order no. 6252 published on 14 March 2018 by the Civil Cassation Section 1^ - pursuant to which "*the financial product called 4You does not entail an interest worthy of protection, under the regulatory framework, as it does not comply with the general principles set forth in articles 38 and 47 Cost*.", due to the evident synallagmatic unbalance. Given these rulings, a penalising predilection in the case law regarding the Parent Company arguments can be considered solidified. For this type of dispute, provisions for risks of EUR 8.3 mln were allocated (against a total claim amount of EUR 26.5 mln), compared to EUR 9.8 mln recognised as at 31 December 2019 (against a claim of EUR 27.4 mln).

Dispute with purchasers of subordinated bonds issued by Group companies

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

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

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

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

The total claim for these disputes is EUR 48.1 mln as at 30 June 2020, down compared to 31 December 2019 (EUR 49.4 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 30 June 2020, the provisions recognised amounted to approx. EUR 28.3 mln (up by approx. EUR 1.9 mln compared to 31 December 2019).

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

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

As at 30 June 2020, the total claims for this type of dispute amounted to EUR 1.9 bn (compared to EUR 2.0 bn as at 31 December 2019) subdivided as follows (data in EUR mln):

Type of dispute	30/06/20	31/03/20	31/12/19
Civil dispute *	830	795	883
Filed civil claim cp 29634/14	137	137	137
Filed civil claim cp 955/16	95	95	95
Out-of-court claims **	843	809	858
Total claims	**1,905**	**1,836**	**1,973**

(*) The increase in the civil dispute compared to 31 March 2020 can be ascribed primarily to the lodging of two cases by Coop Centro Italia S.c.p.A. and Coofin Srl, as described below; while the decrease in the first quarter of 2020 compared to 31 December 2019 can primarily be attributed to settlement agreements involving the closure of 4 disputes against a total claim of approx. EUR 91 mln.
(**) In the second quarter, the increase in claims from out-of-court proceedings of EUR 34 mln compared with the end of March refers, for EUR 13 mln, to the 2008-2011 share capital increases and, for EUR 21 mln, to the 2014-2015 share capital increases. The decrease of EUR 49 mln in the claim in the first quarter compared with the end of 2019 refers, for EUR 41 mln, to the 2008-2011 share capital increases and, for EUR 8 mln, to the 2014-2015 share capital increases. This decrease is mainly due to the quantification of the civil parties involved in the criminal proceedings 29634/14 and 955/16. Furthermore, on 31 July 2020, the Group received additional out-of-court claims by MPS Foundation, for an amount of approx Eur 3.8 bn. Considering also these requests, subsequent to 30 June 2020, the overall *petitum* of out-of-court claims rises to EUR 4.7 bn. For more information please refer to paragraph "Initiative promoted by the Monte dei Paschi di Siena Foundation (MPS Foundation)".

The main lawsuits are outlined below by type.

Banca Monte dei Paschi di Siena S.p.A. vs. Marangoni Arnaldo + 123 shareholders and investors

In July 2015, Mr Arnaldo Marangoni sued the Parent Company, claiming to have purchased shares between 2008 and 2013, during subscription of the capital increases of 2008 and 2011, as well as on the Electronic Stock Market, based on false information provided by the Parent Company with regard to its capital, economic, financial, profit and management situation. Another 123 shareholders intervened in the lawsuit, submitting the same complaints (although their respective positions are not entirely uniform). The 123 interveners requested: (i) examination of the false nature of the statutory financial statements, quarterly and interim reports, capital increase prospectuses of 2008 and 2011, price-sensitive press releases relative to the years 2008, 2009, 2010, 2011 and 2012 of BMPS and, consequently, (ii) a ruling sentencing BMPS to compensate for damages. The counterparties claiming compensation for monetary and non-monetary damages for a total of about EUR 89 mln.

The case was referred to the Board for a decision on the preliminary objections raised by the Parent Company. The Judge handed down a decision on 25 January 2018, rejecting the preliminary objections, and adjourned to 13 February 2018 for the continuation of the proceedings. At that hearing, the Parent Company reserved the right to appeal the non-definitive ruling of the Court of Milan and the Judge, after granting the terms pursuant to art. 183, paragraph six of the Italian Code of Civil Procedure, adjourned the proceedings to the hearing scheduled for 18 December 2018. At the hearing, the Judge reserved the right to decide on the preliminary evidence and subsequently, once the reservation had been lifted, ordered a CTU (court-appointed expert) to identify any information omissions and to determine the damage resulting from them, postponing the case until 19 February 2019 for the consultant to take the oath. At the hearing on 19 February 2019, certain issues inherent in the appraisals were discussed and clarified and the court-appointed expert was duly sworn in. The work of the experts was set to begin on 1 April 2019, while the case was postponed until the hearing scheduled for 19 November 2019, with a court-appointed expert assigned to verify the possibility of reaching a resolution. Some negotiations were initiated and led to an amicable settlement of this dispute. At the beginning of January 2020, this dispute was settled with no impact on the Income Statement.

Banca Monte dei Paschi di Siena S.p.A. vs. Coop Centro Italia s.c.p.a

On 26 July 2016, Coop Centro Italia S.c.p.a. served a writ of summons against the Parent Company, jointly with CONSOB, before the Court of Florence (Section specialised in corporate matters) for the hearing of 20 January 2017, requesting total compensation of EUR 85.5 mln for actual damages, in addition to loss of profits quantified during the course of the proceedings in EUR 17.9 mln for a total claim of EUR 103.4 mln, due to the alleged false disclosure of the prospectuses relating to the Parent Company's capital increases in the years 2008, 2011 and 2014, in which the company had participated.

Specifically, the counterparty claimed damages of EUR 20.3 mln for the capital increase of 2008 and EUR 9.2 mln for the capital increase of 2011, for contractual liability pursuant to art. 1218 of the Italian Civil Code, as well as art. 94, paragraph 8 of the Consolidated Law on Finance or art. 2049 of the Italian Civil Code in relation to the actions of its then representatives and employees, also pursuant to art. 1218 of the Italian Civil Code, as well as art. 94, paragraph 8 of the Consolidated Law on Finance, for 56.0 mln, jointly and severally - or alternatively each to the extent applicable - with CONSOB, called upon to respond pursuant to articles 2043 and 2049 of the Italian Civil Code for the actions of the Supervisory Authority and those of its commissioners and officials, with regard to the 2014 capital increase, regarding capital losses incurred as well as loss of profit determined during the course of the proceedings. At the hearing on 12 October 2017, the Judge reserved his decision on the claims. Upon lifting of the reservation, the Judge ordered a court-appointed expert report, with the investigative operations beginning on 30 October 2018 and the case adjourned to 23 May 2019. On 15 January 2019, the court-appointed experts submitted an application asking the Judge for guidelines on whether or not to involve the bond holders in conducting the investigative operations. With ruling of 17 January 2019, the Judge reserved his decision on the matter and suspended the investigative operations in the meantime, to resume upon issuance of the decision and whose timing will therefore be updated. Moreover, with a subsequent petition filed on 28 February 2019, the consultants requested the Judge to specify if the investigations can be extended to the question of the proper accounting treatment of loans and if the court-appointed experts can consider the fact that in 2011, in addition to purchasing shares, Coop sold the option rights that it was due. The Judge, lifting the reservation, gave the parties a deadline of 10 September 2019 to make it possible to take a position on the various preliminary issues and matters discussed in this case and scheduled the hearing for 3 October 2019 to discuss these aspects. With a partial ruling of 24 February 2020, the Court declared the interventions inadmissible. By order of 2 March 2020, the Investigation Judge provided the clarifications requested and ordered the resumption of the investigative operations, adjourning to the hearing scheduled for 16 July 2020 to continue the proceedings. The ongoing COVID-19 health emergency resulted in a slowdown in the investigative operations, which resumed on 30 May 2020. As a result, the experts requested a postponement of the 16 July hearing from the Investigation Judge, who deferred it to 18 February 2021.

Banca Monte dei Paschi di Siena S.p.A. vs. Coofin s.r.l.

On 26 July 2016, Coofin S.r.l. served a writ of summons against the Parent Company, together with CONSOB, before the Court of Florence (Section specialised in corporate matters) for the hearing of 20 January 2017, requesting total damages of EUR 51.6 mln as actual damages, in addition to loss of profits quantified during the course of the proceedings as EUR 9.8 mln for a total claim of EUR 61.4 mln, due to the alleged false nature of the prospectuses relating to the Parent Company's capital increases of 2008, 2011 and 2014, in which the company participated.

Specifically, the counterparty claimed damages of EUR 11.5 mln for the capital increase of 2008 and EUR 6.1 mln for the capital increase of 2011, for contractual liability pursuant to art. 1218 of the Italian Civil Code, as well as art. 94, paragraph 8 of the Consolidated Law on Finance or art. 2049 of the Italian Civil Code in relation to the actions of its then representatives and employees, also pursuant to art. 1218 of the Italian Civil Code, as well as art. 94, paragraph 8 of the Consolidated Law on Finance, for EUR 34.0 mln, jointly and severally - or alternatively each to the extent applicable - with CONSOB, called upon to respond pursuant to articles 2043 and 2049 of the Italian Civil Code for the actions of the Supervisory Authority and those of its commissioners and officials, with regard to the 2014 capital increase, regarding capital losses incurred as well as loss of profit determined during the course of the proceedings. At the hearing on 13 March 2018, the Judge reserved himself for the admission of preliminary evidence. Upon lifting of the reserve, the Judge decided to submit to the Board the decision on the preliminary exceptions raised by the Parent Company, adjourning the hearing to 6 December 2018 for the specifications of the pleadings. In the meantime, the Judge had set a hearing for 10 October 2018 to discuss a petition for deferment by the Parent Company with regard to submission of the relative documentation. Following replacement of the Judge, the hearing of 10 October 2018 was adjourned to 5 March 2019, while nothing was decided regarding the hearing for clarification of the conclusions of 6 December 2018, which was not held. By Decree of 26 February 2019, the new magistrate scheduled the hearing for the clarification of the conclusions for 25 February 2021; therefore, at the moment there is no court-appointed expert admitted, while the reservation was lifted on the petition for deferment in the terms formulated by the defence, allowing for the submission of various documents of interest for the Parent Company, with the exception of Consob notices.

* * *

With additional writs of summons received on 18 May 2020, Coofin S.r.l. and Coop Centro Italia s.c.p.a. initiated two separate proceedings against the Parent Company before the Court of Florence, alleging the untruthfulness and incomprehensiveness of the prospectus relating to the Parent Company's 2015 share capital increase, in which the plaintiffs participated and - as a result - demanded that the defendant be ordered to provide compensation for damages quantified as the entire capital loss suffered and equal, with respect to Coofin, to a total of EUR 13.0 mln and with respect to Coop, to a total of EUR 21.5 mln (in both cases, net of the proceeds from the sale of the option rights they sold in the market at the time of the 2015 capital increase) by way of actual damages, in addition to loss of profits, currently not quantified.

The plaintiffs also initiated proceedings against Consob, alleging that the financial losses suffered were also due to its failure to provide proper controls, during the approval of the 2015 financial statements, on the comprehensiveness and consistency of the disclosure provided by the issuer with reference to the Alexandria and Santorini transactions and with regard to the treatment of non-performing loans which - if properly specified in the financial statements - would have made the individual and consolidated shareholders' equity negative already in 2013 and 2014, with the effect of making it necessary for the Parent Company to access insolvency proceedings (and this would have made it impossible to carry out the 2015 share capital increase, in which the investments subject to these proceedings were made). The prescribed hearing is scheduled for both cases on 28 October 2020, in view of which the Parent Company is preparing its defence for which it believes it can rely on multiple objections, concerning the merits of the case as well as procedural in nature.

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

On 22 November 2017, the counterparties (the "Funds") served a complaint on the Parent Company, as well as Nomura International, Giuseppe Mussari, Antonio Vigni, Alessandro Profumo, Fabrizio Viola and Paolo Salvadori, before the Court of Milan, requesting that the court confirm and declare: (i) the alleged liability of the Parent Company pursuant to art. 94) of the Consolidated Law on Finance, as well as for the deeds of defendants Mussari, Vigni, Profumo and Viola pursuant to art. 2935 of the Italian Civil Code due to the offences perpetrated against the plaintiffs; (ii) the alleged liability of defendants Mussari and Vigni in relation to investments made by the Funds in 2012 on the basis of false information; (iii) the alleged liability of defendants Viola, Profumo and Salvadori in relation to investments made by the Funds subsequent to 2012; and (iv) the alleged liability of Nomura pursuant to art. 2043 of the Italian Civil Code and, as a result, order BMPS and Nomura jointly and severally to provide compensation for financial damages equal to EUR 423.9 mln for Alken Funds Sicav and EUR 10 mln for lower management fees and reputational damage to the management company Alken Luxembourg SA, as well as jointly and severally with Banca MPS and Nomura the defendants Mussari and Vigni for damages resulting from the investments made in 2012, and Viola, Profumo and Salvadori for damages subsequent to 2012. The counterparties also requested that the defendants be ordered to provide compensation for non-financial damages upon confirmation that they were guilty of the offence of providing false corporate disclosures. The Parent Company duly appeared and set out is defence. In the alternative, for the denied possibility of granting the opposing applications, the Parent Company applied for recourse against Nomura. The first hearing, initially set for 18 September 2018, was deferred to 11 December 2018, in order to allow discussion between the parties on the transversal issues formulated by a number of defendants. It should be noted that in the judgement, three individuals intervened, separately and independently, claiming damages for a total of approx. EUR 0.7 mln. At the hearing of 11 December, the Judge reserved his decision on the preliminary objections raised by the parties. Upon lifting the reservation and accepting the objections raised by all the defendants, the Judge declared Alken's summons null and void, due to failure to specify the dates of the share purchases and the nullity of the powers of attorney, assigning the plaintiffs a deadline of 11 January 2019 to supplement the applications and rectify the defects of the powers of attorney. On the other hand, the Judge considered Alken's claims concerning the alleged incorrect accounting of the claims to be sufficiently specific and rejected the plea of nullity of the acts of intervention. Following the plaintiff's additions, the defendants insisted on the objections of nullity of the summons and powers of attorney. At the end of the discussion on these objections, which took place at the hearing of 30 January 2019, the Judge reserved his decision. Upon lifting the

reservation, the Judge - considering that these preliminary questions must be decided together with the merit - granted the preliminary terms pursuant to art. 183, paragraph six of the Italian Code of Civil Procedure and adjourned the hearing for discussion of the preliminary requests to 2 July 2019. At that hearing, the Parent Company requested and obtained a deadline of 8 July to object to the demands submitted by an intervener (whose intervention the Parent Company acknowledged at the hearing), after the parties discussed and illustrated their respective preliminary briefs and the relative petitions. At the end of the discussion, the Judge reserved the right to decide on the preliminary evidence. By order of 24 July 2019, the Judge rejected the request for a court-appointed expert witness submitted by Alken, deeming that the case was ready for a decision considering the subjective characteristics of the plaintiff (professional investor) and the operations of Alken on the BPMS shares (with acquisitions which extended, inter alia, "after October 2014, after 16 December 2016 and after 13May 2016" as reported in the decision of 24 July 2019).
The proceedings are still under way and at the hearing on 7 July 2020, the judge rejected Alkn's request to remit the case to the preliminary investigation, and admitted the new documents produced by Alken (reserving any assessment on their relevance). The case was referred to the Board for a decision with the assignment of terms for filing the closing briefs.

Dispute between York Funds and York Luxembourg / Banca MPS Spa, Alessandro Profumo, Fabrizio Viola, Paolo Salvadori and Nomura International PLC

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

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

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

The first hearing, initially scheduled for 29 January 2020, was deferred to 4 February 2020. The Parent Company duly appeared before the court. On 3 February 2020, a voluntary intervention pursuant to art. 105, paragraph 1 of the Italian Code of Civil Procedure was filed, whereby the intervener demanded compensation for the full loss of its investment equal to EUR 14 thousand, made in the course of 2014 in equity instruments. The Judge ordered the separation of the case introduced by the intervening party, the principal proceedings are under way and they were adjourned to 26 January 2021 for the discussion.

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

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

Criminal proceeding no. 29634/14

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

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

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

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

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

After the request for plea bargain, the Parent Company's position was closed. With the plea bargain, accepted by the Preliminary Hearing Judge on 14 October 2016, the Parent Company exits the proceedings as defendant in the administrative offence following crimes committed by its own former executives, limiting the consequences to an administrative financial penalty of EUR 0.6 mln and a confiscation, for EUR 10 mln, without exposing itself to the risk of higher penalties.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Criminal proceeding no. 955/16

On 12 May 2017 the committal for trial of the representatives Alessandro Profumo, Viola Fabrizio and Salvadori Paolo (the first two no longer in office) was requested within new criminal proceedings before the Court of Milan, in which they were charged with false corporate disclosures (art. 2622 of the Italian Civil Code) in relation to the accounting of the "Santorini" and "Alexandria" transactions with reference to the Parent Company's financial statements, reports and other corporate communications from 31 December 2012 to 31 December 2014 and with reference to the half-yearly report as at 30 June 2015, as well as market manipulation (art. 185 of the Consolidated Law on Finance) in relation to the disclosures to the public concerning the approval of the financial statements and the balance sheets specified above.

