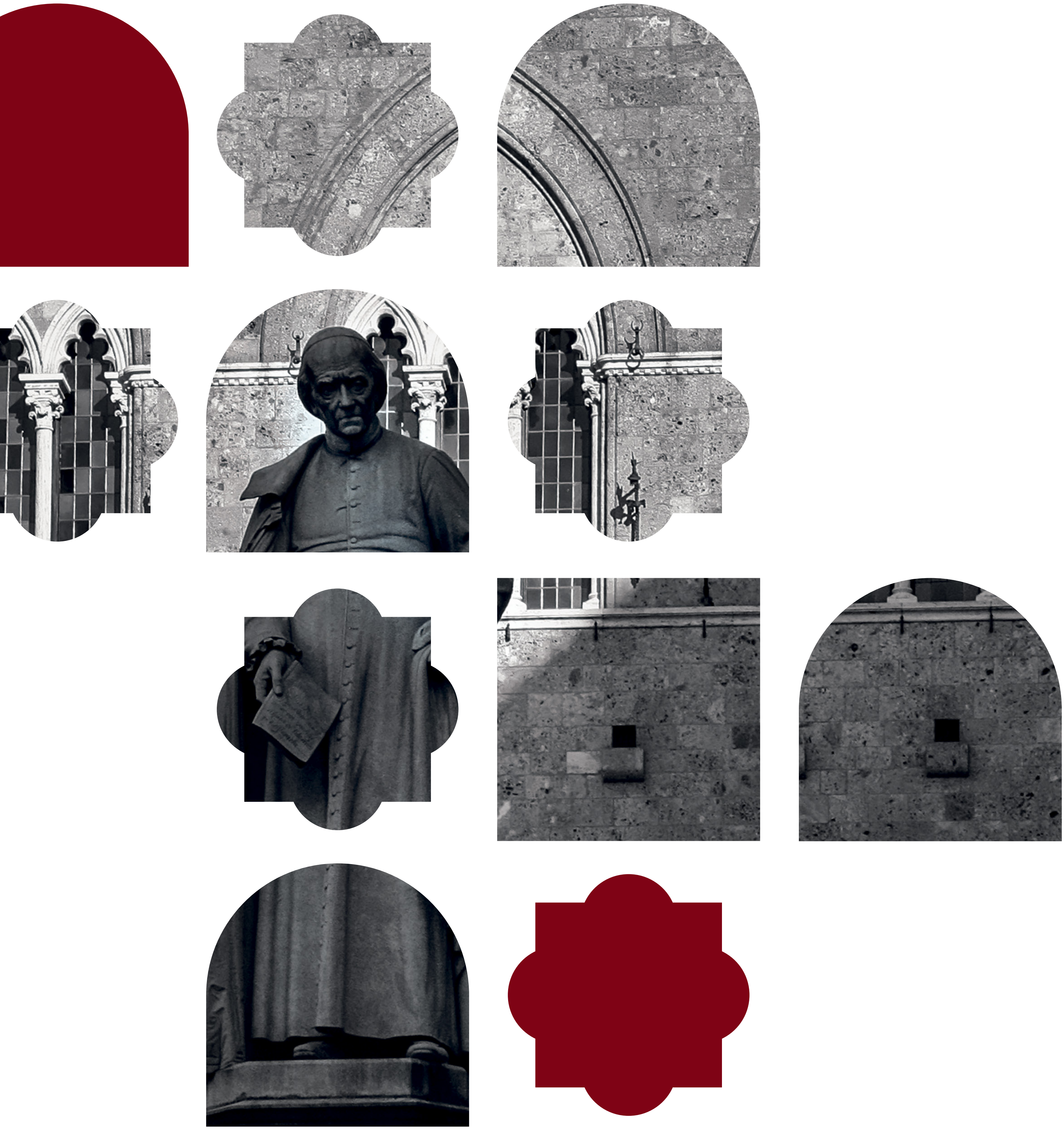
MONTE DEI PASCHI DI SIENA
BANK SINCE 1472



Monte dei Paschi di Siena Group
Consolidated interim report as at 31 march 2022

Interim Report on Operations

Monte dei Paschi di Siena Group

31 March 2022

Banca Monte dei Paschi di Siena S.p.A.
Registered office in Piazza Salimbeni 3, Siena, Italy
Share Capital: € 9,195,012,196.85 fully paid in
Registered with the Arezzo-Siena Company Register – registration no. and tax code 00884060526
MPS VAT Group - VAT number 01483500524
Member of the Italian Interbank Deposit Protection Fund. Registered with the Register of Banks under no. 5274
Monte dei Paschi di Siena Banking Group, registered with the Register of Banking Groups.

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Introduction

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obligation for listed companies to publish interim reports on operations (as at 31 March and as at 30 September) was repealed, allowing issuers to decide on a voluntary basis whether to disclose periodic financial information in addition to the annual and half-yearly reports.

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

This Interim Report on Operations, not subject to limited audit requirements, provides a description of the activities and results which largely characterised Montepaschi Group's operations as at 31 March 2022, both as a whole and in the various business lines through which consolidated operations are carried out.

Results in brief

Below are the main economic and financial values of the Montepaschi Group as at 31 March 2022, compared with those for the same period of the previous year and at the end of the previous year, respectively. In addition, the key economic and financial indicators [1]are provided, based on accounting data, corresponding to those used in internal performance management and management reporting systems, and consistent with the most commonly used metrics within the banking industry, thereby ensuring the comparability of reported figures.

The Alternative Performance Measures (APMs) provided in this section take into account the Guidelines provided by the European Securities and Markets Authority (ESMA) on 5 October 2015, which the Italian Stock regulator, Consob, has incorporated in its supervisory practices (Communication no. 0092543 of 3 December 2015). These Guidelines became applicable as of 3 July 2016. Please note that, in line with the instructions set forth in the update to the document "ESMA32_51_370 – Question and answer – ESMA Guidelines on Alternative Performance Measures (APMs)" published on 17 April 2020, no changes have been made to the APMs in use in order to consider the effects of the COVID-19 crisis. It should be noted that, for each APM, information is provided on its definition and calculation methods, and the amounts used in the calculation may be identified through the information contained in the tables below or in the reclassified financial statements in this Consolidated Report on Operations.

INCOME STATEMENT AND BALANCE SHEET FIGURES			
MPS GROUP			
INCOME STATEMENT FIGURES (EUR mln)	31 03 2022	31 03 2021	Chg.
Net interest income	323.1	279.6	15.6%
Net fee and commission income	368.9	372.0	-0.8%
Other income from banking business	94.4	179.8	-47.5%
Other operating income and expenses	(3.2)	(10.7)	-69.7%
Total Revenues	783.2	820.7	-4.6%
Operating expenses	(535.3)	(540.4)	-0.9%
Cost of customer credit	(111.3)	(73.9)	50.5%
Other value adjustments	(0.4)	(3.7)	-89.2%
Net operating income (loss)	136.2	202.7	-32.8%
Non-operating items	(131.2)	(88.7)	47.9%
Parent company's net profit (loss) for the period	9.7	119.3	-91.9%
EARNINGS PER SHARE (EUR)	31 03 2022	31 03 2021	Chg.
Basic earnings per share	0.010	0.123	-92.1%
Diluted earnings per share	0.010	0.123	-92.1%
BALANCE SHEET FIGURES AND INDICATORS (EUR mln)	31 03 2022	31 12 2021	Chg.
Total assets	132,009.1	137,868.6	-4.3%
Loans to customers	79,259.7	79,380.3	-0.2%
Direct funding	84,428.2	90,300.3	-6.5%
Indirect funding	99,846.6	104,429.7	-4.4%
of which: assets under management	62,785.4	65,285.5	-3.8%
of which: assets under custody	37,061.1	39,144.2	-5.3%
Group net equity	6,006.1	6,172.7	-2.7%
OPERATING STRUCTURE	31 03 2022	31 12 2021	Chg.
Total headcount - end of period	21,183	21,244	-61
Number of branches in Italy	1,368	1,368	n.m.

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

ALTERNATIVE PERFORMANCE MEASURES			
MPS GROUP			
PROFITABILITY RATIOS (%)	31 03 2022	31 12 2021	Chg.
Cost/Income ratio	68.4	70.7	-2.3
ROE (on average equity)	0.6	5.2	-4.6
ROA	0.0	0.2	-0.2
ROTE	0.7	5.3	-4.6
CREDIT QUALITY RATIOS (%)	31 03 2022	31 12 2021	Chg.
Net non performing esposures to customers / Total net exposures to Customers (excluding government securities)*	2.5	2.7	-0.2
Gross NPL ratio	4.0	3.8	0.2
Rate of change of non-performing loans to customers	(2.2)	2.5	-4.7
Bad loans to customers/ Loans to Customers	0.8	0.8	n.m.
Loans to customers measured at amortised cost - Stage 2/Performing loans to customers measured at amortised cost	16.4	16.0	0.4
Coverage of non-performing loans to customers	50.8	47.9	2.8
Coverage of bad loans to customers	65.6	63.7	1.9
Cost of customers credit/Customers loans (Provisioning)	0.56	0.31	0.25
Texas Ratio	51.2	51.6	-0.4

** Starting from 31 March 20222, the ratio between Net non-performing exposures to customers and Total net exposures to customers (excluding government securities) is presented instead of the previous ratio between Net non-performing loans to customers and total net loans to customers, in order to provide a representative indicator of total exposures with higher risk of impairment not only of loans. The value at 31 december 2021 has been restated to ensure a homogenous comparison.*

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's shareholders' equity (including Profit and Valuation reserves) at the end of period and the shareholders' equity at the end of the previous year.

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

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

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

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

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

Provisioning: ratio between the annualised cost of customer credit and the sum of loans to customers and the value of securities deriving from sale/securitisation of non-performing loans.

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

[2] Book value of Group shareholders' equity inclusive of profit (loss) for the period, cleared of goodwill and other intangible assets.
[3] EBA GL/2018/10.

REGULATORY MEASURES			
MPS GROUP			
CAPITAL RATIOS (%)	31 03 2022	31 12 2021	Chg.
Common Equity Tier 1 (CET1) ratio - phase in	11.6	12.5	-0.9
Common Equity Tier 1 (CET1) ratio - fully loaded	10.8	11.0	-0.2
Total Capital ratio - phase in	15.3	16.1	-0.8
Total Capital ratio - fully loaded	14.5	14.6	-0.1
FINANCIAL LEVERAGE INDEX (%)	31 03 2022	31 12 2021	Chg.
Leverage ratio - transitional definition	4.4	4.7	-0.3
Leverage ratio - fully phased	4.1	4.2	-0.1
LIQUIDITY RATIO (%)	31 03 2022	31 12 2021	Chg.
LCR	186.0	172.7	13.3
NSFR	135.5	129.6	5.9
Encumbered asset ratio	38.7	40.7	-2.0
Loan to deposit ratio	93.9	87.9	6.0
Spot Counterbalancing capacity (bn of Eur)	25.0	25.4	-0.4

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.

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

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

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

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 European Central Bank ("ECB") and assets deposited in the collateralised interbank market (MIC) and not used, to which the haircut, published on a daily basis by the ECB, is prudentially applied.

[4] Defined by art. 4 of Regulation EU/2013/575 (Capital Requirements Regulation, CRR). It consists of the eligible elements and capital instruments, net of the envisaged adjustments and deductions.
[5] Risk-weighted assets: the result of the application of certain risk weights to exposures, determined according to supervisory rules.
[6] Sum of Common Equity Tier 1 (CET1) and Additional Tier 1 (AT1) capital of the entity, as defined by art. 25 of Regulation (EU) no. 575/2013.

Executive summary

Changes in the key items of the Group's main aggregates recorded as at 31 March 2022 are summarised below, noting that the results of the first quarter of 2022 were affected by the Russia-Ukraine conflict as well as the effects linked to the health emergency created by the spread of the COVID-19 virus. The latter, as is well-known, impacted 2021 as well.

- **Net Interest Income** was equal to EUR **323 mln**, up 15.6% compared to the same period of 2021. This growth was driven primarily by (i) the positive effects of access to TLTRO III auctions, (ii) the lower cost incurred for the liquidity deposited at central banks, following the reduction in the relative volumes, (iii) the lower cost of market funding, which benefitted from the maturity of some securities and (iv) the increased contribution of the commercial segment, thanks to the lower cost of funding, which more than offset by lower interest on loans.

- **Net fee and commission income**, totalling EUR 369 mln, declined slightly compared to the same period of the previous year (-0.8%). The downturn can be linked to lower income on asset management (-3.5%) as well as lower commissions on product placement, in addition to the lower income on protection and securities servicing, despite higher fees and commissions from continuing business. Fees and commissions from traditional banking services had recovered compared to the same period of the previous year.

- **Other revenues from banking business**, equal to EUR 94 mln, decreased by EUR 85 mln compared to the first quarter of 2021, attributable to lower profits from the sale of securities. The contribution generated by the partnership with AXA was also down compared to the previous year, while the result of trading activity improved thanks to the increased contribution of MPS Capital Services.

- **Other operating income and expense**, totalling EUR -3 mln, improved compared to the result recorded in the same period of 2021 (equal to EUR -11 mln).

- As a result of the trends described above, **Total revenues** amounted to EUR 783 mln, down 4.6% compared to the first quarter of 2021.

- **Operating expenses** totalled EUR 535 mln, down 0.9% compared to the same period of the previous year. This aggregate includes **Personnel expenses**, totalling EUR 356 mln, which were down 1.2% compared to 31 March 2021, benefiting from workforce reduction trends. **Other administrative expenses** amounted to EUR 136 mln, up by EUR 3 mln compared to the same period of the previous year, also due to the increase in energy prices recorded since the start of the year. **Net value adjustments to property, plant and equipment and intangible assets**, equal to EUR 44 mln, were down on the first quarter of 2021 (-8.1%), in part due to the effects of the introduction of the fair value measurement of properties for business use starting from 31 March 2021.