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

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

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

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

Therefore, the Public Prosecutor has issued the notice of the conclusion of investigations with respect to Mr Salvadori for the offence pursuant to art. 185 of the Consolidated Law on Finance and filed the (new) request for committal for trial against Mr Salvadori for such offence and, lastly, requested the (new) preliminary hearing (again for the crime of market manipulation).

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

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

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

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

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

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

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

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

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

The proceedings are still ongoing.

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

At the hearing on 9 July, the first hearing began dedicated to the conclusions of the civil parties and at the subsequent hearing on 16 July, the civil parties discussion phase concluded. The proceedings will continue with the discussions of the defendants' attorneys starting in September 2020.

The relief sought, if stated in the civil action, amounted, as at 30 June 2020, with reference to the proceedings in question, to approximately EUR 95 mln (the same as at 31 December 2019).

Investigations on the 2012, 2013 and 2014 financial statements and on the 2015 half-yearly report with respect 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 who should have concluded their assessments by the end of the first half of 2020. However, the receipt of further documentation from the Bank of Italy made it necessary to extend the timing required to perform the investigation. A new calendar of hearings is expected.

Obviously the results of this evidence gathering procedure will be very important for the arguments of the public prosecutor therefore it appears necessary to wait for such results before expressing an assessment about the risk of losing the case.

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

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

In relation to capital increases and the allegedly incorrect financial information contained in the prospectuses and/or in the financial statements and/or in the price sensitive information for the period 2008-2011, as at 30 June 2020, the Parent Company has received 1,203 out-of-court claims for a total of EUR 611 mln in quantified claims. As at 30 June 2020, the residual claims of the plaintiffs who did not file civil suits amounted to EUR 564 mln.

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

Another 560 out-of-court claims relating to the share capital increases in 2014-2015 must be added to the ones indicated above, for a claim amount of approximately EUR 294 mln (EUR 279 mln considering only the plaintiffs who did not file civil suits).

The grand total amount claimed as at 30 June 2020 is therefore EUR 843 mln.

Initiative promoted by the Monte dei Paschi di Siena Foundation ("MPS Foundation")

On 31 July 2020, MPS Foundation sent three formal notices and notices of default status to the Parent Company concerning three different issues, which in reverse chronological order can be summarised as follows:

(i) letter concerning the share capital increases in 2014 and 2015 - and, in particular, the alleged improper accounting of the Santorini and Alexandria transactions in the period 2012-2015 - in which the Parent Company is requested to compensate damages of not less than EUR 171 mln;

(ii) letter concerning the 2011 share capital increase - in reference to issues that emerged in the context of proceeding no. 29634/14, related to the alleged improper accounting of the Santorini and Alexandria transactions in the period 2008-2012 - in which the Parent Company is requested to compensate damages totalling EUR 496.4 mln, plus EUR 93.9 mln for reputational damages;

(iii) the third and final letter refers to the acquisition of Banca Antonveneta resolved in November 2007, which was then concluded the following year upon receiving approval from the Bank of Italy, as well as to the lack of transparency and accounting errors relating to the FRESH transaction. This letter requests compensation for damages related to participation in the 2008 share capital increase (for the option component of EUR 2,667 mln as well as EUR 366 mln for the component relating to the reserved share capital increase). Compensation for damages (not yet quantified) that resulted from subscription of the 2011 share capital increase based on false information regarding the FRESH transaction is also requested.

The Parent Company is critical of these initiatives, which as a whole translate into a claim for damages totalling EUR 3.8 bn. In addition to a series of preliminary findings (including the expiry of the statute of limitations for events that date back over a period of time), in terms of their "substantive" nature, numerous arguments exist that can counter the Foundation's claims. These include, solely by way of example:

a. At the time of the events, MPS Foundation owned approx. 49% of the Parent Company's ordinary share capital and appointed half of the members of the Board of Directors. MPS Foundation was therefore the majority shareholder of BMPS and was able to guide its decisions, particularly strategic decisions;
b. with reference to the Antonveneta transaction and the financial transactions to obtain the necessary funding to carry out the former, MPS Foundation (which has never in the past formulated findings or reservations with regard to BMPS), according to what emerged from documents acquired in the context of judgements pursuant to art. 2395 of the Italian Civil Code promoted by the Foundation, has already initiated a series of actions (incompatible with the objections raised against BMPS) aimed at challenging the responsibility of the members of its Administrative Body, as well as of the lending banks and its advisors (in the latter case without obtaining satisfaction, having, on the contrary, been ascertained that the MPS Foundation had unreservedly agreed with the strategic decision to acquire Banca Antonveneta). These initiatives are also relevant in terms of the causal link between the conduct currently alleged against the Parent Company and the damage suffered by the Foundation;
c. the particular importance of the role of the MPS Foundation, in the context of the purchase of Banca Antonveneta, also emerged in the courts, as is clear from reading the justifications for judgement no. 29634/14, which dedicates an entire paragraph to the Foundation's role.

Based on the above, the Parent Company reserves the right to take action against the MPS Foundation to protect its assets.

The requests of the MPS Foundation were assessed for purposes of the consolidated half-yearly financial statements. In fact, even though they occurred after 30 June 2020, they constitute evidence of situations outstanding at the reference date of the half-yearly financial statements.

Also considering the requests of the MPS Foundation received on 31 July 2020, the overall figure for the out-of-court claims increases to approximately EUR 4.7 bn.

***

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

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

Conversely, for disputes regarding the period 2012-2015, no provisions were made, as the risk of losing was deemed “unlikely”. This includes criminal proceeding 955/16, in relation to which the Parent Company issued a press release on 12 July 2018 in which it informed the public of its decision not to join as a civil party, considering that the conditions did not exist, while reserving the right to the widest possible protection in civil proceedings should any elements of liability towards the defendants emerge. Even in this case, the risk of losing assessment made by the ultimate Parent Company took into account the positions of the Supervisory Authorities and, in particular, of the relative common decisions not to join as a civil party and not to impose administrative sanctions. Also of equal importance was the position adopted by the Milan Public Prosecutor’s Office, which, although obliged to proceed by the Preliminary Investigations Judge, reiterated its conviction that the objections were unfounded, requesting during the preliminary hearing a decision not to prosecute the defendants.

Therefore, for civil and criminal disputes concerning the information disclosed solely in the period 2008-2011, the provisions for risks were determined in such a way as to take into account the amount invested by the counterparty in specific periods of time characterised by the disputed information alterations (net of any disinvestments made during these same periods). The damage subject to compensation was then determined on the basis of the “differential damage” criterion, which identifies the damage as the lowest price that the investor would have had to pay if he had had access to complete and correct information. For the purposes of this determination, econometric analysis techniques have been adopted - with the support of qualified experts - suitable to eliminate, among other things, the component inherent in the performance of the equity instruments belonging to the banking sector during the reference period. More in detail, the total damage caused by each event potentially capable of generating information alterations was first quantified and then the amount abstractly attributable to the individual Plaintiff/Civil Party was calculated, taking into account the share of capital held from time to time. From a purely likely and conservative standpoint, the different criterion of “full compensation” was also taken into account (of a minor importance in the prevailing law, including the one that is currently taking shape on this specific subject matter), and that is based on the argument that false or incomplete information may have a causal impact on the investment choices of the investors to such an extent that, in the presence of correct information, they would not have made the investment in question; in this case, the damage is therefore commensurate to the invested capital, net of the amounts recovered from the sale of shares by the Plaintiff/Civil Party. Instead, with reference to out-of-court claims relating to the period 2008-2011, in order to take into account the probability of their transformation into real disputes, the provisions were determined by applying an experiential factor, in line with the ultimate Parent Company policies for similar cases, to requests made by counterparties. In any case, the Parent Company has exercised the possibility granted by IAS 37 of not providing disclosures on the provisions allocated in the balance-sheet if it believes that such information could seriously jeopardise its position in disputes and in potential settlement agreements.

Furthermore, on 30 June 2020, again with regard to civil disputes, settlement agreements were reached, involving the closure of 18 disputes against a total relief sought of around EUR 162 mln. The outlays made following the above transactions did not have a negative impact on the income statement.

Other disputes

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

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

At the hearing on 31 May 2018, the Judge reserved his decision on the challenges raised by the convened parties. On 5 June 2018, the Company declared bankruptcy. On 25 July 2018, upon lifting of the reservation made during the hearing of 31 May 2018, the case was adjourned to 31 October 2018, for the court-appointed expert to take the oath. In the meantime, the receivership of the Fatrotek S.r.l. bankruptcy again took up the case. The proceedings were adjourned first to the hearing on 4 December 2019 and then to the hearing on 13 February 2020, where a court-appointed expert investigation was ordered and an expert witness was appointed. The next hearing in scheduled for 25 November 2020.

Banca Monte dei Paschi di Siena S.p.A. vs. Fallimento Medeghini S.p.A. in liquidation

The lawsuit, brought with the writ of summons of 26 March 2012, concerns a claim for compensation for alleged damages brought before the Court by the trustee in bankruptcy due to banking transactions completed as part of the 2007 capital increase of the company which then failed. In particular, the trustee claims the merely fictitious nature of the capital increase, in that, as a result of a series of bank movements, the sum allocated to this would have been transferred to the company's current accounts only formally, without therefore resulting in an actual increase in capital.

During the proceedings, an expert review was ordered, at the end of which the expert appointed by one of the parties assessed and documented damage for approximately EUR 2.8 mln, but did not specify whether such damage was due to conduct by the Parent Company or, instead, if it was caused by the directors of the bankrupt company to the mass of creditors as a result of continuation of the company's activities. The claim amounts to approximately EUR 155 mln.

The Parent Company's defence was based on various considerations in fact and in law, and was aimed at demonstrating the absolute groundlessness of the claims brought by the bankruptcy procedure due to total lack of a causal link between management acts that led to the default and the Parent Company's conduct.

During the technical appraisal ordered by the Court, the opposite party's demands that a link of causality be recognised between the capital increase and the subsequent transactions that worsened the company's financial difficulties - in which the Parent Company acted as a mere executor - were repeatedly and effectively rebutted by the Parent Company's expert witness.

During the appraisal, the Court-appointed expert witness accepted almost entirely the arguments of the defendant Parent Company, and in any case the plaintiff's claim, as formulated, appears to be groundless in terms of damages to be awarded, as no damage has been suffered. The proceedings are still ongoing and were deferred to 18 November 2021 for closing arguments.

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

On 15 July 2016, Riscossione Sicilia S.p.A. served a writ of summons on the Parent Company before the Court of Palermo, asking the Court to order it to pay a total amount of EUR 106.8 mln.

The claim of Riscossione Sicilia S.p.A. falls within the realm of the complex dealings between the Parent Company and the plaintiff, originated from the disposal to Riscossione Sicilia S.p.A. (pursuant to Law Decree 203/05, converted into Law 248/05) of the stake held by the Parent Company in Monte Paschi Serit S.p.A. (later Serit Sicilia S.p.A.).

Specifically, Riscossione Sicilia, in relation to the contractual provisions involved in said disposal, now asks the Parent Company be ordered to pay, under its contractual liability, for alleged contingent liabilities of Monte Paschi Serit S.p.A./Serit Sicilia S.p.A.

The Parent Company duly appeared before the court with a cross-action against Riscossione Sicilia S.p.A. The preliminary investigation was recently completed with the filing and examination of the report of the court-appointed expert witness, the results of which were favourable to the Parent Company. In fact, the expert not only concluded that the Parent Company owes nothing to Riscossione Sicilia S.p.A., but also identified a receivable of the Parent Company of roughly EUR 2.8 mln, equal to the balance of the price for the sale of 60% of Serit Sicilia S.p.A. to Riscossione Sicilia S.p.A. by the Parent Company (dating back to September 2006), a sum that has to date been retained by Riscossione Sicilia S.p.A. by way of guarantee deposit. The expert also identified a further receivable of the Parent Company, linked to the obligation of Riscossione Sicilia S.p.A. to collect on notices of default, no higher than around EUR 3.3 mln, the exact quantification of which was referred to the Court. The counterparty's petitions aiming to call the court-appointed expert witness back to provide clarifications and to change his conclusions were rejected, and the case was adjourned for concluding arguments to 8 March 2021. Considering the foregoing, the provision for risks initially recognised (EUR 2 mln) was eliminated.

oooooo

On 1 September 2016, against the instalments falling due in December 2014 and 2015, the Parent Company filed a request for an injunction at the Court of Palermo, which was granted on 25 January 2017 for the amount of EUR 40 mln (plus interest on arrears of EUR 867 thousand), limiting the "provisional enforcement" to just EUR 25 mln.

On 11 March 2017, Riscossione Sicilia objected to the above-mentioned order and requested that it be revoked and, by means of a cross-action, that the Parent Company be sentenced to pay an amount of approximately EUR 66 mln.

To justify its objection, Riscossione Sicilia alleged that the Parent Company owed it EUR 106.8 mln by virtue of certain representations and warranties set forth in two contracts for the sale of shares whereby the Parent Company had transferred the entire share capital of the company Serit – Sicilia S.p.A. to Riscossione Sicilia. Moreover, in the petition, Riscossione Sicilia acknowledged that its claims were already subject to other proceedings pending before the same Court.

The Parent Company duly appeared before the court requesting the dismissal of the opposing party's objection, claiming, inter alia, a lis pendens scenario in relation to the defences carried out by Riscossione Sicilia as a basis for the opposition.

With ruling dated 26 January 2018, the Judge rejected the application for suspension submitted by the counterparty of the opposing injunction for the part in which provisional enforceability had been granted and accepted the Parent Company's request for the provisional enforceability of the order for the remaining part of the sum ordered. At the hearing of 12 June 2018, the Judge ordered separation of the position relating to the loan agreement subject of the injunction from the position relating to the defences explained by Riscossione Sicilia's counter-claims and combined only the counter-claim formulated by Riscossione Sicilia with another judgment in respect of which the aforementioned lis pendens profiles exist.

With regard to the judgement concerning the receivable deriving from the loan agreement, the Judge assigned the terms pursuant to art. 183, paragraph 6, of the Italian Code of Civil Procedure. Upon filing of the pleadings, the Judge, considering the case to be ready for a ruling, adjourned the discussion pursuant to art. 281-sexies of the Italian Code of Civil Procedure to 24 September 2019.

With a ruling dated 24 September 2019, the Court of Palermo rejected the appeal filed by Riscossione Sicilia S.p.A. and confirmed the injunction issued in favour of the Parent Company, ordering the counterparty to pay all legal expenses, in the amount of EUR 45 thousand, in addition to accessory expenses, as provided for by the law.

Note that with complaint dated 19 October 2017, Riscossione Sicilia challenged the measure of first aid. Even the appeal phase ended with rejection of the Riscossione Sicilia's claims. In this regard, it should be noted that the measure by which the Court of Palermo rejected the complaint lodged by Riscossione Sicilia - in addition to confirming, on the one hand, the groundlessness of the allegations made by the latter and, at the same time, the correctness of the Parent Company's conduct, which legitimately suspended use of the credit facilities in application of the provisions of articles 1460 and 1461 of the Italian Civil Code - contains a statement concerning the alleged public nature of the money to be collected. In particular, the Court stated that the money collected by the concessionaire "until it becomes available to the Treasury" does not constitute "a mere sum of money as such subject to confusion, but rather an asset falling within the unavailable assets of the collecting entity, which cannot be removed from its public destination" (see Court of Palermo order dated 26 January 2018). Based on the above, the Finance Department of the Sicily Region, on 10 May 2018, made an appeal in pursuant to art. 700 of the Italian Code of Civil Procedure against the Parent Company and in respect of Riscossione Sicilia, before the Court of Palermo, asking for the Parent Company to be prevented from suspending credit lines to allow the current account holder Riscossione Sicilia to fulfil its obligation, as Collection Agent, to pay the amounts relating to tax revenues to the tax authority, the Sicily Region, by adopting any urgent means suitable for implementing the transfer of the amount of around EUR 68.6 mln in tax revenues, in addition to the anticipated interests, to the tax authority Sicily Region and through this to the competent Finance Department. In the proceedings in question the Parent Company duly appeared before the Court and the Court, which at the hearing requiring both parties to appear set for 21 June 2018 had reserved judgement, rejected the appeal with decision communicated on 28 June 2018.