- The **Cost of customer credit** was equal to EUR 111 mln, up by EUR 74 mln compared to the same period of the previous year as a result of the trend in non-performing loans and the preliminary estimate of the impacts deriving from the Russia-Ukraine conflict.

  The **Provisioning *Rate***[7] is **56 bps** (36 bps as at 31 March 2021).

- The **Net Operating Income** was EUR 136 mln, compared to EUR 203 mln in the corresponding period of the previous year.

- In addition to the changes in these economic aggregates, there were non-operating components amounting to EUR -131 mln (EUR -89 mln as at 31 March 2021). Notably, **Net provisions for risks and charges**, equal to EUR -28 mln (EUR +9 mln as at 31 March 2021), **Other gains (losses) on investments**, equal to EUR 2 mln (EUR -3 mln as at 31 March 2021), **Restructuring/One-off costs**, equal to EUR -0.2 mln (EUR -0.1 mln as at 31 March 2021), costs associated with **SRF (Single Resolution Fund), DGS (Deposit Guarantee Systems) and similar schemes**, equal to EUR -89 mln (up compared to EUR -68 mln as at 31 March 2021), the **DTA fee** equal to EUR -16 mln (unchanged compared to 31 March 2021), the **Net gains (losses) on property, plant and equipment and intangible assets measured at fair value** amounting to zero (EUR -28 mln as at 31 March 2021) and **gains (losses) on disposal of investments**, equal to EUR -0.1 mln (EUR +17 mln as at 31 March 2021).

- As a result of these trends, together with the positive impact of **Taxes** of **EUR 6 mln** (EUR +6 mln as at 31 March 2021) and the net economic effects of the **PPA**, equal to EUR -0.8 mln (EUR -0.9 mln as at 31

[7] Calculated as the ratio between the annualised cost of customer credit and the sum of loans to customers and securities deriving from the sale/securitisation of non-performing loans.

March 2021), the Group posts a **Profit for the period** attributable to the Parent Company of **EUR 10 mln**, compared to a profit of EUR 119 mln posted in the same period of the previous year.

- **Total Funding** as at 31 March 2022 amounted to approx. **EUR 184.3 bn**, with a decrease in volumes of EUR 10.5 bn compared to 31 December 2021, due to the decrease in Direct Funding (EUR -5.9 bn) as well as Indirect Funding (EUR -4.6 bn). In more detail, the decline in Direct Funding can be attributed primarily to the downturn in Repurchase Agreements (EUR -3.4 bn), linked to the decrease in transactions of MPS Capital Services. The bond segment was also down (EUR -1.0 bn) due to the maturity of a covered bond, as were current accounts (EUR -1.0 bn), time deposits (EUR -0.4 bn) and Other forms of funding (EUR -0.1 bn). Indirect Funding decreased compared to 31 December 2021 by EUR 4.6 bn, due to the reduction in both the Assets under Management (EUR -2.5 bn) and Assets under Custody (EUR -2.1 bn) components, impacted by a negative market effect.

  Total Funding compared to 31 March 2021 recorded a decline in volumes of EUR 19.2 bn due to the decrease in Direct Funding (EUR -14.6 bn) as well as Indirect Funding (EUR -4.6 bn). Direct Funding was down across all aggregates; in particular, there was a decrease in Repurchase Agreements (EUR -5.6 bn) due to the lower transactions of MPS Capital Services and a reduction in current accounts (EUR -2.3 bn) and time deposits (EUR -2.0 bn) due to the continuation of the actions put into place by the Parent Company to optimise the cost of funding. There was also a decline in Other forms of funding (EUR -2.2 bn) and in the bond segment (EUR -2.5 bn), the latter mainly due to the maturity of a covered bond. On the other hand, Indirect Funding decreased compared to 31 March 2021 by EUR 4.6 bn, due to the reduction in Assets under Custody (EUR -5.3 bn), in relation to movements recorded for two large customers as well as a negative market effect. On the other hand, the Assets under Management component increased (EUR +0.7 bn).

- As at 31 March 2022, **Loans to Customers** amounted to approximately **EUR 79.3 bn**, basically stable compared to the end of December as a result of the decrease in Repurchase Agreements (EUR -1.1 bn), offset by growth in current accounts (EUR +0.4 bn), mortgages (EUR +0.1 bn) and other loans (EUR +0.6 bn). On the other hand, non-performing loans were down (EUR -0.2 bn).

  With respect to 31 March 2021, Loans to Customers declined by EUR 3.0 bn primarily due to the decline in Repurchase Agreements (EUR -3.5 bn) and the decrease in mortgages (EUR -0.3 bn) and non-performing loans (EUR -0.2 bn). On the other hand, current accounts (EUR +0.2 bn) and other loans (EUR +0.8 bn) were up.

- As at 31 March 2022, **the coverage ratio** for non-performing loans stood at 50.8%, up compared to 31 December 2021 (47.9%) as a result of the increase in the coverage ratio of bad loans (from 63.7% to 65.6%), unlikely-to-pay positions (from 36.7% to 39.5%) and non-performing past-due loans (from 22.7% to 23.5%). The coverage ratio for non-performing loans was also up compared to 31 March 2021, when it amounted to 47.4% thanks to the increase in the coverage ratio of bad loans (from 64.7% to 65.6%) and unlikely-to-pay positions (from 37.5% to 39.5%). On the other hand, the non-performing past-due loans coverage ratio declined from 25.6% to 23.5%.

- With regard to capital ratios, as at 31 March 2022 the ***Common Equity Tier 1 Ratio*** stood at **11.6%** (12.5% at the end of 2021 and 12.2% as at 31 March 2021) and the ***Total Capital Ratio*** at **15.3%** (compared to 16.1% recorded at the end of 2021 and 15.9% as at 31 March 2021).

Reference context

The international scenario

Despite the spread of COVID variants, 2022 began with reassuring signs with regard to the continuation of the cycle of expansion, with activities returning close to and in certain cases exceeding pre-crisis levels within a context of living with the virus. The strong rebound in demand was met with supply that was unable to keep pace, due to international supply chain disruptions and scarce raw materials and semi-finished products, which drove commodity prices upwards and, thereafter, the internal prices of the individual countries, which have risen significantly and continue to remain at high levels. In this scenario of considerably overheating prices, the conflict in Ukraine, still under way, also began, with the invasion by Russia on 24 February. The severe sanctions imposed on Russia by Western countries (culminating, in certain cases, in embargoes on energy supplies), are not discouraging Moscow, despite the recessive impacts on the Russian economy. A truce with Kyiv, which is also benefitting from Western military, but not only, support, does not seem to be on the horizon in the short term. Thus the global geopolitical and economic balance has shifted, with price tensions on many raw materials (energy and agricultural) and new blocks on commercial routes; uncertainty is on the rise with respect to the possible evolution of the conflict. Qualitative indicators for March, recorded after the Russian invasion, indeed point to a strong deterioration in the confidence of households and businesses alike.

In the United States, in the first quarter of the year GDP unexpectedly contracted (annualised -1.4% qoq) and inflation reached new highs not seen since December 1981, rising to 8.5% in March on a yearly basis (the increase in the core figure, not including the more volatile components, was instead lower than expected). With the US inflationary trend driven not only by supply but also demand factors and wage growth within a still tense job market, the FED has accelerated its restriction of monetary policy. Household confidence pointed to increasing concern about buying power remaining unchanged in the face of persistently high inflation. The conflict in Ukraine broke out within this context. At the moment, the US's low exposure to the Russian and Ukrainian goods and capital markets, along with the lower degree of opening with respect to Europe, as well as a lack of energy dependence which permitted the States (along with London) to ban Russian oil and gas supplies, are seeming to limit the direct and indirect cost of the outbreak of the conflict on the US economy.

In the Eurozone, despite the very uneven context, after a weak January economic indicators improved and in the first quarter of the year GDP continued to increase although at a modest pace compared to the previous quarter (+0.2%). However, the outbreak of the conflict is causing a new inversion of the indicators, as Europe is one of the areas most exposed to the impacts of the conflict: due to its close commercial relations with Russia; as well as the financial repercussions and uncertainty linked to sanctions on movements of capital of Russian banks and institutions; in addition to the further surge in prices deriving from higher prices of energy supplied by Russia (more than 50% of German gas imports come from Russia) and which drove inflation to 7.4% in March, with impacts on household and business spending. Furthermore, the need to return to an expansionary budgetary policy to support the economy is also playing a role.

Following the outbreak of the conflict, the EU (along with the G7 and other countries) imposed sanctions on Russia initially targeted at banks and individuals; subsequently, they expanded to the export of luxury goods and high technology and steel imports; a limitation on oil and gas imports remains under discussion. With reference to the refugee emergency, EU institutions have authorised the use of previously committed resources and set up new temporary humanitarian aid and assistance plans. Due to the crisis deriving from higher energy prices and the impact of sanctions, a State Aid Temporary Crisis Framework has been established (analogous to that activated for the COVID emergency), which will remain in force until the end of 2022, to provide the participating countries with more flexibility and make up for what many national governments have already done to compensate households and businesses for higher energy prices. Increases in military spending have been announced, both by governments (Germany) and at European level, and the new European defence strategy has been approved, calling for the establishment of a military force of five thousand soldiers and the possibility to conduct autonomous military interventions by 2025.

The effects of strong uncertainty in the international financial markets and high global inflation have impacted the recovery of several emerging economies, which have been forced to tighten financial conditions and raise policy rates (Brazil). In this context, the outbreak of the conflict between countries that supply not only energy but also fertilizer and grains, has accentuated price tensions on agricultural products, which are often crucial for emerging economies. Despite the drastic deterioration of the Russian economy, the impacts of direct sanctions against Moscow on countries that are economically "close" to the Kremlin (India and China) remain limited at the moment. The start of 2022 also brought with it a deterioration in the health situation in certain areas due to the spread of the Omicron 2 variant (Indonesia, Japan and China). Beijing introduced severe containment measures in several regions which, if extended, could impact the achievement of the government's growth target of 5.5% in 2022; this objective will be achieved by making recourse to both fiscal and monetary stimulus measures, also thanks to domestic inflation that is remaining under control. In the meantime, China recorded yearly growth of 4.8% in the first quarter of the year.

Italy: economic context

With an economy that marked annual growth of 6.6% in 2021 and public accounts showing a clear improvement, in the initial months of 2022, Italy faced a phase of uncertainty linked to the resurgence of COVID-19 cases and a spike in energy prices. The outbreak of the conflict in Ukraine once again altered the Italian context, not only due to its energy dependence, which is higher than the average of its European partners (for Italy, Russian gas covers nearly 40% of consumption), but also due to the non-negligible impacts in terms of trade and financial exchanges for some specific segments, such as machinery, apparel and footwear and pharmaceutical products, as well as certain areas/districts; while several raw materials and semi-finished products for which Russia and Ukraine hold a significant market share (titanium, palladium, wheat and corn, clay) represent important inputs for mechanical and ceramics production as well as for fertilizers and the agricultural/food supply chain. The conflict drove up prices of energy, food, metals and other raw materials even further, and the downturn in business and household confidence accentuated. In March, consumer inflation rose to 6.5% on a yearly basis, and core inflation (net of energy and food prices) also rose, although to a much more moderate extent, to 1.9%. In the first quarter of the year, GDP contracted on a quarterly basis (-0.2%).

The government intervened with a number of decrees since the start of the year with a view to combatting the resurgence of the pandemic, supporting the economic recovery and especially limiting the impacts of the conflict and controlling the effects of the exceptional surge in energy prices, accelerating efforts, alongside other EU Member States, to reduce dependence on Russian energy by diversifying and increasing supplies from other countries.

At the end of January, the government approved the "Sostegni ter" Law Decree (Law Decree no. 4 of 27 January 2022), which introduced measures to limit electricity costs and additional financial support to businesses in crisis, particularly the tourism, culture, sport, textiles and fashion, catering, events and weddings industries, due to the continuation of the COVID-19 emergency and the ensuing restrictions. The measure also contained corrective measures on the disposal of receivables deriving from the tax bonus and penalties for building fraud pursuant to the "Superbonus Fraud" Law Decree (Law Decree 13/2022). The measure was converted by law no. 25 of 28 March 2022.

On 25 February, the conversion law of the "Milleproroghe" Law Decree (Law 15/2022 converting Law Decree 228/2021) was published in the Official Gazette, which, in the banking area, impacts: the extraordinary operations of the SME Guarantee Fund in 2022, the Solidarity Fund for professional retraining and requalification of credit personnel, limitations on the use of cash and bearer securities.

On 1 March, the "Energy" Law Decree (Law Decree 17/2022) entered into force, establishing measures for energy efficiency and conversion, as well as other interventions in favour of businesses and domestic utilities. The resources amount to nearly EUR 8 bn, of which roughly EUR 5.5 bn allocated to handle higher energy costs and the remainder to support the production chains that are suffering most during this phase. The measure also calls for, until 30 June 2022, the SACE guarantee for loans intended to provide liquidity to businesses struck by COVID-19 to be provided to support proven liquidity requirements of companies ensuing from higher costs deriving from energy price hikes.