°°°°°°

Lastly, on 17 July 2018, the Finance Department of the Sicily Region notified the Parent Company by means of an order of injunction pursuant to art. 2 of Italian Royal Decree no. 639/1910 and of repayment, pursuant to art. 823, paragraph 2 of the Italian Civil Code of the above amount of around EUR 68.6 mln, assigning the Parent Company the term of 30 days to make the payment with the warning that, on the back of the failure to do so, it will proceed with the forced recovery through entry of the action in the list of cases. The Parent Company notified its defence, with the first hearing set for 12 December 2018, against said injunction, drawing up the related application for suspension of the enforceability of said injunction (or execution if launched in the meantime) with the request for a provision without prior hearing of the other side. The Court, which reserved its right to the hearing of 21 August, by order of 24 August rejected the request for suspension, specifying, however, that the injunction may be enforced on the cash deposits in the current account of Riscossione Sicilia. The defendant filed an application for the Riscossione Sicilia case, leading to the Court of Palermo's postponement of the first hearing - already scheduled for 12 December 2018 - to 20 March 2019. This first hearing, postponed again to 17 July 2019 due to the unavailability of the Judge, was then scheduled for 26 September 2019. At the first hearing, upon acknowledging the statements provided by the parties, the Judge set out the terms for filing the pleadings pursuant to art. 183 of the Italian Code of Civil Procedure and adjourned to an evidentiary hearing scheduled for 26 November 2020.

°°°°°°

For the sake of completeness, it should be noted that the Parent Company has also filed an administrative case before the Regional Administrative Court of Sicily - Palermo office for the declaration of nullity and/or annulment of the injunction order pursuant to art. 2 of Italian Royal Decree no. 639/1910, notified by the Department on 17 July 2018.

The appeal concerns the Order of injunction in the part in which, "alternatively, pursuant to art. 823, paragraph 2 of the Italian Civil Code, it orders Parent Company Monte dei Paschi di Siena (...) to return to the Sicily Region, within the same period of 30 days from receipt of the present, the amount of 68,573,105.83, plus interest at the rate established by special legislation for late payment in commercial transactions, as provided for by paragraph 4 of art. 1284 of the Italian Civil Code".

Following notification of the appeal on 16 October 2018, the appeal itself was filed by the Parent Company on 12 November 2018. The Department appeared via the *Avvocatura dello Stato* (office of the State Attorney) on 15 November 2018. The decree scheduling the hearing requested by the Parent Company on 28 October 2019 has not yet been issued.

Banca Monte dei Paschi di Siena S.p.A. vs. receivership estate of Antonio Amato & C. Molini e Pastifici in Salerno S.p.A. in liquidation

This action was brought on 11 June 2013 by the company's trustee in bankruptcy against the former directors and statutory auditors of the later bankrupt company and against the Parent Company, together with other credit institutions, for compensation for the alleged damage, quantified as the difference between the liabilities and assets of the proceedings, also deriving from a pool loan granted by the financing institutions which would have delayed the emergence of the insolvency of the later bankrupt company, worsening its financial difficulties. The claim amounts to EUR 90 mln.

The Parent Company rose preliminary objections and filed a motion to dismiss the case for lack of venue jurisdiction and of active legitimation; in the merits, the Bank asked the Court to dismiss the plaintiff's claims as inadmissible and/or groundless or, as a secondary request, to reduce the amount of compensation awarded in consideration of the different degree of guilt in causing the damage, in accordance with art. 2055, paragraph 2 of the Italian Civil Code.

The hearing for closing arguments, deferred multiple times, was settled with a ruling in the first instance published on 22 May 2020 which rejected the claim against the Parent Company, with each party bearing its own expenses.

Serventi Micheli Terzilia + Others vs. Bankrupt Zenith, Banca Monte dei Paschi di Siena S.p.A + other credit institutiones

In this case, brought with the writ of summons of 25 November 2013, the directors of the bankrupt Zenith S.p.A. - summoned before the court by the insolvency administrator with a liability action pursuant to article 146 of the Bankruptcy Law - in turn summon the Parent Company and other banking institutions to hear them declare their exclusive and/or concurrent liability, alleged to have replaced the directors by taking action to allow the return and/or acquisition of guarantees for the large amount of receivables claimed. After the judge rejected the preliminary requests, the case was adjourned to 11 December 2018 for closing arguments. The sentence was declared suspended at the hearing of 11 December 2018, due to the passing of one of the plaintiffs. The claim amounts to approximately EUR 26.5 mln. The case was taken up again by the trustee in bankruptcy and the proceedings are ongoing; the issue of the ruling is pending.

Banca Monte dei Paschi di Siena S.p.A and other eleven credit institutiones vs. Lucchini S.p.A. under Extraordinary Administation

With a writ of summons issued on 23 March 2018, the Extraordinary Administrators of Lucchini SpA instituted legal proceedings before the Court of Milan against the Parent Company and other 11 institutiones and companies, to obtain compensation, jointly and severally, for damages allegedly suffered and quantified at around EUR 350.5 mln primarily and around EUR 261.2 mln in the alternative.

The Extraordinary Administrators, who primarily quantify the damages in relation to those generated by the delayed subjugation of the Company to the extraordinary administration proceedings and to the receipts by the defendants in the implementation of a restructuring agreement, essentially assume that the responsibilities of the same defendants could be in fact justified in such restructuring agreement of December 2011 which, according to the plaintiff's submission, would have allowed its signatories, on the one hand, to conceal the real state of failure of the Company so preventing, more specifically delaying the start of the insolvency proceedings and, on the other, to exercise an improper intervention in the management of the Company which could have characteristics of abuse of direction and coordination in pursuant to articles 2497 and 2497-sexies of the Italian Code of Civil Procedure. The Extraordinary Administrators therefore assume the Banks' responsibilities, in addition to in relation to said hypothesis of abuse of direction and coordination, as they are considered to be de facto administrators and for the activities and violations ascribed to the administrators appointed by the same Banks in pursuant to articles 2055 and 2049 of the Italian Civil Code. The first hearing scheduled for 10 July 2018 was postponed to 30 October 2018 and the Parent Company appeared before the court within the required terms to present its defence. The proceedings are ongoing; the issue of the ruling is pending.

MPS Capital Services Banca per le Imprese S.p.A. vs. Etika Esco S.p.A.

The joint-stock company Etika Esco (hereinafter "Plaintiff" or "Company") sued MPS Capital Services Banca per le Imprese S.p.A. (hereinafter "MPSCS") before the Court of Florence, contesting the illegitimacy of the MPSCS conduct which, upon resolution of a loan of EUR 20.0 mln in favour of a company to be formed (hereinafter "Newco Sviluppo Marina Velca") which should have been wholly-owned by the Plaintiff, did not proceed with the stipulation of the contract and the consequent disbursements.

It should be noted that the transaction, which was the subject of analysis that concluded with the resolution of 7 September 2016, was structured to allow Newco Sviluppo Marina Velca to complete the project for the construction of a real estate complex of about 300 small villas, as well as renovation and expansion of a golf course, in an area owned by Sviluppo Marina Velca S.r.l., located in the municipality of Tarquinia (hereinafter "Real Estate Project").

The Real Estate Project involved an Italian closed-end investment fund which, through a vehicle company incorporated under Luxembourg law, held 100% of the capital of Sviluppo Marina Velca S.r.l..

MPSCS had already intervened in support of this project by granting a loan of EUR 9.4 mln to Sviluppo Marina Velca S.r.l in 2012 (hereinafter the "2012 Loan"), which expired on 31 July 2014. In September 2016, the period of the resolution on the subject loan, approximately EUR 11 mln remained, comprising principal, overdue interest, arrears and accessories.

The Company's takeover of the Real Estate Project assumed the acquisition by Etika Esco of a special purpose vehicle (identified as Rell's Risorse s.r.l.) which should have purchased the quotas of Sviluppo Marina Velca S.r.l. and then proceeded with the merger by incorporation. Purchasing the quotas of Sviluppo Marina Velca S.r.l. would have required the MPSCS intervention as guaranteed creditor, in order to authorise the transfer of the quotas subject to pledge as collateral for the 2012 Loan.

Given the context of the scenario indicated by the Company, the objections raised with regard to MPSCS conduct are briefly illustrated below.

The Plaintiff claims that, upon scheduling an appointment with a Notary Public to transfer the quotas of Sviluppo Marina Velca S.r.l., MPS Capital Services notified that it would not be able to participate only the day before said meeting, due to alleged internal delays.

Having missed said appointment, without justification, MPS Capital Services subsequently adopted a closed attitude towards the Plaintiff, no longer responding to the many requests to proceed with the financing transaction until 15 March 2017, date in which MPS Capital Services communicated, with arguments and justifications deemed by the Company to be entirely insufficient, the forfeiture and/or revocation of the resolution of 7 September 2016.

The Plaintiff maintains that the conditions set by MPS Capital Services for the effectiveness of the resolution of 7 September 2016 were all met and, for those not met, should have been considered as having been fulfilled pursuant to Article 1359 of the Italian Civil Code due to the fact and fault of MPS Capital Services.

Failure to complete the acquisition of the quotas of Sviluppo Marina Velca s.r.l., and then the loan agreement with consequent failure to pay the sums, caused enormous damage to the Company, quantified at approximately EUR 96.0 mln, of which i) approximately EUR 46.0 mln as loss of profit for not having been able to achieve, as General Contractor, the revenues from implementation of the Real Estate Project and damage from requests for payment of penalties provided for in the contracts signed in view of the above activity and ii) EUR 50.0 mln in additional damage that will accrue in arrears, namely with regard to the sum decided by the court.

MPS Capital Services duly appeared before the court, replying that none of the conditions detailed in the letter of participation in the loan resolution had been satisfied. It was also pointed out that a few days after the resolution of the transaction (17 October 2016) the Company had asked MPS Capital Services for an advance on the first disbursement of EUR 2.6 mln, to be secured by a mortgage issued by the same company to be merged, namely Sviluppo Marina Velca S.r.l. This request indicated a worrying lack of liquidity by the Company, which, however, would have had to inject a significantly higher equity during implementation of the Real Estate Project.

The change in creditworthiness revealed following the aforementioned request for pre-financing not only led MPS Capital Services to reject said new loan, but also to re-examine, in light of the Company evident lack of liquidity, the transaction already approved, leading to the final decision not to confirm and, therefore, to revoke said resolution granting the loan, also given the failure to comply with the conditions for the stipulation of the loan.

Further investigation by MPS Capital Services revealed that a hidden promoter of the transaction was a person with a very unfavourable track record and who had previously been refused financing by MPS Capital Services for the same project.

In concluding, MPS Capital Services filed a counterclaim asking for the conviction of the Plaintiff for vexatious litigation, pursuant to art. 96 of the Italian Code of Civil Procedure.

The parties filed all the pleadings allowed by the Judge pursuant to art. 183, paragraph VI of the Italian Code of Civil Procedure.

With the pleading referred to in art. 183, para. VI, no. 1 of the Italian Code of Civil Procedure filed by Etika Esco on 21 February 2019, it was specified that the total claim is not EUR 96.0 mln, as the damages suffered as a result of the facts presented in the summons amount to EUR 46.2 mln, "or in any case to an amount not less than EUR 50.0 mln or higher, due to the additional damages that will accrue in the meantime for the plaintiff due to the stated reasons, or, in the alternative, the payment of a different amount, even lower, that will be reached over the course of the litigation and/or which the Judge should determine on an equitable basis, as necessary".

At the hearing for the examination of the pieces of evidence, pursuant to article 184 of the Italian Code of Civil Procedure, the Investigation Judge reserved the decision on the claims of the parties. With an order dated 26 January 2020, the Judge stated that the "evidence adduced, based on the allegations, the objections and the documentation presented by the parties, is superfluous for the purpose of a decision. Therefore, a hearing must be scheduled for the presentation of closing arguments."

The case was adjourned to 16 November 2021 for the closing arguments.

Banca Monte dei Paschi di Siena S.p.A. vs Marcangeli Giunio S.r.l.

With a writ of summons, notified on 28 November 2019, the claimant company Marcangeli Giunio srl asked the Court of Siena to assess, first and foremost, the contractual liability of the Parent Company for not issuing a loan of EUR 24.2 mln - necessary to the purchase of land and the construction of a shopping mall with spaces to be leased or sold – and subsequently the conviction of the Parent Company with order to pay compensation for actual damages and loss of profit in the amount of EUR 43.3 mln. As an alternative, in view of the facts specified in the writ of summons, an assessment is requested regarding the pre-contractual liability of the Parent Company for having interrupted the negotiations with the company and not having disbursed the agreed upon loan, and the conviction of the same and order to pay damage compensation in the same amount asked first and foremost.

The proceedings are ongoing; at the end of the first hearing - held on 8 July 2020 - the Judge reserved the decision on the claims of the parties.

Banca Monte dei Paschi di Siena S.p.A. vs. Extraordinary Administrators of Impresa S.p.A.

On 11 November 2016, the Extraordinary Administrators of Impresa S.p.A. served a writ of summons on the Parent Company along with other banks participating in a pool (our share is 36.48%) to have the liability of such banks, the members of the Board of Directors of Impresa S.p.A., today under Extraordinary Administration, and the auditing firm confirmed and declared by the court and to have them ordered to provide compensation for damages, jointly and severally, allegedly suffered by the company to the extent of EUR 166.9 mln.

The case is still in the initial phases and the hearing for the first appearance of the parties was held on 31 October 2017.

Along with the defence attorneys of the other Banks in the pool, a preliminary objection was first of all raised concerning the nullity of the complaint; however, the Judge deferred all assessments in this regard to when the decision will be made by the Board.

In the proceedings, the pleadings pursuant to art. 183, paragraph six of the Italian Code of Civil Procedure were filed within the deadlines granted (31 January, 2 March and 22 March 2018) and at the subsequent hearing on 29 October 2018, the Judge reserved his decision with regard to the plaintiff's preliminary requests.

Lifting the reservation, at the hearing of 28 October 2019, the Judge rejected the preliminary objections regarding the invalidity of the complaints and the statute of limitation, reserving to decide on the admission of the court-appointed accounting expert at the end of the audit, concurrently decided upon, about the correctness of the information provided by the counterparty.

The Judge has also admitted oral evidence, formulated by some of the appeared Directors of the Board, regarding circumstances that do not involve the Banks.

The hearing to proceed with formal questioning was scheduled for 22 September 2020.

Banca Monte dei Paschi di Siena S.p.A. vs. CO.E.STRA. Srl in Liquidation and Composition with creditors

On 4 December 2014, the administrators of the arrangement with creditors served a writ of summons on the Parent Company along with other banks participating in a pool (our share is 28.51%) to have their contractual or tort liability in relation to the company's debt restructuring agreement entered into on 30 November 2011 confirmed and declared by the court and have the defendant banks ordered to provide compensation for claimed damages, jointly and severally, suffered or for the claimed aggravation of distress that the company allegedly suffered, quantified by the opposing party as EUR 34.6 mln.

An appeal was filed for the referral of the case to a different competent Court; at a public hearing for the discussion of the referral to a different competent Court the Attorney General office briefly presented its own closing arguments insisting on the inadmissibility of the referral to a different competent Court.

The Parent Company requested the admissibility of the petition while Co.E.Stra, which did not file additional pleadings pursuant to article 378 of the Code of Civil Proceedings, also concluded on the inadmissibility of the referral to a different competent court and in any case, asked for its rejection, on the assumption of the erroneous nature of the appealed order.

At the end of the discussion, the Board reserved its decision; therefore, the results of the referral to another competent court is pending.

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

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

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

Fondazione MPS, "Alexandria" transaction

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

In this case, Mr Vigni was authorised to take action against the Parent Company because of an indemnity obligation (with respect to third parties claims) allegedly undertaken by the latter towards him within the consensual termination of his executive position; the attorney Mussari was authorised to take action against the Parent Company as the liable party, pursuant to article 2049 of the Italian Civil Code, due to some executives allegedly liable for the transaction carried out with Nomura. The Parent Company received later a writ of summons in its capacity as a third party called on by the afore-mentioned defendants independently promoted by Fondazione MPS and has entered an appearance disputing the claims filed against it. In addition, with a subsequent authorised pleading, Nomura broadened its claims against the Parent Company, asking to determine the share of liability attributable to the latter and to be kept harmless from it based on its share of liability exceeding the one attributed thereto. However, the settlement agreement entered into by the Parent Company and Nomura on 23 September 2015 provides, *inter alia*, that this claim is withdrawn. Mr Vigni has waived the legal actions brought against the Parent Company following a plea of lack of jurisdiction of the Court of Florence, whereas the action under the right of recourse/indemnity from the attorney Mussari continued against the Parent Company. Subsequent to the technical expert opinion formally obtained, the case was adjourned to the hearing on 19 October 2020 for the oral arguments.

Employment law disputes

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

For the dispute related to the sale of the business unit, effective 1 April 2020, the Parent Company executed the unfavourable decisions, readmitting the relevant employees who had obtained favourable judgements in the first and/or second instance, without renouncing the appeals filed against these rulings. At the same time as the re-admission in service, these workers were seconded to Fruendo. In this regard, as of 1 July 2020, the secondment ended for 68 employees working at the Lecce hub.

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

As regards the "double remuneration" dispute, as at 30 June 2020, 96 legal actions (concerning 128 employees) and 224 out-of-court claims are pending.

These actions were appealed by the Parent Company before the Courts of Siena, Mantua and Rome, with hearings currently scheduled between July 2020 and February 2021.

With respect to this dispute, it should be noted that on 6 July 2020, the Court of Siena, Labour Section, only partially accepted the "double remuneration" claim lodged by 15 employees, ordering the Parent Company to pay to each of them, by way of penalty and therefore without favouring undue double remuneration, 5 months of the most recent de facto global remuneration plus inflation and interest at the legal rate.

Compensation for transactions in diamonds

In 2012, Banca Monte dei Paschi di Siena signed a cooperation agreement with Diamond Private Investment (DPI) to regulate the modalities for the reporting of the offer of diamonds by the company to the customers of Banca MPS. This activity generated total purchase volumes of EUR 344 mln, mainly in 2015 and 2016, with a significant drop already from 2017.

The Antitrust Authority (*Autorità Garante della Concorrenza e del Mercato - AGCM*), with the resolution adopted at the meeting of 20 September 2017, established the existence of behaviours in violation of the provisions relating to unfair trade practices on the part of DPI and of the banks that had signed agreements with them. With regard to the Parent Company, a sanction of EUR 2 mln was imposed.

This measure was challenged before the Lazio Regional Administrative Court which, with judgment of 14 November 2018, rejected the Parent Company appeal. No appeal has been lodged against the judgment and it has therefore become final.

The Parent Company had in any case suspended the reporting activity to DPI of its customers starting from 3 February 2017, as soon as they became aware of the opening (25 January 2017) of the formal AGCM investigation with regard to DPI (later extended to the banks with which it had agreements). On 19 March 2018 the Parent Company terminated the cooperation agreement with DPI (the activity had in practice already been terminated from the date of suspension) and activated a compensation process for its customers who had received recommendations and intended to exit their diamond investment.

The compensation operation, agreed by Board of Directors since January 2018, anticipates the payment to customers a consideration up of an amount equal to the latter had originally paid to DPI for the purchase of stones, with the simultaneous transfer of the same to the Parent Company and the completion of the transaction.

Once the necessary authorisations were obtained, the initial transactions with customers were completed in the second half of 2018.

Following the launch of the initiative for a compensation to the customer process by the Parent Company, AGCM, given also the importance of the measures adopted for the mitigation of the financial impact of the communication of the offer of diamonds to the customers, requested to be kept updated on the progress of this initiative. The most recent report on the progress of the compensation process was sent to AGCM by the Parent Company on 15 July 2020, with an update of the data as at 26 June 2020.

On 19 February 2019, the Parent Company was served a preventive attachment order from the Judge's Office for the Preliminary Investigations of the Court of Milan in relation to this case. The decree was served to several individuals, two diamond-producing companies (Intermarket Diamond Business S.p.A. and Diamond Private Investment S.p.A.), as well as 5 banks, including the Parent Company, and resulted, for Banca MPS, in the preventive attachment of the profit from the crime of continued aggravated fraud, in the amount of EUR 35.5 mln. In addition, a preventive attachment order was served by equivalence pursuant to art. 53 of Italian Legislative Decree 231/2001, for EUR 0.2 mln for the crime of self-money laundering.

In the attachment order, the Parent Company – as an administrative liable party – is challenged, at point 14), with the administrative unlawful act related to an offence pursuant to article 5, paragraph 1, letter b) and 25-octies of Italian Legislative Decree 231/2001 as regards the self-money laundering offence pursuant to article 648-ter 1 of the Italian Penal Code.

The Parent Company, in order to have access to the investigation documentation, is proposing a request for a review against this precautionary measure.

On 28 March 2019, the notice with the scheduled hearing, for re-examination, before the Court of Review for 2 April 2019, was given.

Following acquisition of the proceedings documentation, the Parent Company deemed appropriate to waive the appeal for re-examination before the Court of Review and to propose instead, for a later time, a release from attachment pursuant to article 321, paragraph 3 of the Italian Code of Penal Proceedings.

On 15 April 2019, a notice for the request of an extension of the duration of the preliminary investigations was given.

On 28 September 2019, the notice for the completion of the investigations against the investigated parties (and their defenders) deemed liable and co-liable of the alleged theft against diamond investors, was filed.

The provision, containing the information for guaranteeing the right to a defence, involves 87 natural persons and 7 legal persons including the Parent Company.

The representatives of the Parent Company involved are 8, 5 of whom are executives (who are attributed the criminal conduct under article 648-ter 1, 2 and 5 of the Italian Penal Code) and 3 are Heads of subsidiaries. The Bank remains involved in the proceedings pursuant to the alleged administrative offence under article 25-octies of Legislative Decree 231/01 related to article 648-ter 1 of the Italian Penal Code.

On 4 December 2019, the Parent Company, in reference to the decree of preventive attachment issued on 13 February 2019 by the Preliminary Investigations Judge of the Court of Milan in the amount of EUR 35.2 mln, has filed with the Public Prosecutor's Office of Milan a claim for a partial restitution in the amount of EUR 10.5 mln, equal to the total amount reimbursed to some of the customers.

The Parent Company is waiting for the outcomes of this case.

To meet the initiatives taken, the Parent Company has set aside provisions which take into account, among other things, the anticipated number of requests and the current wholesale value of the stones to be collected.

As at 30 June 2020, provisions for risks and charges recognised against the compensation initiative launched by the Parent Company amounted to EUR 66.8 mln. Transactions with customers were carried out during the first half of 2020 for an amount of EUR 43 mln.

Tax dispute

Among the cases associated with tax disputes which regard the Group, those in which the risk of losing is considered "probable" are limited in number and adequate accruals have been made to the provision for risks and charges.

Results by Operating Segment

Identification of Operating Segments

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

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

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

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

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

- the 2019 income statement data of the subsidiary BMP Belgio S.A. are included in the individual income statement items of the Corporate Banking operating segment, rather than in the item "Profit (loss) after tax from assets held for sale and discontinued operations", although it was sold on 14 June 2019;
- starting from 2020, the income statement and balance sheet are presented according to the new reclassification principles described in the sections "Income statement reclassification principles" and "Balance sheet reclassification principles". The values for 2019 have been restated, hence the comparison with the previous year is homogeneous;
- starting from 2020, the financial results of Banca Widiba SpA are included under Retail Banking. The values for the previous year have been restated so that the comparison is homogeneous;
- the results of the first half of 2020 were affected by the health emergency created by the spread of the COVID-19 virus, starting from the end of February. The aggregates that were most significantly affected were:
  - the Cost of Customer Credit which was penalised by the effects deriving from the changed macroeconomic scenario due to the spread of the pandemic, which influenced the portfolio's risk levels,
  - Net fee and commission income which was impacted by the reduction of Network operations during the months of the lockdown, with a recovery of full operations only starting from late June,
  - the results of trading activities and the contribution of AXA-MPS were impacted by financial market volatility, with negative effects in the first quarter of the year and a subsequent recovery in the second quarter.

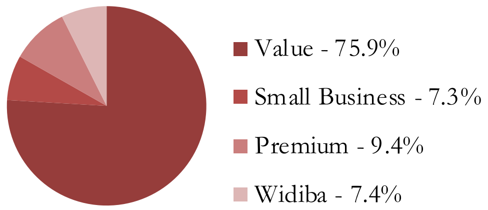
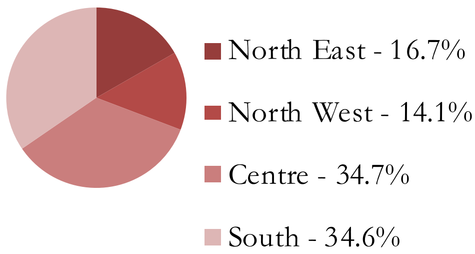
Results in brief

The following table reports the main income statement and balance sheet items that characterised the Group's Operating Segments as at 30 June 2020:

SEGMENT REPORTING	Operating Segments									
Primary segment	Retail banking		Wealth Management		Corporate banking		Corporate Center		Total MPS Group	
(EUR mln)	30/06/20	Chg % Y/Y	30/06/20	Chg % Y/Y	30/06/20	Chg % Y/Y	30/06/20	Chg % Y/Y	30/06/20	Chg % Y/Y
PROFIT AND LOSS AGGREGATES										
Total Revenues	1,008.3	-13.8%	66.1	-4.5%	385.8	-8.8%	(7.7)	-89.8%	1,452.5	-8.4%
Operating expenses	(799.4)	-8.0%	(52.7)	4.1%	(202.3)	-12.0%	(31.1)	n.m.	(1,085.4)	-5.3%
Pre Provision operating Profit	208.9	-30.5%	13.5	-27.7%	183.5	-5.0%	(38.8)	-46.5%	367.1	-16.5%
Cost of customer loans/Net impairment (losses)-reversals on securities and loans to banks	(263.8)	n.m.	(0.9)	n.m.	(259.2)	61.7%	(0.9)	-88.9%	(524.8)	n.m.
Net Operating Income	(54.9)	n.m.	12.6	-36.5%	(75.7)	n.m	(39.6)	-50.6%	(157.7)	n.m.
	30/06/20	Chg. % 31/12	30/06/20	Chg. % 31/12	30/06/20	Chg. % 31/12	30/06/20	Chg. % 31/12	30/06/20	Var. % 31/12
BALANCE SHEET AGGREGATES										
Gross Interest-bearing loans to customers (*)	41,273.0	0.6%	536.3	7.5%	31,288.6	1.7%	9,490.7	23.0%	82,588.5	3.3%
Direct funding	46,868.1	4.1%	3,103.4	-11.2%	18,778.7	9.0%	28,834.9	1.3%	97,585.2	3.6%
Indirect Funding	51,293.5	-2.8%	15,014.4	-2.0%	15,575.0	-7.4%	16,819.9	-0.4%	98,702.9	-3.0%
Assets under management	*42,477.5*	-3.0%	*11,358.7*	-1.1%	*1,360.8*	2.8%	*2,540.0*	-5.4%	*57,737.0*	-2.6%
Assets under custody	*8,816.0*	-1.4%	*3,655.7*	-4.9%	*14,214.2*	-8.3%	*14,279.9*	0.6%	*40,965.9*	-3.6%

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

Retail Banking

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 533 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 4.4 mln and includes 324,500 Widiba customers, of which around 160,000 in the Financial Advisor Network channel, 78,900 in the self-service channel, and 85,600 customers migrated from the MPS branch network. **Breakdown by type**  **Breakdown by geography** 

Income statement and balance sheet results

As at 30 June 2020, **Total Funding** for Retail Banking amounted to approximately **EUR 98.2 bn**, up by EUR 4.6 bn from March 2020 and by around EUR 0.4 bn compared to the end of 2019. More specifically:

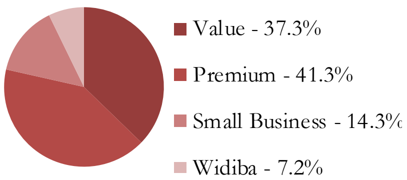
- **Direct Funding** stood at **EUR 46.9 bn**, up EUR 1.4 bn compared to 31 March 2020, in particular for demand forms (EUR +1.5 bn) while short-term and medium/long-term forms were down slightly. Similar trends can be observed in the comparison with 31 December 2019. Indeed, the aggregate showed growth with respect to 31 December 2019 of approx. EUR 1.9 bn, mainly due to the demand components (EUR +2.2 bn), while the short-term (EUR -0.1 bn) and medium/long-term (EUR -0.2 bn) components decreased.

- **Indirect Funding**, amounting to approx. **EUR 51.3 bn**, increased compared to March 2020 (EUR +3.2 bn), in both Assets under Management (EUR +2.4 bn) and Assets under Custody (EUR +0.7 bn), benefitting from the positive market effect linked to the recovery in the financial markets, which in the first quarter were impacted by tensions connected to the spread of the COVID-19 emergency. The aggregate decreased compared to 31 December 2019 by EUR 1.5 bn, primarily in Assets under Management (EUR -1.3 bn) due to the negative market effect.

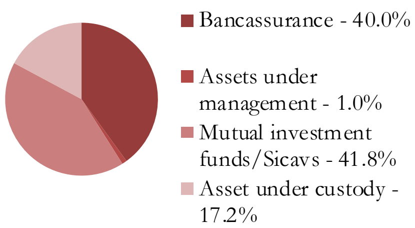
- **Gross interest-bearing loans to Retail Banking customers** were **EUR 41.3 bn**, stable compared to March 2020 and up slightly on December 2019 (EUR +0.3 bn).

RETAIL BANKING - BALANCE SHEET AGGREGATES										
(Eur mln)	30/06/20	31/03/20	31/12/19	30/06/19	Chg Abs Q/Q	Chg % Q/Q	Chg Abs 31/12	Chg % 31/12	Chg Abs Y/Y	Chg % Y/Y
Direct funding	**46,868**	**45,478**	**45,016**	**44,117**	**1,390**	**3.1%**	**1,852**	**4.1%**	**2,751**	**6.2%**
Assets under management	*42,477*	*40,041*	*43,810*	*42,591*	*2,436*	*6.1%*	*-1,333*	*-3.0%*	*-113*	*-0.3%*
Assets under custody	*8,816*	*8,090*	*8,945*	*9,750*	*727*	*9.0%*	*-129*	*-1.4%*	*-934*	*-9.6%*
Indirect Funding	**51,293**	**48,131**	**52,755**	**52,340**	**3,163**	**6.6%**	**-1,462**	**-2.8%**	**-1,047**	**-2.0%**
Total Funding	**98,162**	**93,608**	**97,771**	**96,457**	**4,553**	**4.9%**	**390**	**0.4%**	**1,705**	**1.8%**
Gross Interest-bearing loans to customers	**41,273**	**41,216**	**41,011**	**40,057**	**57**	**0.1%**	**262**	**0.6%**	**1,216**	**3.0%**

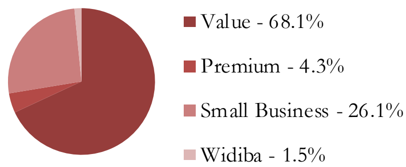
Direct funding breakdown



Indirect funding breakdown



Interest-bearing loans to customers



With regard to profit and loss, as at 30 June 2020 Retail Banking achieved total **Revenues** of approx. **EUR 1,008 mln**, down 13.8% compared to the same period of last year. A breakdown of the aggregate shows:

- Net Interest Income was approximately EUR 439 mln, down 19.0% on an annual basis due to the lower contribution from deposits and the drop in yields on commercial assets;
- Net Fee and Commission Income totalled approximately EUR 532 mln, down 10.5% from the previous year's level, principally due to the effect of the reduction in commissions on utilised credit lines; product and service commissions were down as well.

Considering the impact of Operating Expenses, which decreased by 8.0% Y/Y, Retail Banking generated **Pre provision operating profit** of about **EUR 209 mln** (-30.5% Y/Y). Cost of credit totalled **EUR -264 mln** (EUR -88 mln compared to 30 June 2019), penalised by additional adjustments due to the COVID-19 emergency.

The **Net Operating Income** for the period is **negative for approximately EUR 55 mln**.

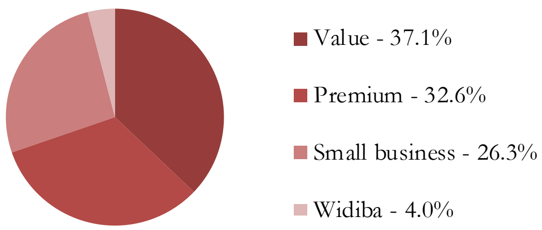
The non-operating components amounted to roughly EUR -40 mln, a decline compared to the same period of the previous year (EUR -51 mln) due mainly to the reduction in Other net provisions.

The **Result before tax from continuing operations** was **EUR -95 mln** (EUR +162 mln as at 30 June 2020).

The **cost-income ratio** of the Operating Segment is **79.3%** (74.3% at the end of June 2019).

RETAIL BANKING - PROFIT AND LOSS AGGREGATES				
			Chg. Y/Y	
(EUR mln)	30/06/20	30/06/19	Abs.	%
Net interest income	*438.7*	*541.7*	*-103.0*	*-19.0%*
Net fee and commission income	*532.0*	*594.5*	*-62.5*	*-10.5%*
Other Revenues from Banking and Insurance Business	*30.5*	*28.9*	*1.7*	*5.7%*
Other operating expenses/income	*7.1*	*4.9*	*2.2*	*44.5%*
Total Revenues	**1,008.3**	**1,169.9**	**-161.6**	**-13.8%**
Operating expenses	*(799.4)*	*(869.3)*	*69.9*	*-8.0%*
Pre Provision Operating Profit	**208.9**	**300.6**	**-91.7**	**-30.5%**
Cost of customer loans/Net impairment (losses)-reversals on securities and loans to banks	(263.8)	(87.6)	-176.2	n.m.
Net Operating Income	**(54.9)**	**213.1**	**-268.0**	**n.m.**
Non-operating components	**(39.9)**	**(50.9)**	**11.0**	**-21.6%**
Profit (loss) before tax from continuing operations	**(94.8)**	**162.1**	**-256.9**	**n.m**

Breakdown of revenues



Results for the subsidiary

Banca Widiba SpA: as at 30 June 2020 Widiba's **Total Funding** amounted to about **EUR 8.3 bn**, up EUR 0.1 bn as compared to 31 December 2019 and EUR 0.6 bn compared to 31 March 2020, benefitting from the recovery in the financial markets starting in April as well as positive net funding flows during the half of EUR 375 mln (of which EUR 235 mln in 2Q20).