With the publication of law decree no. 24 of 24 March 2022 ("Reopenings") in the Official Gazette, the government ended the pandemic-related state of emergency as of 31 March, adopting a series of urgent measures to phase out the measures taken to combat the spread of the epidemic. In particular, the measure establishes: the extension of the obligation to wear FFP2 masks in the workplace; the end of the coloured zones system; the possibility to adopt new protocols and guidelines by an order handed down by the Ministry of Health. Furthermore, the green pass will also be gradually phased out and precautionary quarantines will be eliminated. As regards smart working regulations, the decree sets forth that until 30 June the simplified system in use during the pandemic period will remain in force.

The Ukraine (Law Decree 14/2022) and Ukraine-bis (Law Decree 16/2022) (merged into the former) Law Decrees were issued and converted into law on 31 March. The two measures contain provisions on the participation of military personnel in NATO deployments, the transfer of military vehicles and materials to the Ukrainian authorities, measures for accepting Ukrainian refugees and the security of the national natural gas system.

Lastly, the government adopted the "Price cut" Law Decree (Law Decree 22/2022) which acts, inter alia, to limit the increase in energy and fuel prices, with measures on energy prices, business support and oversight mechanisms to protect national companies. As concerns the financial system, the Decree established, inter alia, the transferability to other parties, including banks, of the tax credit benefitting companies with respect to expenses incurred for the purchase of electricity; the issue of guarantees by SACE in favour of banks, national and international financial institutions and other authorised lenders, within a maximum commitment limit of EUR 9 bn, in order to cover liquidity requirements deriving from the breakdown of energy consumption bills into instalments and for a total maximum commitment of up to EUR 5 bn, to back loans granted in any form to companies that manage industrial facilities of national strategic interest. A similar guarantee is provided to finance transactions for the acquisition and reactivation of decommissioned plants for the production of cast iron for use in the steel industry.

As regards the National Recovery and Resilience Plan (NRRP), on 2 February the Council of Ministers surveyed the situation relating to the main objectives for the first half of the year. The first scheduled deadline was met and the relative first payment tranche was approved by the EU Commission on 28 February (EUR 21 bn unlocked, of which EUR 10 in transfers and EUR 11 bn in loans, following the pre-financing of roughly EUR 24 bn disbursed in August 2021). In the course of 2022, Italy will need to achieve a total of 100 goals for the NRRP (83 milestones and 17 targets). Of these, 45 are to be achieved by 30 June 2022, connected to a repayment instalment of EUR 24.13 bn, and 55 by 31 December 2022, associated with a EUR 21.83 bn repayment instalment.

As concerns European regulations, on 24 March the European Commission decided to adopt the Temporary Crisis Framework in order to permit Member States to make use of the flexibility provided by the rules on state aid to support the economy within the current context. The Temporary Crisis Framework provides three types of aid: aid of limited amounts granted in any form, including direct subsidies; liquidity support in the form of state guarantees and subsidised loans; aid to offset the increase in energy costs. The Temporary Crisis Framework also includes a series of protections, calling for a proportional method in the granting of loans, a series of eligibility conditions and sustainability requirements for companies.

With the explosion of the conflict in Ukraine, the EU also gradually imposed sanctions on Russia and Belarus, impacting both economic activity and banks. The main sanctions include a total ban on transactions imposed on a series of Russian banks, as well as the Central Bank and the Central Bank of Belarus: there is a ban on the provision of specialised financial messaging services, used for the exchange of financial data (SWIFT), which also applies to any legal person, entity or body established in Russia with more than 50% of their property rights directly or indirectly held by the above-mentioned banks. The assets of the Russian Central Bank have also been frozen. At individual level, targeted restrictions have been established against a series of individuals and entities, as well as the Russian president and the Minister of Foreign Affairs, members of the Russian State Duma and additional individuals. These sanctions freeze assets and impose a ban on making funds available to the individuals and entities listed above.

Financial markets and monetary policy

The outbreak of the conflict in Ukraine in late February further compressed the indexes of the main advanced economies, which had started the year in a weak, volatile phase due to concerns linked to higher inflationary pressures. From the start of the year to 31 March 2022, the FTSE Mib lost roughly 8.5% and the Euro Stoxx more than 9%; the S&P 500 and the Nikkei limited their losses to around 5% and 3.5%, respectively. The Chinese Shenzhen recorded the heaviest losses (around -14.5%), pricing in the China-Russia relationship, but especially the recent introduction of new drastic lockdowns to limit the re-emergence of COVID-19 outbreaks in certain areas.

The long-term risk-free government yield experienced a significant rally in the first three months of the year, recording only a brief downturn, corresponding to the outbreak of the conflict, due to the risk aversion that translated into higher demand for safe-haven assets. After nearing even 2.5%, the US ten-year treasury bond closed the quarter just under 2.34%, gaining around 70 basis points from the levels recorded at the end of 2021; the German ten-year saw a similar trend, so after returning to positive territory already in the first part of the year, it reached 0.55% as at 31 March 2022, roughly 67 basis points higher than last December. There was a significant rise for the Italian ten-year bond, which closed the quarter at around 2.04%, from 1.17% at the end of 2021 (+87 basis points). The vulnerability of Italian debt securities to market tension phases, particularly within a context of progressively declining monetary support, impacted BTP-Bund spread trends which, after recording peaks at around 170 points corresponding to the Russian army's invasion of Ukraine, closed 31 March 2022 just under 150 basis points.

After years of monetary expansion, at its 16 March meeting the Fed officially launched its restrictive monetary policy by increasing the target Fed Funds rate by 25 basis points, with a view to significantly stemming surging inflation. FOMC member projections[8] consider an additional six hikes to be appropriate in the course of 2022, and the meeting minutes revealed that many board members would have preferred to raise rates by 50 points already in March. Chairman Powell also announced that during the May meeting, the Fed will announce a

[8] Fed Federal Open Market Committee

reduction of the securities holdings on its balance sheet, currently amounting to USD 8,900 bn, at a pace that could reach USD 95 bn per month when fully implemented. The ECB also modified its tone, outlining a less drastic path than the Fed for tapering its monetary stimulus measures. In the ECB's initial meetings of the year, although it maintained the cost of money unchanged at zero, it accelerated the reduction of monthly purchases through the Asset Purchase Programme (APP) to EUR 40, 30 and 20 bn in April, May and June, respectively, and confirmed the assumption of a possible conclusion of the plan in the third quarter of 2022. Lagarde underscored that downward risks on growth and upward risks on inflation have risen, especially in the short term, highlighting the importance of a flexible monetary policy approach to prevent financial fragmentation and ensure price stability. The increased speed of APP tapering was partially offset by the change in the forward guidance on short-term rates, with an indication that they will be increased "some time after" the conclusion of the bond buying programme and with a gradual procedure. With a view to normalising monetary policy, the ECB also announced a plan for phasing out the measures relaxing ECB funding collateral requirements.

Russia - Ukraine Conflict

As described in the "Reference context" section, on 24 February 2022 Russia announced a military operation in the Donbass region, which began an invasion of Ukraine. This event, along with the reactions of numerous countries and the European Union in terms of economic and financial sanctions, appears to be generating a situation of uncertainty on the macroeconomic level, as well as with respect to exchange rates, energy and raw material costs, trade, inflationary expectations, the cost of debt and credit risk. Uncertainties are also present with respect to the policies that will be followed by central banks and in particular the European Central Bank. More generally, geopolitical tensions appear to be susceptible to influence the expectations and behaviours of economic players and radically alter macroeconomic outlooks.

Within this context, the MPS Group performed an analysis in the first quarter of 2022 to verify the evolution of the possible impacts of the crisis linked to the conflict between Russia and Ukraine on its financial position. The analyses were performed by distinguishing between direct and indirect impacts and those referring to the general deterioration of the macroeconomic scenario.

Please note that, taking into account their extent, no significant impacts are expected from the direct exposures held by the Group with respect to Russia and Ukraine. In detail, as at 31 March 2022, the exposure is represented by unsecured loans and receivables of around EUR 22 mln, of which EUR 11 mln guaranteed by SACE, which were prudently classified in Stage 2.

Indirect risk is also very limited, and refers to performance bonds issued to back the completion of projects that are nearly finished and export advances.

As regards the potential impacts deriving from rising inflation as well as the higher cost of raw materials, an analysis was conducted on the Group's main exposures exposed to such risks. This portfolio continues to be subject to careful monitoring and on the date on which this interim report on operations was drafted, there were no signs of any deterioration.

As concerns the macroeconomic scenario, simulations with updated macroeconomic forecasts do not show increases in provisioning levels. Likewise, no signs of any deterioration were identified in IFRS 9 risk parameters (PD/LGD/EAD); at the moment, first quarter data show a very limited default flow.

With reference to other risks, exposures denominated in Russian currency are immaterial, and no negative change has been observed in the main liquidity indicators: LCR, NSFR, GAER.

COVID-19

Summary of measures to support households and businesses

						31 03 2022		31 03 2022
	Gross exposures			Total impairment (losses)			New Loans	
Type of loans	EBA Compliant-moratoria	EBA Non-compliant morataoria	**Total Gross esposures**	EBA Compliant-moratoria	EBA Non-compliant morataoria	**Total impairment (losses)**	Gross esposures	Total impairment (losses)
Performing exposures	16.8	214.3	**231.1**	0.4	12.7	**13.1**	10,485.3	29.9
Non performing exposures	-	66.4	**66.4**	-	17.4	**17.4**	141.3	26.7
Total 31 03 2022	**16.8**	**280.7**	**297.5**	**0.4**	**30.1**	**30.5**	**10,626.6**	**56.6**
Loans measured at fair value	0.0	0.1	**0.1**	-	-0.1	**-0.1**	-0.0	-
Stage 1	1.7	42.4	**44.1**	-	0.1	**0.1**	7,736.9	6.1
Stage 2	15.1	171.8	**186.9**	0.4	12.6	**13.0**	2,748.3	23.8
Stage 3	-	66.4	**66.4**	-	17.5	**17.5**	141.4	26.7
Purchased or originated credit impaired financial assets	-	-	**-**	-	-	**-**	-	-

Performing exposures affected by moratorium measures in place were equal to about EUR 0.2 bn (EUR 1.9 bn as at 31 December 2021), of which 81% classified in stage 2 and 19% in stage 1. The total of moratoria amounts to roughly 0.3% of the portfolio of performing loans to Group customers, and consists for the most part of moratoria not compliant with the EBA Guidelines after the 9-month trigger on the total duration of the suspension period was met. 74% of the latter was classified as forborne following the financial difficulty assessments carried out within the scope of credit review plans.

Non-performing exposures with current moratoria amounted to around EUR 66 mln as at 31 March 2022.

The total moratoria granted since the pandemic began amounted to EUR 12.5 bn, of which EUR 0.3 bn still active as at 31 March 2022 and shown in the table above, and EUR 12.2 bn with a suspension period that has come to an end ("expired"), EUR 11.3 bn of which classified as performing. With respect to this last aggregate, roughly 93% have instalments that have fallen due and been paid, with some limited overdue amounts, and for the remaining 7% the first instalment subsequent to the suspension has not yet fallen due.

In terms of the actions taken in application of the "Liquidity Decree", in line with its credit policy guidelines and within the scope of the temporary framework extended to 30 June 2022, the Group is continuing to disburse government backed loans. In the first quarter of 2022, additional loans of roughly EUR 0.6 bn were disbursed, so that the total amount of loans guaranteed by the Central Guarantee Fund, Ismea or SACE net of repayments is equal to around EUR 10.6 bn.

Around 42% of exposures originating from guaranteed loans have finished their pre-amortisation period, recording payment delays to the extent of 0.1%; for the remaining 58% of exposures, approximately 12% require payment of the first principal instalment in the second quarter of 2022, while 46% will complete pre-amortisation starting from the third quarter of 2022.

Of the guaranteed amounts disbursed, about 26% represents exposures classified as stage 2, with roughly 33% representing disbursements made pursuant to letter E of the Liquidity Decree, the latter with exposure totalling EUR 3.1 bn as at 31 March 2022. The guarantee coverage rate compared to the total disbursed is roughly 88%, basically unchanged compared to the end of 2021.

The NPE ratio on total guaranteed loans was equal to around 1.4%, also resulting from preventive UTP assessment actions; limited to the lines with overdue amounts beyond the thresholds established for the reporting of risk events, the obligations began being met for the management of the state guarantee.

Lastly, with reference to the initiatives undertaken by the Group to manage safety within the context of the COVID-19 pandemic, please refer to what is described in the Consolidated financial statements as at 31 December 2021.

Shareholders

As at 31 March 2022, the Parent Company Banca Monte dei Paschi di Siena's share capital amounted to EUR 9,195,012,196.85, broken down into 1,002,405,887 ordinary shares.

According to the communications received pursuant to the applicable legislation and based on other information available, as well as based on information on CONSOB's website, the entities that, as at 31 March 2022, directly and/or indirectly hold ordinary shares representing a shareholding exceeding 3% of the share capital of the Issuer and which do not fall under the cases of exemption set forth in art. 119-bis of the Issuers' Regulations are as follows:

Major BMPS shareholders as at 31 March 2022

Declarant	% of shares held on the ordinary share capital
Ministry of Economy and Finance	64.230%
Assicurazioni Generali S.p.A.*	4.319%

* Share held through subsidiaries, based on the communication as at 28 November 2017, received pursuant to current regulations

Information on the BMPS share

Share price and trends

The conflict unleashed in Ukraine following the Russian invasion on 24 February, anticipated by rising tensions, was the event that catalysed market attention, triggering in the following weeks sharp downturns in stock prices in the main international indices. The dependence of many nations, especially in Europe, on Russian energy supplies, along with the effects of the sanctions imposed and the commodity crisis already under way, contributed towards generating significant market uncertainty.