With regard to profit and loss, as at 30 June 2020 Widiba achieved total **Revenues** of approx. **EUR 40.9 mln** (of which EUR 20.3 mln in 2Q20), up 18.2% compared to the first half of the previous year, thanks to the growth in Net Interest Income and Net Fee and Commission Income.

The **Pre-provision operating profit** amounted to **EUR 9.3 mln** (of which EUR 4.6 mln in 2Q20), with a notable increase from the same period in the previous year (EUR +6.6 mln) and, due to the Cost of credit that was up EUR 1.5 mln compared to the first half of 2019, the **Net Operating Income** was **EUR 7.8 mln** (EUR +5.1 mln compared to 30 June 2019).

As a result of the lower incidence of the non-operating components (EUR -0.1 mln compared to EUR -2.6 mln in the previous year), the **Result before tax from continuing operations** was **EUR 7.7 mln**.

Wealth Management

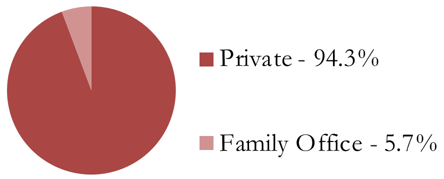
Business areas

- 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).

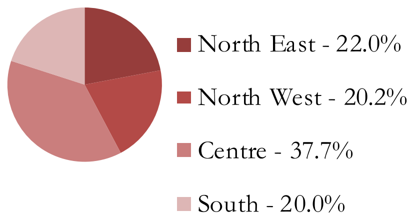
Customers

There are around 36.5 thousand private customers.

Breakdown by type



Breakdown by geography



Income statement and balance sheet results

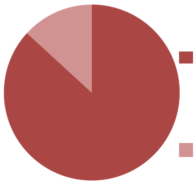
As at 30 June 2020, **Total Funding** for Wealth Management amounted to approximately **EUR 18.1 bn**, up by around EUR 0.7 bn against 31 March 2020 and down compared to the end of the year (EUR -0.7 bn). More specifically:

- **Direct Funding** came to **EUR 3.1 bn**, a decrease from March 2020 (EUR -0.2 bn) and compared to 31 December 2019 (EUR -0.4 bn).
- **Indirect Funding**, amounting to about **EUR 15.0 bn**, was up by EUR 0.9 bn compared to 31 March 2020, thanks to a positive market effect linked to the recovery of the financial markets, which in the first quarter experienced tensions linked to the spread of the COVID-19 emergency, and down EUR 0.3 bn on the end of the previous year.
- **Gross interest-bearing loans to Wealth Management customers** were essentially in line with both 31 March 2020 and December 2019, amounting to roughly **EUR 0.5 bn**.

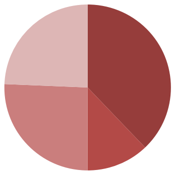
WEALTH MANAGEMENT - BALANCE SHEET AGGREGATES

(EUR mln)	30/06/20	31/03/20	31/12/19	30/06/19	Chg Abs Q/Q	Chg % Q/Q	Chg Abs 31/12	Chg % 31/12	Chg Abs Y/Y	Chg % Y/Y
Direct funding	**3,103**	**3,348**	**3,496**	**3,382**	**-245**	**-7.3%**	**-393**	**-11.2%**	**-279**	**-8.2%**
Assets under management	*11,359*	*10,685*	*11,482*	*11,125*	*674*	*6.3%*	*-124*	*-1.1%*	*234*	*2.1%*
Assets under custody	*3,656*	*3,400*	*3,846*	*4,235*	*255*	*7.5%*	*-190*	*-4.9%*	*-579*	*-13.7%*
Indirect Funding	**15,014**	**14,085**	**15,328**	**15,360**	**929**	**6.6%**	**-314**	**-2.0%**	**-346**	**-2.2%**
Total Funding	**18,118**	**17,433**	**18,824**	**18,742**	**685**	**3.9%**	**-707**	**-3.8%**	**-624**	**-3.3%**
Gross Interest-bearing loans to customers	**536**	**546**	**499**	**495**	**-10**	**-1.8%**	**37**	**7.5%**	**41**	**8.2%**

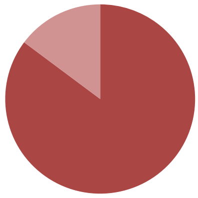
Direct funding breakdown



Indirect funding breakdown



Interest-bearing loans to customers



With regard to profit and loss in first half of 2020, Wealth Management achieved total **Revenues** of approx. **EUR 66 mln**, down 4.5% compared to the same period of last year. A breakdown of the aggregate shows:

- Net Interest Income amounted to approx. EUR 4 mln, down EUR 4 mln compared to the same period of the previous year, impacted by the lower contribution from Direct Funding;
- Net Fee and Commission income totalled approximately EUR 55 mln, up compared to first half of 2019 (+2.0%) mainly in the product segment.

Considering the impact of Operating Expenses, which were up by 4.1% Y/Y, Wealth Management generated **Pre-provision operating profit** of about **EUR 13 mln** (EUR -5 mln Y/Y). Including Cost of credit equal to EUR -0.9 mln, the **Net Operating Income** totalled roughly **EUR 13 mln**.

The non-operating components amounted to roughly EUR -0.5 mln, an improvement of EUR 8 mln compared to the same period of the previous year due mainly to the lower Other net provisions.

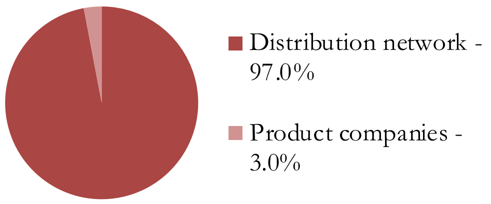
The **Result before tax from continuing operations** was **EUR 12 mln** (EUR +12 mln as at 30 June 2019).

The **cost-income ratio** of the Operating Segment is **79.6%** (73.1% at the end of June 2019).

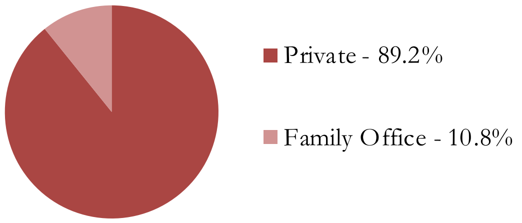
WEALTH MANAGEMENT - PROFIT AND LOSS AGGREGATES

(EUR mln)	30/06/20	30/06/19	Chg. Y/Y Abs.	Chg. Y/Y %
Net interest income	*3.6*	*7.9*	*-4.3*	*-53.9%*
Net fee and commission income	*54.5*	*53.5*	*1.1*	*2.0%*
Other Revenues from Banking and Insurance Business	*8.4*	*7.8*	*0.6*	*7.8%*
Other operating expenses/income	*(0.4)*	*0.1*	*-0.5*	*n.m*
Total Revenues	**66.1**	**69.2**	**-3.1**	**-4.5%**
Operating expenses	*(52.7)*	*(50.6)*	*-2.1*	*4.1%*
Pre Provision Operating Profit	**13.5**	**18.6**	**-5.2**	**-27.7%**
Cost of customer loans/Net impairment (losses)-reversals on securities and loans to banks	(0.9)	1.2	-2.1	n.m
Net Operating Income	**12.6**	**19.8**	**-7.2**	**-36.5%**
Non-operating components	**(0.5)**	**(8.2)**	**7.7**	**-94.4%**
Profit (loss) before tax from continuing operations	**12.1**	**11.6**	**0.5**	**4.3%**

Breakdown of revenues



Breakdown of revenues



Results for the subsidiary

- **MPS Fiduciaria**: profit for the period of EUR 0.4 mln compared to a profit for the period as at 30 June 2019 of EUR 0.5 mln.

Corporate Banking

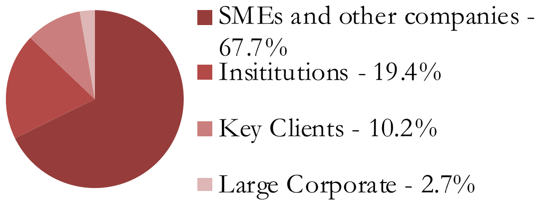
Business areas

- Lending and offering financial products and services to businesses, including through strategic partnerships with trade associations and Confidi (credit guarantee consortia), with Guarantee Institutions (including public) and Institutional Entities, through which funding is acquired at favourable terms.
- Offer of integrated leasing and factoring packages for businesses, artisans and professionals (through the subsidiary MPS Leasing & Factoring).
- Corporate finance - medium/long-term credit facilities, corporate finance, capital markets and structured finance also through the subsidiary MPS Capital Services.
- Custody and deposit services for dairy products on behalf of third parties (through the subsidiary Magazzini Generali Fiduciari di Mantova S.p.A., which is also authorised to issue documents of title to the merchandise, providing for easier access to bank lending).

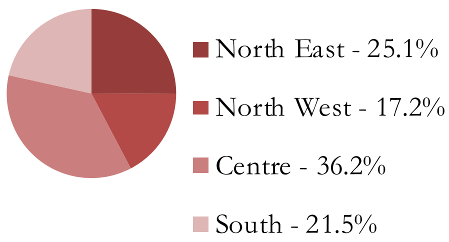
Customers

About 41,800 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

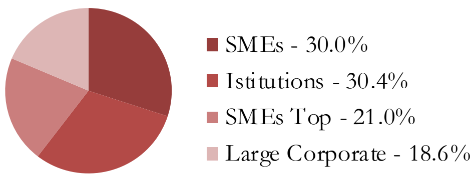
Total Funding of Corporate Banking at 30 June 2020 amounted to **EUR 34.4 bn**, with an increase of EUR 6.0 bn compared to 31 March 2020, due mainly to the recovery in Indirect Funding (EUR +4.5 bn) linked in part to the deposit of shares by a large industrial group (which had withdrawn them in the first quarter of 2020) and in part to the positive market effect. The aggregate was up compared to the end of December 2019 by around EUR 0.3 bn thanks to the increase in Direct Funding (EUR +1.5 bn), which more than offset the decline in Indirect Funding (EUR -1.2 bn) recorded on assets under custody.

With regard to lending, as at 30 June 2020, **Gross interest-bearing loans to Corporate Banking customers** stood at approximately **EUR 31.3 bn** (EUR -0.5 bn on 31 March 2020 and EUR +0.5 bn compared to 31 December 2019).

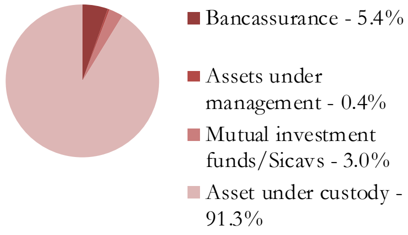
CORPORATE BANKING - BALANCE SHEET AGGREGATES

(EUR mln)	30/06/20	31/03/20	31/12/19	30/06/19	Chg Abs Q/Q	Chg % Q/Q	Chg Abs 31/12	Chg % 31/12	Chg Abs Y/Y	Chg % Y/Y
Direct funding	**18,779**	**17,356**	**17,230**	**18,064**	**1,422**	**8.2%**	**1,549**	**9.0%**	**715**	**4.0%**
Assets under management	*1,361*	*1,331*	*1,324*	*1,429*	*30*	*2.2%*	*37*	*2.8%*	*-68*	*-4.8%*
Assets under custody	*14,214*	*9,716*	*15,500*	*14,874*	*4,498*	*46.3%*	*-1,286*	*-8.3%*	*-659*	*-4.4%*
Indirect Funding	**15,575**	**11,047**	**16,824**	**16,302**	**4,528**	**41.0%**	**-1,249**	**-7.4%**	**-727**	**-4.5%**
Total Funding	**34,354**	**28,403**	**34,054**	**34,366**	**5,950**	**20.9%**	**300**	**0.9%**	**-12**	**0.0%**
Gross Interest-bearing loans to customers	**31,289**	**31,798**	**30,758**	**32,643**	**-509**	**-1.6%**	**530**	**1.7%**	**-1,354**	**-4.1%**

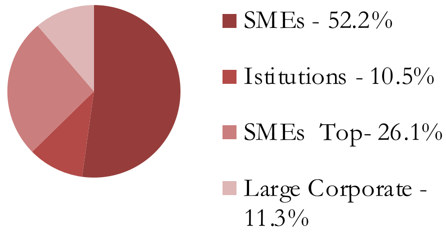
Direct funding breakdown



Indirect funding breakdown



Interest-bearing loans to customers



For profit and loss aggregates, in the first half of 2020 Corporate Banking **Revenues** came to approx. **EUR 386 mln** (-8.8% Y/Y). A breakdown of the aggregate shows:

- Net Interest Income was approximately EUR 209 mln, down 17.9% annually due to the decrease in returns on commercial assets and the lower contribution of direct funding;
- Net Fee and Commission income was down slightly compared to the same period of the previous year to around EUR 147 mln;
- Other Revenues from Banking and Insurance Business amounted to approx. EUR +31 mln compared to EUR 30 mln in the first half of 2019.

Considering the impact of Operating Expenses, down by 12.0% compared to 30 June 2019, the **Pre provision operating profit** came to about **EUR 184 mln** (-5.0% Y/Y).

Net Operating Income amounted to **EUR -76 mln** (EUR 33 mln in the same period of the previous year), taking into account the Cost of credit of EUR -259 mln, penalised by additional adjustments due to the COVID-19 emergency.

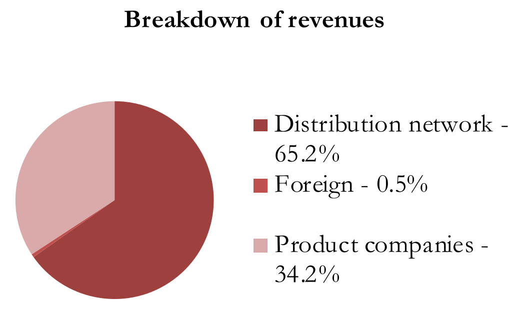
The non-operating components amounted to roughly EUR -144 mln, an increase compared to EUR -21 mln in the same period of the previous year due to the item Other net provisions, which primarily includes provisions for legal risks and risks linked to contractual agreements.

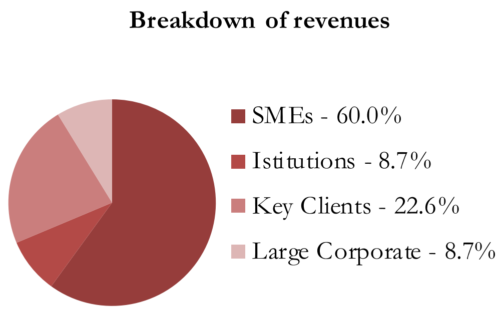
The **Result before tax from continuing operations** was **EUR -220 mln** (EUR +12 mln as at 30 June 2019).

The Corporate Banking **cost-income ratio** stands at **52.4%** (54.4% as at 30 June 2019).

CORPORATE BANKING - PROFIT AND LOSS AGGREGATES

			Chg. Y/Y	
(EUR mln)	**30/06/20**	**30/06/19**	**Abs.**	**%**
Net interest income	*208.9*	*254.5*	*-45.6*	*-17.9%*
Net fee and commission income	*146.9*	*147.7*	*-0.8*	*-0.6%*
Other Revenues from Banking and Insurance Business	*31.5*	*30.5*	*1.0*	*3.2%*
Other operating expenses/income	*(1.5)*	*(9.6)*	*8.2*	*n.m*
Total Revenues	**385.8**	**423.1**	**-37.3**	**-8.8%**
Operating expenses	*(202.3)*	*(229.9)*	*27.7*	*-12.0%*
Pre Provision Operating Profit	**183.5**	**193.1**	**-9.6**	**-5.0%**
Cost of customer loans/Net impairment (losses)-reversals on securities and loans to banks	(259.2)	(160.3)	-98.9	61.7%
Net Operating Income	**(75.7)**	**32.8**	**-108.5**	**n.m**
Non-operating components	**(144.0)**	**(21.0)**	**-123.0**	**n.m**
Profit (loss) before tax from continuing operations	**(219.7)**	**11.8**	**-231.5**	**n.m**





Results of the main subsidiaries

- **MPS Capital Services**: result before tax of EUR 9 mln, down EUR 87 mln compared to 30 June 2019, especially due to the reduction in Other revenues from banking business and the trend in the Cost of credit, penalised by additional adjustments required due to the COVID-19 emergency. The loss for the period was EUR 23 mln compared to a profit for the period as at 30 June 2019 of EUR 87 mln due to the trends described above, in addition to the negative effect of taxes.
- **MPS Leasing & Factoring:** result before tax of EUR -33 mln, down EUR 45 mln compared to 30 June 2019, especially due to the trend in the Cost of credit, penalised by additional adjustments required due to the COVID-19 emergency. The loss for the period was EUR 42 mln compared to a profit for the period as at 30 June 2019 of EUR 13 mln due to the trends described above, in addition to the negative effect of taxes.
- **MP Banque[18]:** loss for the period of EUR 2 mln compared to a loss of EUR 0.4 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.