In the US, operator interest was also directed towards the moves made by the Federal Reserve, which started raising rates again in mid-March for the first time in 4 years, by a quarter point, also anticipating likely new hikes in the coming months. This decision was dictated by the need to limit the continued rise in inflation, within a complex economic climate that led to a -4.9% drop in the S&P 500. In China, in March the People's Congress had to announce a downturn in GDP growth forecasts due to lower demand and a general downsizing of growth outlooks, with the Shanghai index (SHCOMP) tumbling -10.6% as a result of this difficult economic moment. On the other hand, in Japan the impact was more limited, with the Nikkei closing the quarter at -2.4%.

In Europe, the ECB sought to limit the effects of the current difficult economic situation by reaffirming the flexibility and gradual nature of its monetary policy decisions, also based on developments in the conflict, reducing and postponing the interest rate hike expected by the market. The index which suffered most from the complex market trends in this first part of the year was Frankfurt's DAX, which during the quarter marked -9.3%, followed by the Paris Stock Exchange (CAC40), which closed at -6.9%, and the IBEX40 index in Madrid, which recorded the most limited decline of -3.1%. Only Great Britain bucked the trend, with the London UKX index posting quarterly growth of +1.8%.

In Italy, the year opened with uncertainty surrounding the presidential elections, followed by increasing concerns regarding the Russia-Ukraine conflict. The resumption of inflation, political uncertainty concerning the selection and effects of sanctions against Russia, especially on prices and available energy inventories, then contributed to the decline of -8.5% recorded in the FTSE MIB index during the first quarter.

In the Italian market, the banking sector was one of those most impacted by the Russian attack, especially due to the effects of the initial estimates of possible impacts of exposures to the countries involved by major Italian institutions. After a first half of the quarter with significant increases, the "All Italian Banks" IT8300 index thus recorded an overall result for the period down -14.3%.

The BMPS share closed the quarter ending on 31 March 2022 at a value of EUR 0.94, with growth of +4.9% in the quarter. Also on a quarterly basis, the average volume of trades on a daily basis was around 5.5 million.

SHARE PRICE SUMMARY STATISTICS (from 31/12/2021 to 31/03/2022)	
Average	0.92
Minimum	0.77
Maximum	1.05

Rating

The ratings assigned by the rating agencies are provided below:

Rating agency	Short-term debt	Outlook	Long-term debt	Outlook	Last rating action (as at 31/03/22)
Moody's	(P)NP	-	Caa1	Stable	17/03/22
Fitch	B		B	Evolving	01/12/21
DBRS	R-4	Stable	B (High)	Stable	09/08/21

- On 17 March 2022, Moody's Investors Service concluded the revision period, confirming the Bank's stand-alone and long-term ratings and assigning a "stable" outlook.
- On 1 December 2021, Fitch Ratings removed the "rating watch negative" in place on the Bank's main ratings, confirming all ratings, including the stand-alone rating ("Viability Rating") at "b" and the Long-Term Issuer Default Rating ("IDR") at "B" with an "evolving" outlook.
- On 16 June 2021, during its annual review, DBRS Morningstar confirmed all BMPS ratings, including the Long-Term Issuer Rating at "B (high)", the Long-Term Senior Debt at "B (high)" and the Long-Term Deposits at "BB (low)". The outlook for all ratings remained "stable". Subsequently, on 9 August 2021, the agency revised the subordinated debt rating to "CCC" from "B (low)", leaving the outlook unchanged.

Significant events in the first three months of 2022

On **7 February 2022**, the Board of Directors of the Parent Company approved: i) the removal of Mr Guido Bastianini, as General Manager, Chief Executive Officer and Director in charge of the internal control and risk management system of Banca MPS, as well as all related powers, although he remains in office as a member of the Parent Company's Board of Directors; ii) the co-opting pursuant to article 2386 of the Italian Civil Code of Mr Luigi Lovaglio, following the resignation of the Director Olga Cuccurullo, on 4 February 2022, and his appointment as Chief Executive Officer and General Manager of the Parent Company.

On **30 March 2022**, the Parent Company, in compliance with the requirements of the Final SREP Decision received last 2 February, sent the European Central Bank the Capital Plan approved by the Board of Directors on the same date. The Capital Plan was developed according to assumptions consistent with those of the 22-26 Strategic Plan approved by the Parent Company on 17 December 2021, also as concerns the amount of the underlying capital increase. Discussions continue with all authorities involved, as part of their respective authorisation processes with regard to which it is not currently possible to estimate the completion timing.

Significant events after 31 March 2022

On **12 April 2022**, the Shareholders' Meeting approved, inter alia, the removal of director Mr Guido Bastianini and the appointment to the role of Director, at the proposal of shareholder MEF, of Mr Stefano Di Stefano, in order to replace on the Board of Directors Mr Guido Bastianini.

2017-2021 Restructuring Plan

As at 31 December 2021, the formal monitoring of the 2017-2021 Restructuring Plan by the European Commission to verify compliance with the commitments made by the Parent Company was completed. The 2017-2021 Restructuring Plan is subject to formal monitoring by the European Commission, through a Monitoring Trustee[9]. This monitoring assumed formal relevance in verifying compliance with the commitments only at specific deadlines agreed with the European Commission. Pursuant to art. 114, paragraph 5 of Italian Legislative Decree 58/1998, the relative implementation status as at 31 December 2021, the last monitoring date, is described below. Of the total of twenty-three commitments made by the Parent Company, the following have some areas requiring attention/critical issues:

- *Commitment #9 – Cost reduction measures:*
  - the Group did not reach the end of Plan targets for several performance measures (Net Margin, Cost Income Ratio, ROE) or for the number of employees. With respect to operating expenses, the Group would have reached the target initially established if this objective had not been subsequently reduced by EUR 100 mln after it failed to achieve the 2019 performance objectives;
  - however, the branch reduction objective was met;
- Commitment #14 - Disposal of equity investments and companies:
  - in line with the objectives of commitment no. 14, the entire interest in Banca Monte dei Paschi Belgio S.A. (BMPB) was sold on 14 June 2019;
  - in compliance with what is specified in commitment no. 14, the Parent Company approved the orderly winding-down procedure of the French subsidiary Monte Paschi Banque S.A. (MPB). This procedure, made necessary after attempts at disposal of the equity investment in MPB with the timing set forth in the commitment were unsuccessful, consists of limiting the subsidiary's activities strictly to those targeted at the deleveraging of loans, excluding the development of new business and entry into new markets. In this context, MPB focused its efforts on existing customers and activities. The performance of the subsidiary in 2021 is substantially in line with the provisions of the Commitment;
  - with respect to the deleveraging of the leasing portfolio, the Bank did not reach the target of EUR 2.6 bn established for the end of the Plan;
- Commitment #17 - Disposal of property assets:
  - the commitment calls for the closure of the Perimetro Consortium (concluded in 2019) as well as the disposal over the course of the Plan of owned properties for an equivalent value of EUR 500 mln. From the approval of the Plan (4 July 2017) to 31 March 2022, the Group sold real estate for a value of roughly EUR 331.8 mln, including a large part of the real estate within the scope of the disposal to

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

Ardian. Furthermore, commitments were also signed for the sale of additional real estate assets at the total price of EUR 71.9 mln, against a total carrying amount as at 31 March 2022 of EUR 64.5 mln; of these, the last two properties to be sold to Ardian (Rome, via del Corso 518/520 and Padua, via 8 febbraio). A new public competitive sale process is under way on 29 properties owned by the Group;

- Commitment #18 - Disposal of non-core equity investments:
  - the Parent Company did not complete the disposal of equity investments in the Bank of Italy, MPS Tenimenti Poggio Bonelli e Chigi Saracini S.p.A. and Immobiliare Novoli S.p.A. (on the other hand, the equity investments in Bassilichi S.p.A., CO.E.M S.p.A., Consorzio Triveneto S.p.A., Banca Popolare di Spoleto S.p.A. and Intermonte SIM were sold as set forth in the commitment);
- Commitment #19 - Sale of art collection:
  - the restriction of the Superintendency of Cultural Heritage has been placed on nearly all works, making them exempt from the sale obligation;

The remaining commitments were deemed completed or addressed in line with expectations.

The commitments required by DG Comp also envisage that the MEF must 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 had been postponed, pending the completion of the Parent Company's derisking transaction (the "Hydra-M" transaction). This transaction was designed and then planned also with the goal of creating the conditions for the sale of the equity investment. On 16 October 2020, by Prime Ministerial Decree, the MEF was authorised to proceed with extraordinary transactions functional to the disposal of the equity investment. In particular, the disposal of the equity investment held by the MEF in Banca MPS was authorised, which may be carried out in one or more phases through individual or joint recourse to: a public sale offer to investors in Italy and/or Italian and international institutional investors, direct negotiations to be carried out through transparent and non-discriminatory competitive procedures and one or more extraordinary transactions including a merger transaction. In summer 2021, UniCredit carried out due diligence aimed at assessing the acquisition of a selected scope of Banca MPS assets, based on some assumptions agreed with the MEF. On 24 October 2021, UniCredit and the MEF announced the suspension of the negotiations.

2022-2026 Group Strategic Plan

On 17 December 2021, the Board of Directors approved the 2022-2026 Strategic Plan. The Plan fully replaced the previous 2021-2025 Strategic Plan, approved by the Parent Company in December 2020, which had been drawn up on the basis of a structural operation to be carried out in the short term.

The 2022-2026 Plan confirms the size of the capital strengthening, already estimated in the 2021-2025 Plan to be equal to EUR 2.5 bn. On 30 March 2022, the Parent Company approved the Capital Plan and sent it to the European Central Bank, in compliance with the requirements of the Final SREP Decision received on last 2 February. The Capital Plan was developed according to assumptions consistent with those of the 2022-26 Strategic Plan, also as concerns the amount of the underlying capital increase. The 2022-2026 Plan was presented to the European Central Bank, the Single Resolution Board (SRB) and the DG Competition as part of the different disclosure, approval and regulatory processes to which it is subject. The positions of the Authorities constitute a prerequisite for the capital strengthening operation. The completion of this authorisation process is indispensable for the initiation of activities in preparation for the capital increase, the timing of which is in turn fundamental for the implementation of the associated funding plan with timing consistent with the SRB decision.

The Plan's strategic objectives call for:

- business model discontinuity to lay the foundations for a new, more streamlined bank;
- a radical simplification of the Group's operating model and structure;
- the continuation of the Bank's de-risking and resilience process;
- the creation of value which allows for adequate shareholder remuneration.

For each of these strategies, priority was given to the initiatives which: (i) generate value already starting from the first year of the Plan and become fully operational by the end of 2024; (ii) are under the management's control, thus reducing execution risk; (iii) take advantage of the opportunities offered by the NRRP and the Sustainable Development Agenda, minimising the capital requirement, also thanks to partnerships. The Plan's strategic objectives are based on three pillars:

- refocusing on "core" customers (households and SMBs), exploiting the opportunities offered by the NRRP;
- radical simplification of the operating model, bringing it closer to customers through the network;
- investments in the digital roadmap focusing on well-identified initiatives to ensure execution success.

To be integrated within the Group, these objectives rely on the following enabling factors:
- additional integration of ESG principles in the Group's culture, processes and proposition;
- increasing the value of MPS's people, leveraging talent, new skills and inclusion;
- continuing to preserve asset quality and completing risk normalisation.

The Plan's forecasts, as set forth above, are based on a EUR 2.5 bn capital increase to be carried out in 2022; this increase will enable the Group to make IT investments and cover restructuring costs, in addition to responding to the indications emerging during the 2021 Stress Test.

The net interest income will be supported by the launch of the consumer credit business, the continuous reduction in the cost of time deposits and the normalisation of the cost of institutional funding. Fees and commissions will benefit from strong commercial momentum and will be further supported by the lower recourse to securitisations and the development of sales activities thanks to the solid capital position. On the cost side, a voluntary personnel departure plan will be activated. The Plan calls for initiatives to support growth, with immediate and tangible transformation efforts that will lead to constant profitability and financial benefits.

The Plan also requires a:

- *Cost/income ratio below 60% by the end of 2024, with additional reductions in the subsequent years;*
- Cost of risk of around 50 bps;
- ROTE of roughly 8.5-9% in 2024, approx. 11% in 2026;
- Fully loaded CET1 ratio exceeding 14% in 2024 and equal to around 17.5% in 2026, before dividends and before the positive effect of the revaluation of DTAs deriving from the Plan;
- Gross NPE ratio lower than 4%;
- a continuous reduction in legal risks linked to financial reporting.

Please note that a Plan review is currently under way in order to define its guidelines and underlying actions in detail, take into account the evolution of the changed economic scenario and incorporate the outcomes of discussions with the competent authorities.

The reviewed Plan will be presented on 23 June 2022.

Credit strategies

On 30 March 2022 the Parent Company's Board of Directors approved the 2022 performing credit strategies: the underlying framework is based on a macro scenario of economic growth, however also considering the risks of a slowdown due to the economic context. Indeed, while GDP growth is forecast, there are elements of uncertainty linked to the evolution of the pandemic, the Russia-Ukraine conflict and the increase in commodity prices, particularly energy prices. Precisely as a result of the Russia-Ukraine crisis, the food and high energy consumption sectors have been placed under monitoring. Furthermore, by mid-2022, it is expected that an update of the sector strategy will be conducted and that specific indications will be provided for the application of more rigorous screening standards to the companies most exposed.