With regard to Finance activities, note that in the second quarter of 2020 securities in the Parent Company's portfolio were sold, in particular the Italian government bonds, which generated profits of roughly EUR 24 mln (more than EUR 70 mln in profits generated since the start of the year).

[18] 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 impact of the COVID-19 pandemic on international growth will be highly significant, with global GDP possibly experiencing a contraction not far from 5% in 2020 according to estimates by the International Monetary Fund[19]. The cost of the health, economic and social crisis for the global economy is turning out to be higher than initially assessed, also because no economy was able to avoid it. With the emergency behind us, the worst recession ever observed in peace times will likely be followed by a rebound in 2021, as the operations of all economic activities (including tourism and entertainment) will be able to return to normal levels and, with them, employment and the income of the operators most impacted. The stimulus measures introduced, certainly timely, broad and innovative, are helping and will continue to help to limit the costs of the crisis, but they will need to be reconciled with the sustainability of public finances, avoiding placing new constraints and risks on outlook growth. However, the current phase of living with COVID-19 is still characterised by significant uncertainties regarding the future: checking the spread of the virus remains crucial for the economic recovery, and the risk of a new health emergency continues to influence people's lives and the recovery phase.

In this context, with the exit from the lockdown, Italy launched a phase of recovery from the lows seen in April, which is in any event insufficient to prevent the country from experiencing the most significant recession since WWII in 2020, with a decline in GDP that may reach double digits. Italy's economy remains fragile, and the effects of the crisis will linger: after the direct consequences of the lockdown, in the coming months second round effects may emerge linked to job losses and the climate of uncertainty, which will weigh down on household and business spending decisions. If there is no second wave of contagion in the autumn, the 2021 recovery may be lively, but it will take years to return to the levels of production recorded in 2019. The potential of the recovery will depend essentially on the large-scale financial commitment made by States, the Monetary Authorities and Supranational Bodies. In the short term, tensions on Italian government bonds should not be excessive thanks to the policies implemented by the ECB, but domestic fiscal policy will be limited in supporting the recovery, in a context in which public debt will reach around 160% of GDP.

The deterioration in the economic context linked to the accentuation of the health crisis is impacting the outlooks of the Italian banking system. In order to support the liquidity requirements of businesses and households and avoid significant contractions in credit availability, a number of extraordinary support measures have been taken by the government and Supranational Authorities. Although households and businesses find themselves in a better financial situation than in past crises, the exceptional nature of the pandemic and significant economic uncertainty are driving financial intermediaries to even more carefully assess customer risk. Excess capacity and low profitability continue to penalise the banking sector within a context of increasing digitalisation, which makes some of the services offered more competitive, and a possible new phase of sector consolidation.

On the supply side, 2020 could record considerable growth in lending to businesses, not due to a recovery in demand for investments, which is down sharply, but rather due to the need for the liquidity required to offset losses in revenue from the lockdown or strong slowdowns in activity. Lending will be guaranteed in large part by the Central Guarantee Fund or by SACE, which have already received and approved many requests. This acceleration does not seem to be taking place yet in the household lending segment, in which the complete closure of activities entailed a slowdown in consumer credit. Loan trends in 2021 will be impacted by the elimination of support measures and the likely effect of businesses anticipating their financing requests by the end of 2020. Lending policies should remain relaxed due to the monetary measures adopted which guarantee ample availability of liquidity and a low funding cost, contributing to keeping interest rates on loans stable.

In 2020, funding is expected to rise considerably, driven by the more liquid components. The high uncertainty linked to the crisis has led to a significant rise in the propensity to save and an accumulation of low-risk assets. Deposits, driven by current accounts, are expected to grow, while bond issues and foreign funding should decrease due to the broad availability of liquidity from the ECB. In the medium term, time deposits which offer higher returns will come back into favour. Bond issues are expected to increase only subsequently, due to increased issues in the wholesale segment, in large part subordinated, to meet the MREL requirement.

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

The flow of new loans will surely make a positive contribution to net interest income, but the greatest support will come from the negative rate on funds obtained with the TLTRO III auctions. A positive impulse for

[19] World Economic Outlook, International Monetary Fund, June 2020

commission revenues could come from the outlooks for an improvement in assets under management, benefitting from the stock market recovery after the acute phase of the pandemic.

The reduction in the stock of NPLs will continue in 2020 and will likely be more incisive starting next year. The moratorium on loans laid out in the Cura Italia Decree will contribute towards limiting new non-performing loans. This year, however, there will be an increase in transfers to bad loans of loans already classified as unlikely to pay, which are unable to benefit from the payment suspension measure. The peak of risk is expected in 2021, but it will be lower than in previous crises.

The deterioration in the scenario caused by the spread of the epidemic throughout Italy may have economic and financial consequences for the Group despite the measures adopted by the government and European institutions. In the absence of additional regulatory measures, it is realistic to assume an increase in the stock of non-performing loans in the short/medium term, due to the under performing cases that will be reflected in cure rates for loans classified as past due and unlikely to pay, with a resulting increase in the cost of credit (also affected by higher default flows in the medium term). With regard to revenues, the increased preference for liquidity may lead to lower commissions for asset management, however the recovery in the indexes may have a positive impact on the renewed appetite for these investment products. Other fees will be adversely affected by the halt/slowdown in commercial activities and by the lower propensity to consume (fewer transactions on payment systems and reduction of consumer credit flows). Net interest income deriving from lending and funding activities should show relative stability in 2020 at the levels most recently recorded thanks to the extraordinary measures deployed to support lending to households and businesses, remaining low in subsequent years due to the narrowing of the banking spread, which will struggle to widen in a context in which money market rates will be negative until 2023. The effects of the adaptation to the health requirements established to prevent the spread of contagion will impact operating expenses. The COVID situation may have significant effects on the Group's liquidity position during 2020. In order to deal with the potential impact on the liquidity position, the Parent Company has benefitted from the important extraordinary monetary policy measures announced by the ECB (LTRO/PELTRO/TLTRO III), accessing a total amount of TLTRO III of EUR 21 bn (against a maximum available amount of roughly EUR 27 bn). Any additional recourse to TLTRO III may be used to manage the potential impacts on the liquidity position resulting from the effects of the pandemic, for purposes of maintaining liquidity indicators at adequate levels, in particular the LCR and NSFR regulatory indicators. With regard to institutional funding, it is likely that access to the institutional funding market will be reduced during 2020. Nonetheless, we continue to expect to make recourse to diversified sources of funding distributed over time.

With regard to capital adequacy, the aforementioned effects relating to income impacts will entail a reduction in own funds, while the increase in capital absorption could be mitigated by the impact of government guarantees linked to the recent "Cura Italia" and Liquidity decrees. In any event, no situations of tension are expected on capital indicators, as the ECB has already introduced a series of supervisory measures that include a relaxation of capital requirements and greater flexibility in supervisory obligations in order to mitigate the impact of COVID-19 on the European banking system.

Related-party transactions

Compensation of key management personnel

Items/Amounts	Total 30 06 2020	Total 30 06 2019
Short-term benefits	3.7	3.4
Total	**3.7**	**3.4**

Considering the instructions provided by accounting standard IAS 24 and in light of the current organisational structure, the Group has opted for the disclosure scope to include not only Directors, Statutory Auditors, the General Manager and Deputy General Managers, but also other Key Management Personnel.

For detailed information regarding remuneration policies, please refer to the document "Remuneration Report pursuant to art. 123-ter of the Consolidated Law on Finance" which contains the data specified below and reported in the financial statements, including:

- a detailed breakdown of compensation paid to the Administration and Control Bodies, General Managers and, in aggregate form, to Key Management Personnel;
- quantitative information on the remuneration of "Key employees";
- monetary incentive plans in favour of members of the Administration and Control Body, the General Managers, the Deputy General Managers and other Key Management Personnel;
- information on the equity investments of members of the Administration and Control Bodies, the General Managers and other Key Management Personnel.

Related-party transactions

In compliance with the regulatory provisions under Consob Resolution no. 17221 of 12 March 2010, article 53 of TUB (Consolidated Law on Banking) and implementing provisions (Bank of Italy Circ. 263/06 Title V, Chapter 5, now replaced by Bank of Italy Circ. 285/2013, Part three, Chapter 11 "Risk assets and conflicts of interest with regard to related parties") the "Related-Party Transactions Committee" composed from three to five independent directors was established.

Through resolution dated 29 November 2018, the Board of Directors of the Parent Company approved - upon obtaining the prior favourable opinions of the Related-Party Transactions Committee and of the Board of Statutory Auditors - the "*Group Directive in relation to management of the provisions on Related Parties, Associated Parties and obligations of the Banking entities, adopted with Consob Regulation no. 17221/10 of Bank of Italy Circular no. 263/06, Title V, Chapter 5, and pursuant to art. 136 of Italian Legislative Decree 385/1993 (T.U.B. - Consolidated Law on Banking) (hereinafter, the "Group Directive"), in replacement of the previous "Global Policy on transactions with related parties, associated parties and obligations of the Banking entities*". The 2018 Group Directive was subsequently updated according to the Resolution issued by the Board of Directors of 16 December 2019 and upon prior favourable opinions issued by the Related-Party Transactions Committee and by the Board of Statutory Auditors.

The Group Directive defines the organisational model adopted by the MPS Group (principles and responsibilities) for the management process of the provisions applicable to related parties, associated parties and obligations of the bank representatives, and in particular, governs, at the MPS Group level, the principles and rules for the control of risks arising from situations of possible conflicts of interest with some subjects close to the decision making centres of the Parent Company.

Within the Group Directive, the following is also defined:

- formulation of the responsibilities assigned within the MPS Group (tasks and responsibilities of the top management bodies and corporate functions of the Parent Company and Subsidiaries);
- scope of the related parties, associated parties ("Group Scope") and other subjects in a potential conflict of interest;
- criteria for the identification of transactions, level of relevance of the transactions;
- decision-making procedures and exemption cases;
- internal policies in the area of control.

For the purpose of the Group Directive, significance is attributed to the transactions carried out with the subjects operating within the Group Scope which involve the performance of risk activities, the transfer of resources, services and obligations, regardless of the requirement of a consideration.

As regards the types of transactions, they are classified by the Directive as follows:

- "transactions of greater relevance": transactions where at least one of the following indexes, applicable according to the specific transaction, exceeds the 5% threshold:
  - countervalue relevance index: the ratio of the countervalue of the transaction to the total of the own funds resulting from the most recent published consolidated balance sheet;
  - relevance index of the assets: the ratio of the total assets of the entity to which the transaction refers, to the total assets of Banca MPS;
  - relevance index of the liabilities: the ratio of the total liabilities of the acquired entity to the total assets of Banca MPS.
- "transaction of lesser relevance": transactions of an amount above the negligible amount and up to the threshold of greater relevance; within the scope of the transactions of lesser relevance, the following transactions are considered of a "significant amount":
  - when the amount exceeds EUR 100.0 mln and up to the threshold of greater relevance (countervalue relevance index);
  - or, in the case of acquisition transactions, mergers and demergers of an amount equal to or less than EUR 100.0 mln, the relevance index of the assets and/or liabilities is equal to or exceeding the ratio of EUR 100.0 mln to the consolidated regulatory capital.
- "transactions of a negligible amount": transactions of an amount equal to or less than EUR 250.0 thousand which represents the negligible threshold valid pursuant to the Group Directive.

The *Group Directive*, in the version in effect from time to time, is posted on the MPS Group's web site and is therefore available in full-text version at the following link:

https://www.gruppomps.it/static/upload/ope/operazioni_con_parti_collegate_e_soggetti_collegati.pdf

From 2016, the Parent Company's Board of Directors formally resolved to approve inclusion of the Ministry of Economy and Finance (MEF) and of the relevant directly and indirectly controlled companies within the scope of related parties on a discretionary basis pursuant to the provisions of the Group Directive, excluding the prudential regulation.

Following completion of the Parent Company's precautionary recapitalisation procedure, after which the MEF became the controlling shareholder from August 2017, the Parent Company received notification on 18 December 2017 from the Supervisory Authority with regard to the methods for the resulting application of limits to risk assets laid out in prudential regulations, pursuant to art. 53 of the Consolidated Law on Banking and its implementing provisions (Bank of Italy Circular 263/06 Title V Chapter 5), through application to the Parent Company of the "silo" approach for calculation of the reference limits.

With reference to the MEF scope, the Parent Company has availed itself of the exemption provided by paragraph 25 of IAS 24 on the disclosure of transactions and balances of existing transactions with government-related entities. The main transactions carried out with the MEF and with its subsidiaries, in addition to financing transactions, include Italian government securities recorded in the portfolios "Financial assets measured at fair value through other comprehensive income" for a nominal amount of EUR 5,131.1 mln and "Financial assets measured at fair value through profit and loss" for a nominal amount of EUR 5,488.9 mln as well as "Financial assets measured at amortised cost" for a nominal amount of EUR 5,220.3 mln.

Information is provided below regarding the most significant transactions, in terms of amount, carried out by the Parent Company with related parties in the first half of 2020, broken down into "MEF related-party transactions" and "Transactions with other related parties".

MEF related-party transactions

- On 7 February 2020, the Board of Directors, with the prior favourable opinion of the Related-Party Transactions Committee, approved with respect to CASSA DEPOSITI E PRESTITI S.p.A. ("CDP S.p.A.") the "CDP Framework Agreement/2020", involving the Parent Company's acquisition of financial resources, with funding made available by CDP S.p.A. as part of the agreements in place stipulated between CDP S.p.A. and the Italian Banking Association ("ABI") - to be allocated to customers for the finalisation of supplementary financing agreements and the relative requests for utilisation - drawn from the credit limits envisaged by said ABI/CDP agreements, up to a cumulative amount of EUR 1,200 mln, valid for 12 months and therefore until 6 February 2021. This Framework Agreement, when set forth by the existing agreements, is to be considered valid for the Parent Company, as well as for the subsidiaries MPS Capital Services Banca per le Imprese S.p.A. and MPS Leasing & Factoring S.p.A. As this is a significant transaction, the relative Disclosure, which should be referred to for the details, drafted pursuant to art. 5 of Consob Regulation no. 17221/2010 and in accordance with Annex 4 of said Regulation, was published on 14 February 2020 on the Parent Company's website. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, as Cassa Depositi e Prestiti S.p.A. is a subsidiary of the MEF.

- On 12 March 2020, the Territorial Markets Disbursement Service authorised, in favour of CONSIP S.p.A. the extension of the outstanding ordinary credit line, usable as a non-revolving current account overdraft facility, for EUR 10 mln. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, since CONSIP S.p.A. is a subsidiary of the MEF.

- On 13 March 2020 the Board of Directors authorised, with the favourable opinion of the Related-Party Transactions Committee, with respect to CDP S.p.A.: (i) the signing of two framework financing agreements for specific credit lines, relating to "special-purpose funding", to support businesses operating in the People's Republic of China, for a total value of EUR 130 mln, (ii) the pledging of the securities of local issuers (BOC) as a guarantee, to the extent of 75% of the credit lines described above and therefore equal to EUR 97.5 mln and (iii) the approval of the "China framework agreement/2020" for a maximum credit line of EUR 130 mln, for the transactions/drawdowns to be carried out in the 12-month period of validity, and therefore until 12 March 2021. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, as Cassa Depositi e Prestiti S.p.A. is a subsidiary of the MEF.

- On 20 March 2020 and previously on 5 March 2020 and 20 February 2020, drawdowns of funding were carried out for a total of EUR 391 mln, within the context of the Parent Company's operations and under the "CDP framework agreement/2020" mentioned above. The transactions fall within the scope of application of Consob Regulation no. 17221/2010, as Cassa Depositi e Prestiti S.p.A. is a subsidiary of the MEF.

- On 22 April 2020 and previously on 16 April 2020 and 3 April 2020, in implementation of the "SACE framework agreement/2019" (described in Part H of the Financial Statements as at 31 December 2019), 50% risk-sharing operations were authorised in favour of Parent Company customers for the confirmation of documentary credit issued by a foreign correspondent bank for the respective amounts of EUR 13.6 mln, EUR 17.8 mln and EUR 19.6 mln, valid with respect to SACE S.p.A. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, as SACE S.p.A. is a wholly-owned subsidiary of Cassa Depositi Prestiti S.p.A., a subsidiary of the MEF.