For **businesses**, in continuity with the approach adopted during the pandemic, the guideline assigned to the individual company factors in both the sector outlook and customer reliability, guaranteeing an improvement of the credit quality mix within each sector. The ultimate goal of company credit strategies is to address credit decisions towards financing aimed at green company growth. The methodology establishes three areas of intervention factoring in the applicable sector, customer quality and the decision-making chain in which the counterparty has been included (low risk/high risk): ordinary growth, growth with mitigation and selective management. The guidelines were accompanied by a stringent indication on loan type. In particular, the interventions will need to be aimed at supporting customers on a virtuous path of new investments accompanied by commercial credit facilities and working capital financing. The strategies were therefore enhanced with the introduction of "ESG approaches" focusing in particular on the risk linked to the environmental transition. Lastly, a system of incentives/disincentives was defined with a view to guiding the development of loans towards investments that mitigate transition risks or which have a low environmental impact. The approach adopted also makes it possible to override the strategy depending on the "purpose" of the loan, favouring development for financing with ESG purposes or adopting a risk mitigation strategy otherwise.

With respect to **consumer** customers, strategies were integrated within acceptance algorithms which guarantee standardisation and make it possible to achieve higher process efficiency at the same level of effectiveness. Aside from mortgage and current accounts segment algorithms, since the end of 2021 acceptance grids for the Consumer Finance segment have been in use. Also for the consumer segment, the methodology establishes the same three areas of intervention which, for individuals, factor in customer quality and the applicable area. The counterparties were segmented based on their risk (low risk/high risk and internal bank rating) and external credit bureau information (Delphi score), with the resulting breakdown into three clusters associated with a specific strategic policy. The model is intended to promptly take into account changes in the counterparty's risk profile, even if any critical issues have not yet emerged in the relationship with the Bank, preventing the "cliff effect" or the manifestation of signs of deterioration after the suspension measures expire.
In the first quarter of 2022, **credit strategy** monitoring continued in accordance with the structure prepared in 2021, and no substantial critical issues emerged in terms of the gross lending business or the default rate. Over the next quarter, the strategy monitoring report will be revised accordingly with the new methodologies developed.

Retail & Corporate Banking strategy

Sales strategies in the first quarter of 2022 direct the business towards core areas to relaunch the Group's economic performance, confirm customer support to aid the post-pandemic economic recovery and transition towards a more sustainable development model, through projects in the following areas:

- ***Private***
  - completing the migration to the new "MPS Athena" Wealth Management Platform, which will make it possible to consolidate financial advisory services while also strengthening non-financial analysis, with a view to increasing the loyalty of the entire household and improving profitability; the advisory proposition is fundamental within a particularly complex and volatile market environment, to guide customers towards asset management financial instruments;
  - focusing on the Asset Management Service with a view to making it accessible to an increasingly broad public and expanding penetration with customers of high standing, for greater portfolio diversification and a more efficient allocation, allowing for profitability opportunities aligned with customer risk profiles; Again from the same perspective, attention continues to be placed on Accumulation Plans ("PAC");
  - boosting the offer of ESG solutions through the specific allocation and construction of Asset Management line portfolios and the offering of investment products, particularly as concerns UCITSs, through the continuous revision and innovation of the range of Funds available to customers that meet environmental, social and governance requirements;
  - consolidating the Bancassurance offering, after the restyling carried out in the individuals and business protection segment in 2021, as well as in pensions, with targets focusing on existing customers and digital marketing initiatives at ATMs, on the website, through social media posts, etc., to reach new customers;
  - consolidating the relationship with customers for continuous management of household and business assets and developing the acquisition of younger customers through multiple exclusive commercial levers;
  - increasing synergies between Private and Corporate Banking by activating targeted, shared initiatives between the Private and Business markets, to meet customer needs and support them in their personal and business projects with specialised services and dedicated consulting.

- ***Businesses***
  - offering support to relaunch our country's businesses, working alongside them as they resume activities, supporting development projects and local activities and economies through specific initiatives and products, integrating environmental, social and governance (ESG) criteria within investment and lending policies and exploiting the potential of the NRRP. The opportunities linked to the NRRP also represent a significant lever for the expansion of the customer base through important development activities, identifying high potential companies to guarantee an increase in both lending and revenues;
  - supporting companies' green projects with the Agreement entered into in December 2021 between SACE and the Parent Company with a view to incentivising projects aimed at reducing environmental impacts by launching a sustainable transformation. Overall, BMPS has allocated EUR 1.25 bn

(corresponding to SACE Guarantees up to EUR 1 bn) to be used by the end of 2022, of which up to EUR 500 mln specifically intended for Agrifood sector supply chains. SACE will intervene with green guarantees for up to 80% of the loans disbursed by Banca MPS to help companies in their sustainable transformation processes, in line with the guidelines of the NRRP;

- offering companies with greater business complexity a structured advisory and proactive commercial approach ("Coverage Team") which, through the reference relationship manager, guarantees personalised customer service, leveraging the Group's range of products and services and the support of specialists and product factories;
- meeting the needs of medium, small and micro enterprises, but also of households and local authorities, through new specialised hubs named MPS AgevolaPiù, each overseeing a specific regional area (at the moment, 10 are active, to which others will gradually be added to cover all regions). The core of the project consists of specialised training and territorial enhancement through an intensification of the partnership with regional financial companies, trade associations and loan guarantee consortia (Confidi). To support companies, in response to specific situations in disadvantaged geographical areas, a loan under favourable conditions is currently available which may be granted based on an agreement between the Bank and the EIF - European Investment Fund, offering these businesses the possibility to invest in productivity and competitiveness;
- supporting exporting and importing companies in advanced Trade Finance transactions, also in light of recent international developments and the changed geopolitical framework, including with respect to countries subject to restrictions. Sales activities are carried out on the web thanks to the peripheral commercial and operational support of specialists.

• ***Process digitalisation and platform development***

- improving the customer experience and continuing with the digital transformation through: i) the management of periodic customer contact initiatives; ii) the continuation of customer journeys aimed at improving commercial proposition activities through logical omnichannel contact processes, particularly with reference to new customers and those at risk of discontinuing their relationships with the Bank; iii) widespread availability of the new branch technological platform (Digital Branch) consisting of a single interface with practical, speedy and efficient features in in-person customer service; iv) the drive towards the spread of Google Pay for payments in physical stores and in apps in a practical, fast and secure manner with the Bank's debit and credit cards. Activities also continued for the digitalisation of processes relating to the range of investment services and products, with the progressive expansion of the available product catalogue with the electronic signature option, particularly as regards Asset Management and Policies; in this regard, roughly 13,400 new Signature Pads have now been supplied to Network resources for the use of electronic signatures by customers on digitalised product contracts;
- strengthening digital and self banking functions and services (in the browser and app version), increasing their penetration, through the expansion of services with remote, autonomous transactions for customers, with the finalisation of investment proposals (Web Collaboration), the signing of documents and contracts (Remote Collaboration), the exchange of documents and the widespread availability of Cash-In ATMs in self-service areas. The "Consultation of accounts and cards of other Banks" service, thanks to the openings permitted by the Second Payment Services Directive (PSD2), has increased its penetration;
- improving the branch platform, with a progressive migration of all sales processes to the "New Quick Sale" and customer views in new summary dashboards; migration to compulsory digital signature ("Digital Only") across all branches;
- protecting the Bank's reputation by following the general principles set forth in the MPS internal Code of Ethics, progressively removing Remote Cash-Out ATMs from arcades, bingo parlours and casinos with a view to adopting "logistical prevention" measures against gambling addiction;
- reducing the risk of customer erosion by maintaining 15 Cash-Out ATMs at branches closed in 2021, privileging those that are not overlapping, which are in uncovered areas, so as to offer customers a point of reference and support for routine transactions (withdrawals, payments, checking account balances);
- supporting sales processes from a customer centric perspective through new applications released to branches aimed at improving knowledge of customers ("Map") and the programming of activities ("Toolbox");
- the mass installation of electronic devices for consultation by customers of Banking Transparency and Currency Exchange has been completed, thus completely eliminating the paper notices at the branches;

- continuing with the simplification of web processes, started in 2021, aimed at increasing the number of transactions that may be carried out by customers at other banks' ATMs and streamlining particularly time-consuming branch operating activities (such as bank transfer authorisations, payment slip payments, prepaid card repayment, closing current accounts, documentation for ISEE [equivalent economic situation indicator] purposes, etc.).

- ***Consumer finance***

- enhancing the Consumer Finance product factory at Banca MPS, in-sourced in the course of 2021; following this decision, in the first quarter of 2022 the plan for extending the MPS Loan Platform was launched, which will involve all branches in the second quarter. The new business model will optimise business profitability and furthermore shorten the "transmission belt" with the distribution network and use personal loans as a vehicle for cross selling and acquisition.

Funding strategy and MREL capacity

With reference to funding, 2021 came to an end with a particularly robust liquidity position, with LCR/NSFR indicator levels that are significantly higher than regulatory and operational limits. The maturities in the 2022-2024 three-year period are represented primarily by the TLTRO III auctions, to which the Parent Company had access until June 2021, for a total of EUR 29.5 bn: EUR 4 bn maturing in 2022; EUR 20 bn maturing in 2023 and EUR 5.5 bn in 2024.

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

The amount of the institutional bonds maturing in the 2022-2024 three-year period is equal to a total of EUR 4.3 bn, of which:

- EUR 1.25 bn in 2022 (EUR 0.75 bn in covered bonds, already repaid in January 2022 and EUR 0.5 bn in senior unsecured bonds);
- EUR 3.1 bn maturing in 2024 (EUR 2.3 bn in covered bonds and EUR 0.75 bn in senior unsecured bonds).

In 2023, the call of a subordinated Tier 2 security issued in 2018, for a nominal amount of EUR 750 mln, may also be exercised.

Lastly, in the 2022-2024 three-year period, bilateral funding transactions are maturing for a total of EUR 1.6 bn (of which EUR 0.6 bn with non-ECB eligible collateral), of which EUR 0.5 bn already matured in the first quarter of the year.

Against the planned maturities, the Group's funding strategies aim to maintain liquidity indicators at adequate levels, broadly above regulatory limits, as well as guarantee - as concerns public bond issue plans in particular - the satisfaction of MREL requirements. These strategies are defined in line with the Group's strategic plans and, in that sense, their structuring for operational purposes will be fully defined only following the approval of the 2022-2026 Strategic Plan, currently subjected to the required disclosure, approval and regulatory procedures that the Bank has initiated with the competent Authorities.

As regards the MREL targets, on 18 February 2022 the Parent Company received Single Resolution Board decision SRB/EES/2021/177 from the Bank of Italy, in its role as the Resolution Authority, on the determination of the minimum requirement of own funds and eligible liabilities ("2021 MREL Decision") which replaces that received in December 2020.

Starting from 1 January 2024, the Parent Company will need to respect an MREL of 23.32% in terms of TREA on a consolidated basis, to which the Combined Buffer Requirement (CBR) applicable at that date will be added, and 7.22% in terms of LRE. In addition, there are subordinated MREL requirements, which must be met with own funds and subordinated instruments, equal to 17.34% for TREA, plus the CBR applicable on that date, and 7.22% for the LRE.

The requirements at 1 January 2024 were increased following the May 2021 update of the "MREL Policy" by the Single Resolution Board (SRB).

Starting from 1 January 2022, during the transition period, the Parent Company will need to respect an intermediate MREL on a consolidated basis of 18.95% in terms of TREA, to which the CBR (equal to 2.75% in 2022) will be added, and 6.22% in terms of LRE. In addition, there are subordinated MREL requirements, which must be met with own funds and subordinated instruments, equal to 13.5% for TREA, plus the CBR applicable on that date, and 6.22% for the LRE.

In light of the deferral to 2022 of the share capital increase and the absence of issues of debt securities in the course of 2021, as at 31 March 2022 the Parent Company has a temporary breach of the MREL requirements in force. In particular, the breaches regard the CBR considered in addition to the requirement based on RWAs (equal to EUR -497 mln) and the Subordination Requirement, the latter determined on RWAs and inclusive of the CBR (equal to EUR -410 mln) and on Leveraged Exposures (equal to EUR -515 mln). This breach will be remedied with the expected capital increase already set forth in the 2022-2026 Strategic Plan. Please also note that the Bank is currently working on the process of reviewing the above-mentioned Plan, in order to incorporate, inter alia, the changed minimum own funds and eligible liabilities requirements laid out in the above-mentioned "2021 MREL Decision". The funding strategies defined by the Bank pursue consistency with the Group's strategic plans in force over time and, in that sense, their operational implementation will be fully enacted only following the approval of the revised Strategic Plan, which will be subjected to the required disclosure, approval and regulatory procedures by the competent Authorities.

With reference to the liquidity profile, the health crisis generated by the COVID-19 pandemic, despite fears of a potential impact on the banks' sources of liquidity, has not, so far, affected the expected development of the Group's regulatory indicators (LCR – Liquidity Coverage Ratio and NSFR – Net Stable Funding Ratio). In this regard, the European Central Bank has announced the end of the temporary support measures introduced in 2020 which, inter alia, allowed banks to operate with a liquidity coverage ratio (LCR) lower than the minimum threshold of 100%, thus confirming the return to normal according to the calendar initially established. Considering the solid liquidity position established in previous years and the satisfactory levels of its indicators (as at 31 March 2022, LCR equal to 186.0% and NSFR equal to 135.5%), the Group expects to be able to keep its targets above their regulatory minimum thresholds with an adequate buffer.

Explanatory Notes

The Interim Report on Operations of Monte dei Paschi di Siena Group as at 31 March 2022, approved by the Board of Directors on 5 May 2022, was prepared in consolidated format by applying the recognition and measurement criteria envisaged in IAS/IFRS international accounting standards issued by the International Accounting Standards Board (IASB) and the related interpretations by the IFRS Interpretations Committee, as endorsed by the European Commission and effective at the time this interim report was prepared, pursuant to EC Regulation no. 1606 of 19 July 2002.

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

With reference to the classification, recognition, measurement and derecognition of the various asset and liability items, as well as the methods for recognising revenue and costs, the accounting principles used for the preparation of this Interim Report on Operations are the same as those used for preparation of the Consolidated Financial Statements as at 31 December 2021, to which the reader is referred for more detail.

The additional IAS/IFRS accounting standards and related SIC/IFRIC interpretations, whose mandatory application took effect on 1 January 2022, but which had no significant impacts on the Group, are listed below:

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

- ***"Reference to the Conceptual Framework (Amendments to 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 whether a contract is onerous. 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***', containing 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 assess 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.

In preparing this Interim Report on Operations, the documents providing interpretation and support to the implementation of the accounting standards in relation to the impacts of COVID-19, issued by the European regulatory and supervisory bodies and standard setters in 2020 and 2021 and described more extensively in the 2021 Financial Statements, to which reference is made for a full presentation, were also considered. In addition, the following additional documents published in the first quarter of 2022 were also taken into account.

On 14 March, ESMA published a Public Statement on the impacts of the Russia-Ukraine crisis on the EU's financial markets, which describes the supervisory and coordination activities undertaken in this regard and recommends that issuers offer transparent disclosure, possibly both qualitative and quantitative, on the current and expected direct and indirect effects of the crisis on the following areas: commercial activities, exposure to the markets concerned, supply chains, financial position and profit and loss in 2021 financial reports, if they have not yet been approved, at the Annual Shareholders' Meeting and in interim financial reporting.

The ESMA Public Statement is referred to in the document published by Consob on 18 March 2022 in order to call the attention of supervised issuers to the impact of the war in Ukraine with respect to inside information and financial reporting during the approval of the 2021 Financial Statements and the subsequent interim financial reporting.

The Interim Report as at 31 March 2022 is supplemented by the certification of the Financial Reporting Officer, pursuant to art. 154-bis, paragraph 2 of the Consolidated Law on Finance.

Estimates and assumptions when preparing the Interim report on operations

The application of certain accounting standards necessarily implies recourse to estimates and assumptions that impact the values of the assets and liabilities recognised in the financial statements as well as the disclosure provided on contingent assets and liabilities. The assumptions underlying the estimates developed take into consideration all available information at the date on which this Interim Report on Operations was drafted as well as the assumptions considered reasonable, also in light of historical experience. By their very nature, it is therefore not possible to exclude that the assumptions used, albeit reasonable, may not be confirmed in the future scenarios in which the Group will be operating. The results achieved in the future therefore could differ from the estimates developed in order to draft this Interim Report on Operations and as a result adjustments may be required, to an extent that cannot currently be predicted or estimated, with respect to the carrying amount of the assets and liabilities recognised in the financial statements. In this regard, please note that estimates could need to be revised following changes in the circumstances on which they were based, the availability of new information or the increased experience gained. In particular, taking into account the absolutely random nature of the evolution of the Russia-Ukraine conflict and its consequences on macroeconomic scenarios which are currently difficult to foresee, it is not possible to rule out that the estimates of financial statement values may need to be revised in the course of 2022 in light of new information that will become available.

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 2021, which are referred to in their entirety for an extensive description of the most relevant valuation processes for the Group. A description is provided below of the main accounting topics for the first quarter and the approach adopted by the Group.

Quantification of impairment losses on loans and IFRS 9 staging

The war in Ukraine has deteriorated the already complex economic scenario not only for Italy, but for all of Europe: from the start of the year global economic activity showed signs of a slowdown due to the spread of the COVID-19 Omicron variant and, subsequently, increasing geopolitical tensions culminating with Russia's invasion of Ukraine. There are multiple areas of impact: the block on exports to the countries involved (and others as well), economic sanctions against Russia, supply side bottlenecks, uncertainty and volatility in the financial markets, but especially historical peaks in the prices of energy and other commodities. The result is a spike of inflation to all-time highs. Therefore, outlooks for business and inflation in the Eurozone have become highly uncertain, and crucially depend on the evolution of the Russian war in Ukraine, the impact of the sanctions currently in force and any additional measures.

Macroeconomic forecasts for 2022, 2023 and 2024

On 10 March 2022, the ECB published the regular update of its macroeconomic forecasts for the Eurozone prepared by its own staff (therefore without the contribution of the individual national central banks, according to common practice). The baseline scenario was developed by assuming that current disruptions in energy supplies and negative effects on the climate of confidence connected to the conflict are temporary in nature and that there will be no significant impact on global supply chains. Overall, average GDP growth in real terms is expected to be equal to 3.7% in 2022, 2.8% in 2023 and 1.6% in 2024. With respect to the December 2021 projections of Eurosystem experts, growth outlooks have been revised downward by 0.5 percentage point for 2022 primarily due to the impact of the Ukrainian crisis on energy prices, the climate of confidence and trade. In 2023, growth was adjusted downward by 0.1 percentage point, while it remains unchanged for 2024. Given the significant uncertainty with respect to the impact of the conflict in Ukraine on the Eurozone economy, two scenarios have been developed in addition to the baseline scenario. In the scenario defined as "adverse", it is assumed that the sanctions imposed against Russia will be more stringent than expected in the baseline scenario and that this will result in disruptions throughout global supply chains. In 2022, the Eurozone GDP growth rate would be 1.2 percentage points lower than that forecast in the baseline scenario, while inflation would be 0.8 percentage point higher. The differences would be more limited in 2023, while in 2024 growth would be slightly higher than in the baseline scenario in the presence of an economic recovery after the higher negative impact on business in 2022 and 2023. With the rebalancing of the oil and gas markets, energy prices would decline gradually with respect to the high peaks reached and this would cause inflation to fall to lower levels than those forecast in the baseline scenario, especially in 2024. The most "severe" scenario includes the characteristics of the adverse scenario as well as a stronger reaction of energy prices to the greater decline in supply, a more consistent revision of prices in the financial markets and more significant knock-on effects as a result of rising energy prices. For 2022, this scenario would imply a pace of GDP expansion 1.4 percentage points lower than that expected in the baseline scenario and inflation that is 2.0 percentage points higher. Significantly lower levels for growth and higher levels for inflation with respect to the baseline scenario would also be observed in 2023. The increased persistence of disruptions provoked by the war implies relatively modest effects of a recovery on growth in 2024 and greater knock-on effects that would offset the negative impact on inflation deriving from the decline in energy prices.

As regards Italian GDP trends, in its Economic Bulletin of April 2022, the Bank of Italy examined the possible macroeconomic consequences of the war in Ukraine in three illustrative scenarios, defined on the basis of alternative assumptions regarding trends in raw material prices, international trade, uncertainty and consumer and business confidence, as well as natural gas supplies. These scenarios do not express an assessment with regard to the evolution deemed most likely for the economy in the coming years and therefore do not constitute an update of projections for Italy. In the most favourable scenario, which assumes a rapid resolution of the conflict and a significant decline in the associated tensions, GDP growth would reach roughly 3 percent in 2022 and 2023; inflation would reach 4.0 and 1.8 percent, respectively. In the intermediate scenario, formulated supposing a continuation of hostilities, GDP would increase by around 2 percent in both years; inflation would amount to 5.6 and 2.2 percent. In the most severe scenario - which also assumes a suspension of Russian gas flows only in part offset by other sources - GDP would decrease by nearly half of a percentage point in 2022 and 2023; inflation would near 8 percent in 2022 and would fall to 2.3 in the subsequent year. This broad range of estimates does not take into account possible new responses from economic policies that will be essential to offset recessionary drives and price pressures deriving from the conflict.

This being said, information is provided below relating to the main macroeconomic and financial indicators included in the "*baseline*", "*severe but plausible*" and "*extremely severe*" scenarios, referring to the 2022-2024 three-year period, developed internally also taking as a reference the forecasts formulated by external providers in April 2022, compared with the same scenarios in use for the 2021 Financial Statements and also used for the assessments as at 31 March 2022 (see herein).

		GDP		Italian residential Property Price index		Italian non residential Property Price index		Unemployment rate		Investments in building constructions	
Scenario	Year	Data used for 31 12 2021 Financial statements and 31 03 2022 Interim Report	Update April 2022	Data used for 31 12 2021 Financial statements and 31 03 2022 Interim Report	Update April 2022	Data used for 31 12 2021 Financial statements and 31 03 2022 Interim Report	Update April 2022	Data used for 31 12 2021 Financial statements and 31 03 2022 Interim Report	Update April 2022	Data used for 31 12 2021 Financial statements and 31 03 2022 Interim Report	Update April 2022
BASELINE	2022	3.83%	2.25%	1.37%	3.46%	0.81%	1.34%	10.37%	9.89%	7.99%	8.56%
	2023	2.79%	2.55%	1.77%	2.91%	1.64%	2.03%	10.28%	9.87%	7.14%	5.81%
	2024	1.97%	1.89%	1.79%	2.30%	1.80%	1.94%	9.44%	8.95%	3.87%	3.34%
	AVG	2.86%	2.23%	1.64%	2.89%	1.42%	1.77%	10.03%	9.57%	6.33%	5.90%
SEVERE BUT PLAUSIBLE	2022	2.39%	0.83%	0.58%	0.70%	-0.16%	0.01%	10.88%	10.34%	4.49%	5.24%
	2023	1.90%	1.79%	0.40%	0.49%	0.01%	0.00%	11.72%	11.12%	3.70%	3.43%
	2024	1.49%	1.39%	0.61%	0.76%	0.60%	0.60%	11.71%	11.17%	1.25%	1.57%
	AVG	1.93%	1.34%	0.53%	0.65%	0.15%	0.20%	11.44%	10.87%	3.15%	3.41%
EXTREME WORTS	2022	0.58%	-0.76%	-0.74%	-0.54%	-1.81%	-1.27%	11.52%	10.83%	0.58%	1.59%
	2023	0.83%	0.37%	-0.95%	-0.74%	-1.33%	-0.99%	13.07%	12.71%	0.32%	0.09%
	2024	0.46%	0.16%	-1.58%	-1.01%	-0.88%	-0.88%	14.02%	14.27%	-1.47%	-1.68%
	AVG	0.63%	-0.08%	-1.09%	-0.76%	-1.34%	-1.05%	12.87%	12.60%	-0.19%	0.00%

Even in the presence of scenarios updated in April which would have entailed slight recoveries in value, the Group has deemed it appropriate, also from a conservative and prudential perspective, to confirm the scenarios used for the 2021 Financial Statements also for the accounting valuations in the Interim Report as at 31 March 2022.

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During the first quarter of 2022 in terms of IFRS 9 measurements, the Group has maintained a prudent orientation in the estimate of value adjustments, as it cannot definitively be stated that the COVID-19 emergency has come to an end, and also taking into account the negative effects on the global and Italian economy directly or indirectly associated with the Russia-Ukraine conflict. Therefore, the "management overlays" in place as at 31 December 2021 aimed at including ad hoc adjustments have been maintained and appropriately supplemented in order to take into account potential outlook deteriorations in credit risk which may not be adequately captured by the modelling in use and to better reflect the specific impacts of COVID-19 and the Russian conflict in Ukraine in credit assessments. Overall, the management overlays used for valuations as at 31 March 2022, also taking into account the scenarios updated in April, resulted in additional adjustments on the cost of credit for approximately EUR 147 mln (approx. EUR 130 mln as at 31 December 2021) and higher exposures classified in stage 2 for approximately EUR 1.3 bn (EUR 1.6 bn as at 31 December 2021).

Therefore, in view of the persistence of the underlying rationales, the choices already spelled out in the 2021 Consolidated Financial Statements have been substantially confirmed and reference should be made to them for more details. In summary:

- one-off treatments to include with greater granularity through the use of special staging triggers the impact of the scenario on counterparties, also in light of a specific analysis of counterparties, the presence of moratorium measures and - for corporate customers - inclusion in the micro-sectors most penalised by the crisis;
- use of the most likely scenario (baseline) and two alternatives, both worse (extremely worst and severe but plausible), all three with the same weighting and therefore combined based on a simple average, in place of the traditional approach calling for the use of a baseline scenario, a better one and a worse one, weighted on the basis of the reference percentiles.

Going concern

This Interim Report on Operations as at 31 March 2022 was prepared based on a going concern assumption.

The assessment of the Group's ability to continue as a going concern is based essentially on the prospective evolution of the capital and liquidity position over a time span of at least 12 months. In this regard, we believe that a capital shortfall could emerge with respect to the overall capital requirements within the assessment horizon. With regard to liquidity, the position remains strong due to the significant measures implemented by the ECB.

As at 31 March 2022, as in previous quarters, no shortfall emerged with respect to the overall capital requirements. Over the 12-month time horizon as of the reference date, or 31 March 2023, taking into account the planned capital reduction due to the IFRS 9 phase-in and assuming the full implementation of the inflationary effects on risk-weighted assets relating to changes in the credit risk measurement models as a result of the EBA Guidelines, a shortfall of approx. EUR 500 mln could emerge on the Tier 1 capital aggregate, in line with the amount disclosed in the context of the approval of 2021 Financial statements.

The prospective capital position is estimated assuming confirmation of the current business/operating model, excluding the capital strengthening transaction or other extraordinary capital contributions, or subordinated issues.

Overall, the extent of the capital strengthening is actually estimated at EUR 2.5 bn and is reflected in the Capital Plan sent to the European Central Bank on 30 March and developed according to assumptions consistent with the Strategic Plan 2022-2026. The need to strengthen the capital position is significant, therefore resulting in potential uncertainty on the use of the going concern assumption. This uncertainty is mitigated by the full support of the controlling shareholder and by the possible "structural solution" scenario.