- On 18 May 2020, the Chief Executive Officer authorised, with the favourable opinion of the Related-Party Transactions Committee, the expense for entering into the contract for the engagement: (i) for the interbank courier service and the LTL transport service, of the company *SDA Express Courier* S.p.A. for an annual estimated amount of EUR 5.1 mln (EUR 10.2 mln for the two-year period) and (ii) for the transport document service, of the company POSTE ITALIANE S.p.A. for an annual estimated amount of EUR 0.7 mln (EUR 1.4 mln for the two-year period) and therefore for a total estimated amount of EUR 11.6 mln for the 2020-2021 two-year period. The transaction falls within the scope of application of Consob Regulation no. 177221/2020, since *SDA Express Courier* S.p.A. is a subsidiary of POSTE ITALIANE S.p.A., in turn a subsidiary of the MEF.

- On 21 May 2020, the Loan Disbursement Area, within the scope of the "SACE framework agreement/2019" (described in Part H of the Financial Statements as at 31 December 2019) authorised a credit commitment transaction in favour of a Parent Company customer, for the amount of EUR 10.6 mln, with a 50% guarantee by SACE S.p.A. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, as SACE S.p.A. is a wholly-owned subsidiary of Cassa Depositi Prestiti S.p.A., a subsidiary of the MEF.

- On 29 May 2020, the Credit Committee approved in favour of FINCANTIERI S.p.A., as part of the ordinary review of credit facilities, the restructuring of the credit line inclusive of the new bilateral medium/long-term credit line for a total amount of EUR 96.75 mln, through: (i) confirmation of the mixed use credit line of EUR 25 mln, (ii) granting of an unsecured loan for EUR 70 mln, (iii) granting of a credit facility for interest rate risk hedging transactions of EUR 1.75 mln and (iv) the simultaneous cancellation of two credit lines, for EUR 30 mln and EUR 40 mln, respectively. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, as FINCANTIERI S.p.A. is a direct subsidiary of CDP Industria S.p.A., held by Cassa Depositi e Prestiti S.p.A., in turn a subsidiary of the MEF.

- On 5 June 2020, the Performing Loans Department authorised in favour of SO.G.I.N. S.p.A. the renewal at par of two outstanding mixed use credit lines, for EUR 18.9 mln and EUR 1 mln, respectively, for a total amount of EUR 19.9 mln. The transaction falls within the scope of application of Consob Regulation no. 17221/2020, since SO.G.I.N. S.p.A. is a subsidiary of the MEF.

- On 22 June 2020, the Loan Disbursement Area authorised in favour of POSTE ITALIANE S.p.A, as part of the ordinary review of credit facilities: (i) the cancellation of the ordinary credit line of EUR 6 mln granted for use as a current account overdraft facility and (ii) the granting of a new ordinary credit line for a total of EUR 20 mln, for mixed use as a current account overdraft facility, for forward drafts and for the issue of sureties in Italy. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, since POSTE ITALIANE S.p.A. is owned by the MEF.

- On 29 June 2020, the Board of Directors, with the favourable opinion of the Related-Party Transactions Committee, approved a transaction for the partial non-proportional demerger of Banca MPS in favour of AMCO S.p.A. - *Asset Management Company* S.p.A. (formerly SGA S.p.A.), with an asymmetric option (the "AMCO Demerger") for the purpose of deconsolidating a portfolio of non-performing loans of the MPS Group (consisting of bad and unlikely to pay loans). The transaction is subject to the receipt of the necessary authorisations required by law and a series of conditions precedent, including that relating to the effectiveness of a "simplified" partial proportional demerger of certain assets and liabilities (the "MPSCS Compendium") owned by MPS Capital Services Banca per le Imprese S.p.A. ("MPSCS") – a wholly-owned subsidiary of the Parent Company – in favour of Banca MPS (the "MPSCS Demerger"), which will be included in the compendium to be transferred to AMCO as part of the AMCO Demerger. As part of this transaction, the signing of one or more bank financing agreements (the "MPS Loan") with *J.P. Morgan Chase Bank Milan Branch* and UBS *Europe SE* ("Lending Banks") is also planned, to be subsequently transferred to

AMCO. The disbursement of the MPS Loan and its transfer to AMCO constitute one of the conditions precedent of the transaction. The compendium subject to the AMCO Demerger consists of: (i) non-performing loans (classified by the Parent Company as bad and unlikely to pay loans); (ii) deferred tax assets; (iii) bonds and equities; (iv) derivative contracts; (v) liabilities, deriving from the MPS Loan, as well as (vi) a portion of the Parent Company's shareholders' equity equal to EUR 1,087 mln. On 30 July 2020, the AMCO Demerger plan was filed at the company's registered office, and on 6 July 2020 the Disclosure, which should be referred to for the details, drafted pursuant to art. 5 of Consob Regulation no. 17221/2010 and in accordance with Annex 4 of said Regulation, was published on the Parent Company's website. The transaction, deemed significant, falls within the scope of application of Consob Regulation no. 177221/2020, since AMCO S.p.A. is a wholly-owned subsidiary of the MEF.

Transactions with other related parties

No transaction to be mentioned.

The following tables summarise the relationships and economic effects of transactions carried out in the first half of 2020 with associates, key management personnel and other related parties.

The "MEF Scope" column highlights the balances[20] of the balance sheet and income statement items as at 30 June 2020 relating to the transactions carried out with the MEF and the companies controlled by the MEF, namely companies controlled directly or indirectly by the MEF and their associates.

Related-party transactions: balance sheet items

	Value as at 30 06 2020						
	joint venture	Associated companies	Executives with strategic responsibility	Other related parties	MEF Scope	Total	% FS items
Financial assets held for trading	-	0.3	-	8.7	7,781.3	**7,790.3**	66.87%
Financial assets mandatorily measured at fair value	-	202.5	-	-	48.2	**250.7**	33.87%
Financial assets measured at fair value through other comprehensive income	-	-	-	-	5,221.9	**5,221.9**	86.06%
Loans to customers measured at amortised cost	80.2	245.9	5.2	5.0	6,636.0	**6,972.3**	7.59%
Other assets	-	-	-	0.1	-	**0.1**	0.01%
Total assets	**80.2**	**448.7**	**5.2**	**13.8**	**19,687.4**	**20,235.3**	
Financial liabilities measured at amortised cost	1.9	320.7	2.8	40.8	2,660.9	**3,027.1**	2.45%
Financial liabilities held for trading	-	-	-	-	0.5	**0.5**	0.01%
Other liabilities	0.9	1.8	-	0.2	12.6	**15.5**	0.44%
Total liabilities	**2.8**	**322.5**	**2.8**	**41.0**	**2,674.0**	**3,043.1**	
Guaranties issued and Commitments	27.3	138.5	0.2	0.2	1,511.3	**1,677.5**	n.a.

Related-party transactions: income statements

	Value as at 30 06 2020						
	joint venture	Associated companies	Executives with strategic responsibility	Other related parties	MEF Scope	Total	% FS items
Interest income and similar revenues	0.9	1.6	-	-	107.7	**110.2**	11.42%
Interest costs and similar charges	-	(0.1)	-	-	(15.6)	**(15.7)**	4.90%
Fee and commission income	0.2	63.8	-	0.1	89.3	**153.4**	19.42%
Fee and commission expense	-	(0.3)	-	-	(13.7)	**(14.0)**	11.64%
Net profit (loss) from other assets and liabilities measured at fair value through P&L	-	(0.2)	-	-	(3.3)	**(3.5)**	-875.00%
Net adjustments/impaiments	(0.5)	1.4	-	-	0.3	**1.2**	0.22%
Dividends	-	0.2	-	0.2	0.1	**0.5**	0.09%
Operating costs	-	(13.9)	(3.7)	(0.4)	(3.5)	**(21.5)**	-1.36%

[20] The criteria to fill out the two tables are different from those of the European Securities and Markets Authority (ESMA) used for the table "Exposure to sovereign debt risk".

Certification of the condensed consolidated half-yearly financial statements pursuant to Article 81-ter of Consob Regulation no. 11971 of 14 May 1999, as subsequently amended and supplemented

1. The undersigned, Guido Bastianini, as Chief Executive Officer, and Nicola Massimo Clarelli, as Financial Reporting Officer, of Banca Monte dei Paschi di Siena S.p.A., having regard to article 154-bis, paragraphs 3 and 4 of Italian Legislative Decree no. 58 of 24 February 1998, do hereby certify the:
   - appropriateness with respect to the company's profile, and
   - factual application of administrative and accounting procedures for preparation of the condensed consolidated half-yearly financial statements, in the first half of 2020.

2. The verification of the adequacy and effective application of administrative and accounting procedures for the preparation of the condensed consolidated half-yearly financial statements as at 30 June 2020 was based on methods defined by the MPS Group in line with the COSO models and, for the IT component, COBIT, which constitute the reference framework for the internal control system generally accepted internationally.

3. It is also certified that:

   3.1 the condensed consolidated half-yearly financial statements as at 30 June 2020:
   - were prepared in accordance with the international accounting standards recognised by the European Union pursuant to European Parliament and Council Regulation No. 1606/2002 of 19 July 2002;
   - are consistent with the underlying documentary evidence and accounting records;
   - are suitable to provide a true and fair representation of the capital, economic and financial situation of the issuer and group of companies included within the scope of consolidation.

   3.2 the half-yearly report on operations includes a reliable analysis of the significant events in the first six months of the financial year and their impact on the condensed consolidated half-yearly financial statements, as well as a description of major risks and uncertainties for the remaining six months of the year. The half-yearly report on operations includes a reliable analysis of information regarding related-party transactions of major relevance.

Siena, 06/08/2020

Signed by	*Signed by*
On behalf of the Board of Directors	*The Financial Reporting Officer*
The Chief Executive Officer	*Nicola Massimo Clarelli*
Guido Bastianini	

INDEPENDENT AUDITORS' REPORT

pwc

REVIEW REPORT ON CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

To the shareholders of Banca Monte dei Paschi di Siena SpA

Foreword

We have reviewed the accompanying condensed consolidated interim financial statements of Banca Monte dei Paschi di Siena SpA and its subsidiaries (the Monte dei Paschi di Siena Group) as of 30 June 2020, comprising the balance sheet, income statement, statement of comprehensive income, statement of changes in equity, cash flow statement and related notes. The directors of the Monte dei Paschi di Siena Group are responsible for the preparation of the condensed consolidated interim financial statements in accordance with International Accounting Standard 34 applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of Review

We conducted our work in accordance with the criteria for a review recommended by Consob in Resolution No. 10867 of 31 July 1997. A review of condensed consolidated interim financial statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than a full-scope audit conducted in accordance with International Standards on Auditing (ISA Italia) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the condensed consolidated interim financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements of the Monte dei Paschi di Siena Group as of 30 June 2020 are not prepared, in all material respects, in accordance with International Accounting Standard 34 applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Emphasis of matter

Without modifying our conclusions, to obtain a better understanding of the condensed consolidated interim financial statements, we draw attention to the matters described by the directors in relation to the 2017-2021 Restructuring Plan and to the going-concern matter in paragraph "Strategy and Restructuring Plan" of the half-yearly report on operations and in paragraph "Going concern" of the explanatory notes.

Other matters

The consolidated financial statements as of and for the year ended 31 December 2019 and the condensed consolidated interim financial statements for the period ended 30 June 2019 were audited and reviewed, respectively, by other auditors, who on 12 March 2020 expressed an unqualified opinion on the consolidated financial statements, and on 2 August 2019 expressed an unmodified conclusion on the condensed consolidated interim financial statements.

Florence, 10 August 2020

PricewaterhouseCoopers SpA

Signed by

Lorenzo Pini Prato
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers.

ANNEXES

Reconciliation between the reclassified income statement and balance sheet and the related statutory accounts

Reconciliation between the reclassified income statement as at 30 June 2020 and the related statutory accounts

Item	Income Statement accounts	30/06/20	EEconomic effects from allocation of BAV acquistion costs to BMPS (PPA)	Reclassification of dividends on treasury stock transactions	Reclassification of the portion of profits from equity investments	Reclassification provision to BRRD and DGSD funds	Recovery of stamp duty and customers' expenses	DTA Fee	Restructuring costs (Personnel Expenses for early retirement)	Securitization, Recapitalization and Commitment Costs	Cost of credit	Restatement MP Belgium S.A.	30/06/20	Accounts in Reclassified Income Statement
													646.9	**Net interest income**
10	Interest income and similar revenues	964.8	2.6										967.4	
	of which interest income calculated applying the effective interest rate method	908.9												
20	Interest expense and similar charges	(320.5)											(320.5)	
													694.3	**Net fee and commision income**
40	Fee and commission income	790.1											790.1	
50	Fee and commission expense	(120.3)								24.5			(95.8)	
70	Dividends and similar income	9.7		(1.1)	37.7								**46.3**	**Dividends, similar income and gains (losses) on equity investments**
													92.1	**Net profit (loss) from trading, from financial assets/liabilities measuerd at fair value and Net profit (loss) on disposals/repurchases**
80	Net profit (loss) from trading	21.1		1.1									22.2	
100	Gains/(losses) on disposal/repurchase of:	76.7											**75.9**	
	a) financial assets measured at amortised cost	70.5									(0.8)		69.7	
	b) Financial assets measured at fair value through other comprehensive income	1.3											1.3	
	c) financial liabilities	4.9											4.9	
110	Net profit (loss) from other financial assets and liabilities measured at fair value through profit and loss	(0.4)											**(6.0)**	
	a) financial assets and liabilities measured at fair value	(0.7)											(0.7)	
	b) other financial assets mandatorily at fair value	0.3									(5.6)		(5.3)	
90	Net profit (loss) from hedging	0.5											**0.5**	**Net profit (loss) from hedging**
230	Other operating expenses/income	111.1					(138.6)						**(27.5)**	**Other operating income (expenses)**
190	Administrative expenses:	(1,219.2)											**(973.2)**	**Administrative expenses**
	a) personnel expenses	(707.5)							(0.4)				(707.9)	a) personnel expenses
	b) other administrative expenses	(511.7)				76.7	128.4	35.5		5.8			(265.3)	b) other administrative expenses
													(112.2)	Net value adjustments to property, plant and equipment and intangible assets
210	Net adjustments to/recoveries on property, plant and equipment	(85.1)					10.2						(74.9)	
220	Net adjustments to/recoveries on intangible assets	(37.7)	0.4										(37.3)	
130	Net impairment (losses)/reversals on	(534.6)											**(519.3)**	**Cost of customers credit**
	a) financial assets measured at amortised cost	(532.0)									2.9		(529.1)	*130a) financial assets measured at amortised cost - customers*
	b) financial assets measured at fair value through other comprehensive income	(2.6)									2.6			
											0.8		0.8	*100a) Loans to customers measured at amortised cost*
											5.6		5.6	*110b) Loans*
											6.2		**6.2**	*200 a) Net provision for risks and charges related to financial guarantess and other commitments*
140	Modification gains/(losses)	(2.8)											(2.8)	*140 Modification gains (losses)*
											(5.5)		**(5.5)**	**Net impairment (losses)/reversals on securities and loans to banks**
160	Net insurance premiums													
170	Other net insurance income (expense)													
200	Net provision for risks and charges:	(350.9)											**(357.1)**	**Net provisions for risks and charges**
	a) commitments and guarantees issued	6.2									(6.2)			
	b) other net provisions	(357.1)											(357.1)	
250	Gains (losses) on investments	38.4			(37.7)								**0.7**	**Gains (losses) on investments**
									0.4	(28.3)			**(27.9)**	Restructuring costs /One-0ff costs
						(76.7)							**(76.7)**	Risks and charges related to the SRF, DGS and similar schemes
								(35.5)					**(35.5)**	DTA Fee
280	Gains (losses) on disposal of investments	3.1								(2.0)			**1.1**	Gains (losses) on disposal of investments
290	Profit (loss) before tax from continuing operations	(656.0)	3.0										**(653.0)**	Profit (loss) before tax from continuing operations
300	Tax (expense)/recovery on income from continuing operations	(432.8)	(1.0)										**(433.8)**	Tax expense (recovery) on income from continuing operations
310	Profit (loss) after tax from continuing operations	(1,088.8)	2.0										**(1,086.8)**	Profit (loss) after tax from continuing operations
320	Profit (loss) after tax from groups of assets held for sale and discontinued operations	-											-	
330	Net Profit (loss) for the period	(1,088.8)	2.0										**(1,086.8)**	Net profit (loss) for the period including non-controlling interests
340	Net Profit (loss) attributable to non-controlling interests	(0.1)											**(0.1)**	Net profit (loss) attributable to non-controlling interests
			(2.0)										**(2.0)**	PPA (Purchase Price Allocation)
	Parent company's net profit (loss) for the preriod	**(1,088.7)**	7.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**(1,088.7)**	**Parent company's net profit (loss) for the preriod**

Reconciliation between the reclassified income statement as at 30 June 2019 and the related statutory accounts

Item	Income Statement accounts	30/06/19	EEconomic effects from allocation of BAV acquisition costs to BMPS (PPA)	Reclassification of dividends on treasury stock transactions	Reclassification of the portion of profits from equity investments	Reclassification provision to BRRD and DGSD funds	Recovery of stamp duty and customers' expenses	DTA Fee	Restructuring costs (Personnel Expenses for early retirement)	Securitization, Recapitalization and Commitment Costs	Cost of credit	Restatement MP Belgium S.A.	30/06/19	Accounts in Reclassified Income Statement
													813.2	**Net interest income**
10	Interest income and similar revenues	1,104.2	3.7									7.7	1,115.6	
	of which interest income calculated applying the effective interest rate method	*1,071.6*												
20	Interest expense and similar charges	(298.5)										(3.9)	(302.4)	
													722.5	**Net fee and commission income**
40	Fee and commission income	849.6										0.9	850.5	
50	Fee and commission expense	(127.8)										(0.2)	(128.0)	
70	Dividends and similar income	9.7		(0.9)	34.6								**43.4**	**Dividends, similar income and gains (losses) on equity investments**
													79.1	**Net profit (loss) from trading, from financial assets/liabilities measuerd at fair value and Net profit (loss) on disposals/repurchases**
80	Net profit (loss) from trading	60.8		0.9								(2.5)	**59.2**	
100	Gains/(losses) on disposal/repurchase of:	**17.5**											**18.2**	
	a) financial assets measured at amortised cost	10.0									0.7		10.7	
	b) Financial assets measured at fair value through other comprehensive income	8.4											8.4	
	c) financial liabilities	(0.9)											(0.9)	
110	Net profit (loss) from other financial assets and liabilities measured at fair value through profit and loss	**(47.5)**											**1.7**	
	a) financial assets and liabilities designated at fair value	(13.2)											(13.2)	
	b) other financial assets mandatorily at fair value	(34.3)				12.9					36.3		14.9	
90	Net profit (loss) from hedging	**(0.6)**											**(0.6)**	**Net profit (loss) from hedging**
230	Other operating expenses/income	**63.6**					(135.2)					0.2	**(71.4)**	**Other operating income (expenses)**
190	Administrative expenses:	**(1,242.1)**											**(1,017.9)**	**Administrative expenses**
	a) personnel expenses	(713.2)							(8.8)			(4.0)	(726.0)	a) personnel expenses
	b) other administrative expenses	(528.9)				74.6	130.7	35.2		0.8		(4.3)	(291.9)	b) other administrative expenses
													(128.4)	Net value adjustments to property, plant and equipment and intangible assets
210	Net adjustments to/recoveries on property, plant and equipment	**(87.8)**					4.5					(0.5)	(83.8)	
220	Net adjustments to/recoveries on intangible assets	**(54.5)**	10.3									(0.4)	(44.6)	
130	Net impairment (losses)/reversals on	**(251.3)**											**(253.8)**	**Cost of customers credit**
	a) financial assets measured at amortised cost	(250.4)									(0.2)	2.8	(247.8)	*130a) financial assets measured at amortised cost - customers*
	b) financial assets measured at fair value through other comprehensive income	(0.9)									0.9			
											(0.7)		(0.7)	*100a) Loans to customers measured at amortised cost*
											(36.3)		(36.3)	*110b) Loans*
											34.3		**34.3**	*200 a) Net provision for risks and charges related to financial guarantess and other commitments*
140	Modification gains/(losses)	**(3.3)**											(3.3)	*140 Modification gains (losses)*
											(0.7)		**(0.7)**	**Net impairment (losses)/reversals on securities and loans to banks**
160	Net insurance premium	-												
170	Other net insurance income (expense)	-												
200	Net provision for risks and charges:	**(23.9)**											**(58.4)**	**Net provisions for risks and charges**
	a) commitments and guarantees issued	34.3									(34.3)			
	b) other net provisions	(58.2)										(0.2)	(58.4)	
250	Gains (losses) on investments	**37.8**			(34.6)								**3.2**	**Gains (losses) on investments**
									8.8	(5.7)			**3.1**	Restructuring costs /One-0ff costs
						(87.5)							**(87.5)**	Risks and charges related to the SRF, DGS and similar schemes
								(35.2)					**(35.2)**	DTA Fee
280	Gains (losses) on disposal of investments	**0.7**											**0.7**	Gains (losses) on disposal of investments
290	Profit (loss) before tax from continuing operations	**6.6**	14.0	0.0						(4.9)		(4.4)	**11.3**	Profit (loss) before tax from continuing operations
300	Tax (expense)/recovery on income from continuing operations	**95.8**	(4.6)	-									**91.2**	Tax expense (recovery) on income from continuing operations
310	Profit (loss) after tax from continuing operations	**102.4**	9.4	0.0						(4.9)		(4.4)	**102.5**	Profit (loss) after tax from continuing operations
320	Profit (loss) after tax from groups of assets held for sale and discontinued operations	**(9.3)**								4.9		4.4		
330	Net Profit (loss) for the period	**93.1**	9.4	0.0								(0.0)	**102.5**	Net profit (loss) for the period including non-controlling interests
340	Net Profit (loss) attributable to non-controlling interests	**-**											**-**	Net profit (loss) attributable to non-controlling interests
		-	(9.4)										**(9.4)**	PPA (Purchase Price Allocation)
	Parent company's net profit (loss) for the preriod	**93.1**	32.7	0.2	0.0	0.0	0.0	0.0	0.0	-9.8	0.0	-8.8	**93.1**	**Parent company's net profit (loss) for the preriod**

Reconciliation between the reclassified balance sheet and the related statutory account - June 2020

Item	Balance-sheet Items - Assets	30/06/20	Other financial assets @ FVTPLM - Loans to banks	Loans to customers	Trading derivatives	Securities	Loans to Banks @ AC - Loans to Central Banks	Non-current assets held for sale and discontinued operations - Property, plant and equipement	Non-current assets held for sale and discontinued operations -Others	Change in value of macro-hedged financial assets	30/06/20	Reclassified Balance-sheet Items - Assets
10	Cash and cash equivalents	**679.9**									**679.9**	**Cash and cash equivalents**
20	Financial assets measured at fair value through profit and loss	**12,390.1**									**25,569.4**	**Securities assets**
						16,485.7					16,485.7	
	a) financial assets held for trading	11,649.9			(3,077.2)						8,572.7	
	b) financial assets designated at fair value	-										
	c) other financial assets mandarily measured at fair value	740.2		(229.2)							511.0	
30	Financial assets measured at fair value through other comprehensive income	**6,067.8**				(6,067.8)						
40	Financial assets measured at amortised cost	**113,434.7**										
							15,037.8				**15,037.8**	**Loans to central banks**
	a) Loans to banks	21,577.4				(782.3)	(15,037.8)				**5,757.3**	**Loans to banks**
	b) Loans to customers	91,857.3		288.9		(9,635.6)					**82,510.6**	**Loans to customers**
50	Hedging derivatives	**51.9**			3,077.2						**3,129.1**	**Derivatives**
60	Change in value of macro-hedged financial assets (+/-)	**1,051.3**								-1051.3	**-**	
70	Equity investments	**953.9**									**953.9**	**Equity investments**
80	Reinsurers' share of technical reserve	**-**									**-**	
90	Property, plant and equipment	**2,373.3**						290			**2,663.3**	Property, plant and equipment
100	Intangible assets	**187.3**									**187.3**	Intangible assets
	- of which goodwill	*7.9*									*7.9*	*-of which goodwill*
110	Tax assets	**2,193.1**									**2,193.1**	**Tax assets**
	a) current	921.1									921.1	a) current
	b) deferred	1,272.0		-							1,272.0	b) deferred
120	Non-current assets and groups of assets held for sale and discontinued operations	**349.8**		*(59.7)*				(290.0)	(0.1)		**-**	
130	Other assets	**1,923.0**		-					0.1	1,051.3	**2,974.4**	Other assets
	Total Assets	**141,656.1**	-	-	-	-	-	-	-	-	**141,656.1**	**Total Assets**

Items	Balance-sheet Items - Liabilities	30/06/20	Due to Central Banks	Due to bank	Debt securities issued - customers	Trading derivatives	Financial liabilities designated at fair value	Provision for staff severance indemnities	Change in value in macro-hedged financial liabilities (+/-)	Liabilities associated with non-current assets held for sale and discontinued operations	Group Net Equity	30/06/20	Reclassified balance-sheet items - Liabilities
10	Financial liabilities measured at amortised cost	**123,529.0**										**97,585.2**	**Direct funding**
	a) due to banks	26,184.5	(21,330.6)	(4,853.9)								-	
	b) due to customers	85,335.0			804.8							86,139.8	a) due to customers at amortised cost
	c) debts securities issued	12,009.5			(804.8)		240.7					11,445.4	b) Securities issued
			21,330.6									**21,330.6**	**Due to central banks**
				4,853.9								**4,853.9**	**Due to banks**
20	Financial liabilities held for trading	**3,836.3**				(1,644.2)						**2,192.1**	**On-balance-sheet financial liabilities held for trading**
30	Financial liabilities designated at fair value	**240.7**					(240.7)					**-**	
												3,419.2	**Derivatives**
40	Hedging derivatives	**1,775.0**										1,775.0	Hedging derivatives
						1,644.2						1,644.2	Trading derivatives
50	Change in value in macro-hedged financial liabilities (+/-)	**50.0**							(50.0)			**-**	
60	Tax liabilities	**3.0**										**3.0**	**Tax liabilities**
	a) current	0.1										*0.1*	*a) current*
	b) deferred	2.9										*2.9*	*b) deferred*
70	Liabilities associated with non-current assets held for sale and discontinued operations	**-**								-		**-**	
												3,541.4	**Other liabilities**
									50.0			50.0	Fair value change of financial liabilities in hedged portfolios (+/-)
										-		-	Liabilities associated with non-current assets held for sale and discontinued operations
80	Other liabilities	**3,491.4**										3,491.4	Other liabilities
90	Provision for employees severance pay	**180.3**						(180.3)				**-**	
100	Provisions for risks and charges:	**1,390.6**										**1,570.9**	**Provisions for specific use**
								180.3				180.3	a)Provision for staff severance indemnities
	a) financial guarantees and other commitments	152.6										152.6	b) Provision related to guarantees and other commitments given
	b) post-employment benefits	34.0										34.0	c) Pension and other post-retirement benefit obligations
	c) other provisions	1,204.0										1,204.0	d) Other provisions
120	Valuation reserves	**35.2**									(35.2)	**-**	
150	Reserves	**(1,803.0)**									1803	**-**	
												7,158.4	**Group net equity**
											35.2	35.2	a) Valuation reserves
												-	b) Redeemable shares
												-	c) Equity Instruments
											(1,803.0)	(1,803.0)	d) Reserves
												-	e) Share premium reserve
170	Share capital	**10,328.6**										10,328.6	f) Share capital
											(313.7)	(313.7)	g) Treasury shares (-)
											(1,088.7)	(1,088.7)	h) Net profit (loss) for the period
180	Treasury shares (-)	**(313.7)**									313.7	**-**	
190	Non-controlling interests (+/-)	**1.4**										**1.4**	Non-controlling interests
200	Ne Profit (loss) for the period (+/-)	**(1,088.7)**									1,088.7	**-**	
	Total Liabilities and Shareholders' Equity	**141,656.1**	-	-	-	-	-	-	-	-	-	**141,656.1**	**Total Liabilities and Shareholders' Equity**

Reconciliation between the reclassified balance sheet and the related statutory accounts - December 2019

Item	Balance-sheet Items - Assets	31/12/19	Other financial assets @ FVTPLM - Loans to banks	Loans to customers	Trading derivatives	Securities	Loans to Banks @ AC - Loans to Central Banks	Non-current assets held for sale and discontinued operations - Property, plant and equipement	Non-current assets held for sale and discontinued operations -Others	Change in value of macro-hedged financial assets	31/12/19	Reclassified Balance-sheet Items - Assets
10	Cash and cash equivalents	**835.1**		-		-					**835.1**	**Cash and cash equivalents**
20	Financial assets measured at fair value through profit and loss	**10,666.4**		-		-					**24,185.1**	**Securities assets**
						16,810.6					16,810.6	
	a) financial assets held for trading	9,902.5		-	(2,968.2)	-					6,934.3	
	b) financial assets designated at fair value	-		-		-					-	
	c) other financial assets mandatorily measured at fair value	763.9	-	(323.7)		-					440.2	
30	Financial assets measured at fair value through other comprehensive income	**6,726.8**		-		(6,726.8)					-	
40	Financial assets measured at amortised cost	**104,707.5**		-		-						
				-		-	9,405.4				**9,405.4**	**Loans to central banks**
	a) Loans to banks	15,722.4	-	-		(774.3)	(9,405.4)				**5,542.7**	**Loans to banks**
	b) Loans to customers	88,985.1		459.4		(9,309.5)					**80,135.0**	**Loans to customers**
50	Hedging derivatives	**73.0**		-	2,968.2	-					**3,041.2**	**Derivatives**
60	Change in value of macro-hedged financial assets (+/-)	**636.0**		-		-				-636	-	
70	Equity investments	**931.0**		-		-					**931.0**	**Equity investments**
80	Reinsurers' share of technical reserve	**-**		-		-					-	
90	Property, plant and equipment	**2,709.1**		-		-		24			**2,733.1**	Property, plant and equipment
100	Intangible assets	**176.1**		-		-					**176.1**	Intangible assets
	- of which goodwill	*7.9*		-		-					*7.9*	*-of which goodwill*
110	Tax assets	**2,763.0**		-		-					**2,763.0**	**Tax assets**
	a) current	953.5		-		-					953.5	a) current
	b) deferred	1,809.4		-		-					1,809.4	b) deferred
120	Non-current assets and groups of assets held for sale and discontinued operations	**159.8**		-135.7		0		-24	-0.1		-	
130	Other assets	**1,812.2**		-		-			0.1	636	**2,448.3**	Other assets
	Total Assets	**132,196.0**	-	-	-	-	-	-	-	-	**132,196.0**	**Total Assets**

Items	Balance-sheet Items - Liabilities	31/12/19	Due to Central Banks	Due to bank	Debt securities issued - customers	Trading derivatives	Financial liabilities designated at fair value	Provision for staff severance indemnities	Change in value in macro-hedged financial liabilities (+/-)	Liabilities associated with non-current assets held for sale and discontinued operations	Group Net Equity	31/12/19	Reclassified balance-sheet items - Liabilities
10	Financial liabilities measured at amortised cost	**114,148.3**										**94,217.3**	**Direct funding**
	a) loans to banks	20,178.1	(16,041.5)	(4,136.6)								-	
	b) loans to customers	76,526.9			3,536.3							80,063.2	a) due to customers at amortised cost
	c) debts securities issued	17,443.3			(3,536.3)		247.1					14,154.1	b) Securities issued
			16,041.5									**16,041.5**	**Due to central banks**
				4,136.6								**4,136.6**	**Due to banks**
20	Financial liabilities held for trading	**3,882.6**				(1,446.6)						**2,436.0**	**On-balance-sheet financial liabilities held for trading**
30	Financial liabilities designated at fair value	**247.1**					(247.1)					-	
												2,762.5	**Derivatives**
40	Hedging derivatives	**1,315.9**										1,315.9	Hedging derivatives
						1,446.6						1,446.6	Trading derivatives
50	Change in value in macro-hedged financial liabilities (+/-)	**31.4**							(31.4)			-	
60	Tax liabilities	**3.3**										**3.3**	**Tax liabilities**
	a) current	0.4										*0.4*	*a) current*
	b) deferred	2.9										*2.9*	*b) deferred*
70	Liabilities associated with non-current assets held for sale and discontinued operations	**-**								-		-	
												2,929.4	**Other liabilities**
									31.4			31.4	Fair value change of financial liabilities in hedged portfolios (+/-)
										-		-	Liabilities associated with non-current assets held for sale and discontinued operations
80	Other liabilities	**2,898.0**										2,898.0	Other liabilities
90	Provision for employees severance pay	**178.7**						(178.7)				-	
100	Provision for risks and charges:	**1,209.8**										**1,388.5**	**Provisions for specific use**
								178.7				178.7	a)Provision for staff severance indemnities
	a) financial guarantees and other commitments	158.8										158.8	b) Provision related to guarantees and other commitments given
	b) post-employment benefits	36.1										36.1	c) Pension and other post-retirement benefit obligations
	c) other provisions	1,014.9										1,014.9	d) Other provisions
120	Valuation reserves	**66.4**									(66.4)	-	
150	Reserves	**(769.2)**									769.2	-	
												8,279.1	**Group net equity**
											66.4	66.4	a) Valuation reserves
												-	b) Redeemable shares
												-	c) Equity Instruments
											(769.2)	(769.2)	d) Reserves
												-	e) Share premium reserve
170	Share capital	**10,328.6**										10,328.6	f) Share capital
											(313.7)	(313.7)	g) Treasury shares (-)
											(1,033.0)	(1,033.0)	h) Net profit (loss) for the period
180	Treasury shares (-)	**(313.7)**									313.7	-	
190	Non-controlling interests (+/-)	**1.8**										**1.8**	Non-controlling interests
200	Ne Profit (loss) for the period (+/-)	**(1,033.0)**									1,033.0	-	
	Total Liabilities and Shareholders' Equity	**132,196.0**	-	-	-	-	-	-	-	-	-	**132,196.0**	**Total Liabilities and Shareholders' Equity**