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

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

After the interruption of negotiations between the MEF and UniCredit, having acknowledged the current infeasibility of a "structural solution", activities were initiated, supported by the reference shareholder, for the necessary measures that the Bank will have to take in terms of capital strengthening.

In view of the above, on 17 December the Board of Directors approved the 2022-2026 Strategic Plan. The Plan was submitted to the European Central Bank, the Single Resolution Board and the DG Competition as part of the relevant information, approval and regulatory processes, to which it is subject.

As at today, the Plan is under review in order to define in more details strategies and underlying actions, to take into account the evolution of the economic scenario and incorporate the outcomes of discussions with the above-mentioned authorities. The approval of the Plan is the basis for starting the approval processes referred to above, and the positions of the above Authorities are an indefectible prerequisite for the capital strengthening transaction provided for in the Plan.

The Bank is giving all the necessary clarifications requested by the Authorities, but at present there is no precise estimate of the time required by the Authorities to complete their respective processes.

Within this context, DG Comp and ECB must assess, to the extent of their competence, the State's intervention on the basis of the Parent Company's stand-alone viability in light of the 2022-2026 Strategic Plan. It cannot be excluded that this assessment may, in principle, include unforeseeable elements that could affect the Parent Company's capital strengthening process as well as the structure and feasibility of a capital increase at market conditions; DG Comp's assessment therefore poses, in principle, significant uncertainties.

Taking into account the improvements recorded by the Group in 2021 in terms of capital and risk reduction, as well as the talks held with the authorities so far, we believe that the capital shortfall can be overcome through a projected capital strengthening on a stand-alone basis, subject to the completion of the above-mentioned approval process.

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

Income statement and balance sheet reclassification principles

The balance sheet and income statement are shown below in reclassified form according to management criteria in order to provide an indication of the Group's general performance based on economic and financial information that can be quickly and easily determined.

A disclosure is provided below on the aggregations and main reclassifications systematically performed with respect to the financial statements established by Circular no. 262/05, in compliance with the requirements laid out by Consob in communication no. 6064293 of 28 July 2006.

Income statement data

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

- Item "**Net interest income**" is shown net of the negative contribution of the Purchase Price Allocation (PPA), equal to EUR -0.9 mln, referring to past business combinations, which was reclassified in a special item.
- The item "**Net fees and commissions**" includes the balance of financial statement items 40 "Fee and commission income" and 50 "Fee and commission expense".
- Item "**Dividends, similar income and gains (losses) on investments**" incorporates item 70 "Dividends and similar income" and the relevant portion of profits from related investments in AXA, consolidated using the equity method, equivalent to EUR 14.1 mln, included in item 250 "Gains (losses) on investments". The aggregate was also cleared of dividends earned on equity securities other than equity investments (EUR 0.4 mln), reclassified to item "Net profit (loss) from trading, the fair value measurement of assets/liabilities and gains from disposals/repurchases".
- Item "**Net profit from trading, fair value measurement of assets/liabilities and net gains (losses) on disposals/repurchases**" includes the values of items 80 "Net profit (loss) from trading", 100 "Net gains (losses) on disposals/repurchases", net of the contribution of loans to customers (EUR +0.2 mln) recognised in the reclassified item "Cost of customer credit" and 110 "Net profit (loss) from other financial assets and liabilities measured at fair value through profit or loss", net of contributions from loans to customers (EUR +8.5 mln) and securities deriving from the sale/securitisation of non-performing loans[10] (EUR -1.5 mln), recognised in the reclassified item "Cost of customer credit". In addition, the aggregate incorporates dividends earned on equity securities other than equity investments (EUR +0.4 mln).
- Item "**Net profit from hedging**" includes financial statement item 90 "Net profit from hedging".
- Item "**Other operating income (expense)**" includes the balance of item 230 "Other operating expenses/income" net of stamp duties and other expenses recovered from customers, which are included in the reclassified item "Other administrative expenses" (EUR 52.4 mln) and net of the component relating to rental income, which is posted to "Net value adjustments to property, plant and equipment and intangible assets" (EUR 3.4 mln).
- Item "**Personnel expenses**" includes the balance of item 190a "Personnel expenses" from which an amount of EUR +0.2 mln has been excluded, relating to releases of provisions recognised in previous years, reclassified under "Restructuring/one-off costs".
- Item "**Other administrative expenses**" includes the balance of financial statement item 190b "Other administrative expenses", reduced by the following cost items:
  - expenses, amounting to EUR 88.7 mln, resulting from the EU Deposit Guarantee Schemes Directive (hereinafter "DGSD") and Bank Recovery Resolution Directive (hereinafter "BRRD") for the resolution of bank crises, recognised in the reclassified item "Risks and charges associated with SRF, DGS and similar schemes";
  - fee on DTAs convertible into tax credit, for an amount of EUR 15.8 mln (recognised in the reclassified item "DTA fee");
  - charges of EUR 0.3 mln, relating to initiatives also aimed at complying with the commitments undertaken with DG Comp, stated under reclassified item "Restructuring costs/One-off charges".

  This item also includes the portion of stamp duty and other expenses recovered from customers (EUR 52.4 mln) posted under item 230 "Other operating expenses/income".

[10] Starting from December 2021, the economic effects relating to securities deriving from multi-originator sales of non-performing loan portfolios associated with the type of the assignment to (i) a mutual investment fund with allocation of the corresponding shares to the transferring intermediaries or to (ii) a securitisation vehicle pursuant to Law 130/99 with the simultaneous subscription of the ABS securities by the assignor banks, and accounted for in item 110 "Net profit from other financial assets and liabilities measured at fair value through profit or loss", were reclassified to item "Cost of customer credit".

- Item "**Net value adjustments to property, plant and equipment and intangible assets**" includes the values of items 210 "Net value adjustments to (recoveries on) property, plant and equipment" and 220 "Net value adjustments to (recoveries on) intangible assets" and was cleared of the negative contribution (EUR -0.2 mln) referring to the Purchase Price Allocation (PPA), which was recognised in a specific item, while it incorporates the component of rental income (EUR 3.4 mln) that was recorded in the financial statements under item 230 "Other operating expenses/income".
- Item "**Cost of customer credit**" includes the income statement components relating to loans to customers of items 100a "Gains / losses on disposal or repurchase of financial assets measured at amortised cost" (EUR +0.2 mln), 110b "Net profit (loss) on financial assets and liabilities measured at fair value as per mandatory requirements" (EUR +8.5 mln), 130a "Net impairment (losses)/reversals for credit risk on financial assets measured at amortised cost" (EUR -113.7 mln), 140 "Modification gains/(losses)" (EUR -0.1 mln) and 200a "Net provisions for risks and charges - commitments and guarantees given" (EUR -4.7 mln). The item also includes the income statement components relating to securities deriving from the sale/securitisation of non-performing loans recognised in item 110b "Net result of other financial assets measured at fair value as per mandatory requirements" (EUR -1.5 mln).
- The item "**Net impairment losses on securities and bank loans**" includes the portion relating to securities (EUR -0.9 mln) and loans to banks (EUR +0.8 mln) of item 130a "Net impairment (losses)/reversals for credit risk of financial assets measured at amortised cost" and item 130b "Net impairment (losses)/reversals for credit risk of financial assets measured at fair value through other comprehensive income" (EUR -0.3 mln).
- Item "**Other net provisions for risks and charges**" includes the balance of financial statement item 200 "Net provisions for risks and charges", reduced by component relative to loans to customers of item 200a "Net provisions for risks and charges - commitments and guarantees given" (EUR -4.7 mln), which was included in the specific item "Cost of customer credit".
- Item "**Other gains (losses) on investments**" includes the balance of item 250 "Gains (losses) on investments", cleared of the portion of profit relative to the related investments in AXA, consolidated with the equity method, equal to EUR 14.1 mln, reclassified under item "Dividends, similar income and gains (losses) on equity investments".
- Item "**Restructuring/One-off costs**" includes the following amounts:
  - positive components of EUR 0.2 mln, recognised in item 190a "Personnel expenses";
  - charges of EUR 0.3 mln, relating to project initiatives, also aimed at complying with the commitments undertaken with DG Comp, accounted for in the financial statements under item 190b "Other administrative expenses".
- Item "**Risks and charges associated with SRF, DGS and similar schemes**" includes expenses deriving from the EU directives DGSD on deposit guarantee schemes and BRRD on the resolution of bank crises, equivalent to EUR 88.7 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 a tax credit as set forth in art. 11 of Law Decree no. 59 of 3 May 2016, converted into Law no. 119 of 30 June 2016, recognised in the financial statements under item 190b "Other administrative expenses", for EUR 15.8 mln.
- Item "**Net gains (losses) on property, plant and equipment and intangible assets measured at fair value**" includes the balance of financial statement item 260 "Net gains (losses) on property, plant and equipment and intangible assets measured at fair value".
- Item "**Gains (losses) on disposal of investments**" includes the balance of financial statement item 280 "Gains (losses) on disposal of investments".
- Item "**Tax expense (recovery)**" includes the balance of item 300 "Tax expense (recovery) on income from continuing operations" cleared of the theoretical tax component relating to the Purchase Price Allocation (PPA), which was reclassified to a specific item for an amount of EUR 0.4 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 -0.9 mln and "Net value adjustments to property, plant and equipment and intangible assets" for EUR -0.2 mln, net of a theoretical tax burden of EUR +0.4 mln which was added to the item).

Balance sheet data

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

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

Reclassified Consolidated Income Statement

MONTEPASCHI GROUP	31 03 2022	31 03 2021	Change	
			Abs.	%
Net interest income	323.1	279.6	43.5	15.6%
Net fee and commission income	368.9	372.0	(3.1)	-0.8%
Income from banking activities	**692.0**	**651.6**	**40.4**	**6.2%**
Dividends, similar income and gains (losses) on investments	14.2	21.2	(7.0)	-33.0%
Net profit (loss) from trading, the fair value measurement of assets/liabilities and Net gains (losses) on disposals/repurchases	75.6	157.0	(81.4)	-51.9%
Net profit (loss) from hedging	4.6	1.6	3.0	n.m.
Other operating income (expenses)	(3.2)	(10.7)	7.5	-69.7%
Total Revenues	**783.2**	**820.7**	**(37.5)**	**-4.6%**
Administrative expenses:	(491.7)	(492.9)	1.2	-0.2%
a) personnel expenses	(355.9)	(360.2)	4.3	-1.2%
b) other administrative expenses	(135.8)	(132.7)	(3.1)	2.3%
Net value adjustments to property, plant and equipment and intangible assets	(43.6)	(47.5)	3.8	-8.1%
Operating expenses	**(535.3)**	**(540.4)**	**5.1**	**-0.9%**
Pre-Provision Operating Profit	**247.8**	**280.3**	**(32.5)**	**-11.6%**
Cost of customer credit	**(111.3)**	**(73.9)**	**(37.3)**	**50.5%**
Net impairment (losses)/reversals on securities and loans to banks	**(0.4)**	**(3.7)**	**3.3**	**-89.2%**
Net operating income	**136.2**	**202.7**	**(66.5)**	**-32.8%**
Net provisions for risks and charges	(28.4)	8.5	(36.9)	n.m.
Other gains (losses) on equity investments	1.9	(2.8)	4.7	n.m.
Restructuring costs / One-off costs	(0.2)	(0.1)	(0.1)	92.8%
Risks and charges associated to the SRF, DGS and similar schemes	(88.7)	(67.8)	(20.9)	30.8%
DTA Fee	(15.8)	(15.7)	(0.0)	0.3%
Net gains (losses) on property, plant and equipment and intangible assets measured at fair value	-	(27.8)	27.8	-100.0%
Gains (losses) on disposal of investments	(0.1)	17.0	(17.1)	n.m.
Profit (Loss) for the period before tax	**5.0**	**114.0**	**(109.1)**	**-95.6%**
Tax (expense)/recovery on income from continuing operations	5.5	6.1	(0.6)	-10.0%
Profit (Loss) after tax	**10.5**	**120.1**	**(109.7)**	**-91.3%**
Net profit (loss) for the period including non-controlling interests	**10.5**	**120.1**	**(109.7)**	**-91.3%**
Net profit (loss) attributable to non-controlling interests	-	(0.1)	0.1	n.m.
Parent Company's Profit (loss) for the period before PPA	**10.5**	**120.2**	**(109.8)**	**-91.3%**
PPA (Purchase Price Allocation)	(0.8)	(0.9)	0.2	-18.2%
Parent company's net profit (loss) for the period	**9.7**	**119.3**	**(109.6)**	**-91.9%**

Quarterly trend in reclassified consolidated income statement					
MONTEPASCHI GROUP	**2022**	**2021**			
	1°Q 2022	**4°Q 2021**	**3°Q 2021**	**2°Q 2021**	**1°Q 2021**
Net interest income	323.1	323.0	313.3	305.6	279.6
Net fee and commission income	368.9	371.2	358.3	382.5	372.0
Income from banking activities	**692.0**	**694.2**	**671.6**	**688.1**	**651.6**
Dividends, similar income and gains (losses) on investments	14.2	37.7	20.3	34.2	21.2
Net profit (loss) from trading, the fair value measurement of assets/liabilities and Net gains (losses) on disposals/repurchases	75.6	(5.9)	14.0	19.7	157.0
Net profit (loss) from hedging	4.6	4.9	5.8	0.3	1.6
Other operating income (expenses)	(3.2)	(10.8)	(13.4)	(1.8)	(10.7)
Total Revenues	**783.2**	**720.2**	**698.3**	**740.5**	**820.7**
Administrative expenses:	(491.7)	(471.3)	(470.0)	(491.9)	(492.9)
a) personnel expenses	(355.9)	(351.1)	(358.1)	(358.6)	(360.2)
b) other administrative expenses	(135.8)	(120.2)	(111.9)	(133.3)	(132.7)
Net value adjustments to property, plant and equipment and intangible assets	(43.6)	(47.8)	(43.6)	(41.0)	(47.5)
Operating expenses	**(535.3)**	**(519.1)**	**(513.6)**	**(532.8)**	**(540.4)**
Pre-Provision Operating Profit	**247.8**	**201.1**	**184.7**	**207.7**	**280.3**
Cost of customer credit	**(111.3)**	**(222.3)**	**135.1**	**(88.9)**	**(73.9)**
Net impairment (losses)/reversals on securities and loans to banks	**(0.4)**	**2.5**	**1.2**	**5.4**	**(3.7)**
Net operating income	**136.2**	**(18.7)**	**321.0**	**124.2**	**202.7**
Net provisions for risks and charges	(28.4)	(32.9)	(23.8)	(50.8)	8.5
Other gains (losses) on equity investments	1.9	(0.0)	2.4	2.6	(2.8)
Restructuring costs / One-off costs	(0.2)	0.8	(3.9)	(4.1)	(0.1)
Risks and charges associated to the SRF, DGS and similar schemes	(88.7)	(10.3)	(69.4)	(21.8)	(67.8)
DTA Fee	(15.8)	(15.8)	(15.8)	(15.9)	(15.7)
Net gains (losses) on property, plant and equipment and intangible assets measured at fair value	-	(15.3)	-	(0.4)	(27.8)
Gains (losses) on disposal of investments	(0.1)	-	-	(2.6)	17.0
Profit (Loss) for the period before tax	**5.0**	**(92.3)**	**210.5**	**31.1**	**114.0**
Tax (expense)/recovery on income from continuing operations	5.5	14.5	(23.7)	52.6	6.1
Profit (Loss) after tax	**10.5**	**(77.8)**	**186.8**	**83.7**	**120.1**
Net profit (loss) for the period including non-controlling interests	**10.5**	**(77.8)**	**186.8**	**83.7**	**120.1**
Net profit (loss) attributable to non-controlling interests	-	(0.1)	-	-	(0.1)
Parent Company's Profit (loss) for the period before PPA	**10.5**	**(77.7)**	**186.8**	**83.7**	**120.2**
PPA (Purchase Price Allocation)	(0.8)	(0.9)	(0.8)	(0.9)	(0.9)
Parent company's net profit (loss) for the period	**9.7**	**(78.6)**	**186.0**	**82.8**	**119.3**

Revenue trends

As at 31 March 2022, the Group achieved total **Revenues** of **EUR 783 mln**, down 4.6% compared to the same period of last year.

This trend is linked especially to the decrease in Other income from banking business, which benefitted in the first quarter of 2021 from higher gains deriving from the disposal of securities. On the other hand, there was year on year growth in Net interest income, driven primarily by (i) the positive effects of access to TLTRO III auctions, (ii) the lower cost incurred for the liquidity deposited at central banks, following the reduction in the relative volumes, (iii) the lower cost of market funding, which benefitted from the maturity of some securities and (iv) the increased contribution of the commercial segment, thanks to the lower cost of funding which made it possible to more than offset lower interest on loans.

Revenues for the first quarter of 2022 recorded an increase of 8.7% compared to the previous quarter. In particular, there was growth in Other income from banking business, which benefitted from higher gains on the disposal of securities. On the other hand, the contribution generated by the partnership with AXA in the Bancassurance area was down. Net interest income was stable while Net fee and commission income was down slightly (-0.6%).

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

SEGMENT REPORTING	Operating Segments						Corporate Center		Total Montepaschi Group	
Primary segment	Retail banking		Wealth Management		Corporate banking					
(EUR mln)	31/03/22	Chg % Y/Y	31/03/22	Chg % Y/Y	31/03/22	Chg % Y/Y	31/03/22	Chg % Y/Y	31/03/22	Chg % Y/Y
PROFIT AND LOSS AGGREGATES										
Net interest income	79.6	-9.2%	0.8	n.m	151.3	5.2%	91.4	90.4%	323.1	15.6%
Net fee and commission income, of which	225.0	-1.3%	30.5	-1.8%	136.5	0.4%	(23.1)	0.2%	368.9	-0.8%
Fee and commission income	*244.9*	-0.7%	*30.8*	-1.7%	*154.3*	2.5%	*(3.8)*	-39.0%	*426.1*	*0.9%*
Fee and commission expense	*(19.9)*	7.4%	*(0.3)*	11.0%	*(17.7)*	22.1%	*(19.3)*	14.7%	*(57.2)*	*14.2%*
Other Revenues from Banking and Insurance Business	15.9	-1.0%	4.6	-1.5%	22.6	28.1%	51.3	-63.8%	94.4	-47.5%
Other operating expenses/income	(0.9)	-65.6%	(0.1)	-31.5%	(1.0)	-70.8%	(1.2)	-72.7%	(3.2)	-69.7%
Total Revenue	319.6	-2.9%	35.8	0.3%	309.4	5.3%	118.3	-26.9%	783.2	-4.6%

Net Interest Income amounted to **EUR 323 mln** as at 31 March 2022, up 15.6% compared to the same period of 2021. This growth was driven primarily by (i) the positive effects of access to TLTRO III auctions, (ii) the lower cost incurred for the liquidity deposited at central banks, following the reduction in the relative volumes, (iii) the lower cost of market funding, which benefitted from the maturity of some securities and (iv) the increased contribution of the commercial segment, thanks to the lower cost of funding, which made it possible to more than offset lower interest on loans.

Net interest income for the first quarter of 2022 was stable compared to the previous quarter.

Items	31 03 2022	31 03 2021	Chg. Y/Y		1°Q 2022	4°Q 2021	Chg. Q/Q	
			Abs.	%			Abs.	%
Loans to customers measured at amortised cost	315.4	300.9	14.5	4.8%	315.4	312.8	2.6	0.8%
Loans to Banks measured at amortised cost	(2.4)	(4.5)	2.0	-45.4%	(2.4)	(3.2)	0.8	-24.9%
Loans to Central banks	51.0	33.6	17.5	52.1%	51.0	57.2	(6.2)	-10.8%
Government securities and other non-bank issuers at amortised cost	27.7	31.1	(3.4)	-10.9%	27.7	30.6	(2.9)	-9.5%
Securiries issued	(79.4)	(89.2)	9.8	-11.0%	(79.4)	(82.3)	2.9	-3.5%
Hedging derivatives	(15.9)	(13.1)	(2.8)	21.4%	(15.9)	(14.2)	(1.7)	12.0%
Trading portfolios	11.0	6.0	5.0	83.3%	11.0	13.1	(2.1)	-16.0%
Portfolios measured at fair value	1.5	1.1	0.4	36.4%	1.5	1.6	(0.1)	-6.3%
Financial assets measured at fair value through other comprehensive income	11.1	12.5	(1.4)	-11.2%	11.1	5.2	5.9	n.m.
Other financial assets and liabilities	3.1	1.2	1.9	n.m.	3.1	2.2	0.9	40.9%
Net interest income	**323.1**	**279.6**	**43.5**	**15.6%**	**323.1**	**323.0**	**0.1**	**0.0%**
of which: interest income on impaired financial assets	*14.5*	*14.4*	*0.1*	*0.7%*	*14.5*	*14.4*	*0.1*	*0.7%*

Net fee and commission income as at 31 March 2022, totalling EUR **369 mln, declined** slightly compared to the same period of the previous year (-0.8%). The downturn can be linked to lower income on asset management (-3.5%) as well as lower commissions on product placement, in addition to the lower income on protection and securities servicing, despite higher fees and commissions from continuing business. Fees and commissions from traditional banking services had recovered compared to the same period of the previous year.

The contribution of the first quarter of 2022 was also down slightly in the comparison with the previous quarter (-0.6%) primarily as a result of the reduction in fees and commissions from traditional banking services (EUR -10 mln), linked to lower income deriving from payment services; asset management fees and commissions were up, particularly for product placement, and Other net fees and commissions also rose thanks to the increased contribution of MPS Capital Services.

Services/value	**31 03 2022**	**31 03 2021**	**Change Y/Y**		**1°Q 2022**	**4°Q 2021**	**Change Q/Q**	
			abs.	**%**			**abs.**	**%**
Assets under management fee	**181.4**	**188.0**	**(6.6)**	**-3.5%**	**181.4**	**179.4**	**2.0**	**1.1%**
Product placement	59.7	70.1	(10.4)	-14.8%	59.7	52.9	6.8	12.9%
Continuing fees	102.1	94.3	7.8	8.3%	102.1	104.4	(2.3)	-2.2%
Placement of securities	8.9	10.7	(1.8)	-16.5%	8.9	9.8	(0.9)	-9.5%
Sales of Protection	10.7	13.0	(2.3)	-17.7%	10.7	12.2	(1.5)	-12.5%
Fee and commisions from traditional activities	**214.1**	**207.2**	**6.9**	**3.3%**	**214.1**	**224.2**	**(10.1)**	**-4.5%**
Credit fees	94.3	93.5	0.8	0.9%	94.3	93.9	0.4	0.4%
Fees from foreign service	14.9	12.0	2.9	24.4%	14.9	12.9	2.0	15.7%
Other services	104.8	101.7	3.2	3.1%	104.8	117.3	(12.5)	-10.7%
Other fee and commission income	**(26.6)**	**(23.2)**	**(3.4)**	**14.5%**	**(26.6)**	**(32.3)**	**5.8**	**-17.8%**
Net fees and commission income	**368.9**	**372.0**	**(3.1)**	**-0.8%**	**368.9**	**371.2**	**(2.3)**	**-0.6%**

Dividends, similar income and gains (losses) on investments totalled **EUR 14 mln** and declined compared to the first quarter of 2021 (EUR 21 mln) as well as the previous quarter (EUR 38 mln), due to lower income generated by the Bancassurance partnership with AXA.[11]

Net profit (loss) from trading, fair value measurement of assets/liabilities and gains on disposal/repurchase as at 31 March 2022 amounted to **EUR 76 mln**, a decrease of EUR 81 mln compared to the values recorded in the same period of the previous year and up by EUR 81 mln compared to the previous quarter. The analysis of the main aggregates shows the following:

- **Net profit from trading of EUR 16 mln,** up by EUR 2 mln compared to the value recorded in the same period of the previous year, due to the increased contribution of the results of MPS Capital Services. The result for the first quarter of 2022 was also up compared to the previous quarter (EUR +29 mln), again thanks to the increased contribution of MPS Capital Services.
- **Net profit (loss) from financial assets/liabilities measured at fair value through profit or loss positive for EUR 11 mln,** down compared to the positive contribution of EUR 16 mln recorded in the same period of the previous year and up by EUR 6 mln compared to the contribution of the previous quarter.
- **Gains on disposal/repurchase** (excluding loans to customers at amortised cost) **were positive for EUR 49 mln**, down by EUR 78 mln compared to the same period of the previous year as a result of lower gains deriving from the disposal of securities and up by EUR 47 mln compared to the previous quarter, due to higher gains on the sale of securities.

Items	31 03 2022	31 03 2021	Chg. Y/Y		1°Q 2022	4°Q 2021	Chg. Q/Q	
			Abs.	%			Abs.	%
Financial assets held for trading	(98.1)	(9.3)	(88.8)	n.m.	(98.1)	(6.9)	(91.2)	n.m.
Financial liabilities held for trading	110.4	41.1	69.3	n.m.	110.4	9.7	100.7	n.m.
Exchange rate effects	6.0	1.3	4.7	n.m.	6.0	7.0	(1.0)	-14.3%
Derivatives	(2.2)	(19.3)	17.1	-88.6%	(2.2)	(22.5)	20.3	-90.2%
Trading results	**16.1**	**13.8**	**2.3**	**16.7%**	**16.1**	**(12.7)**	**28.8**	**n.m.**
Net profit (loss) from other financial assets and liabilities measured at fair value through profit or loss	10.8	16.2	(5.4)	-33.3%	10.8	5.2	5.6	n.m.
Disposal / repurchase (excluding loans to customers measured at amortised cost)	48.7	127.0	(78.3)	-61.7%	48.7	1.6	47.0	n.m.
Net profit (loss) from trading, the fair value measurement of assets/liabilities and Net gains (losses) on disposals/repurchases	**75.6**	**157.0**	**(81.4)**	**-51.9%**	**75.6**	**(5.9)**	**81.4**	**n.m.**

The following items are also included in Revenues:

- **Net profit from hedging equal to EUR +5 mln,** an increase compared to the first quarter of 2021 (EUR +2 mln) and down slightly compared to the previous quarter;

- **Other operating income/expense, totalling a negative EUR 3 mln,** improved compared to the result recorded in the first quarter of 2021 (equal to EUR -11 mln) and with respect to the previous quarter (equal to EUR -11 mln).

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

Operating expenses

As at 31 March 2022, **Operating expenses** totalled **EUR 535 mln**, down compared to the corresponding period of the previous year (-0.9%) and up compared to the previous quarter (+3.1%). A closer look at the individual aggregates reveals the following:

- **Administrative expenses** amounted to **EUR 492 mln** and declined compared to the first quarter of 2021 (-0.2%) but increased compared to what was recorded in the previous quarter (+4.3%). A breakdown of the aggregate shows:

  - **Personnel expenses**, totalling **EUR 356 mln**, were down 1.2% compared to the first quarter of 2021, benefiting from workforce reduction trends, and up by 1.4% compared to the previous quarter;
  - **Other administrative expenses**, which amounted to **EUR 136 mln**, were up compared to the same period of the previous year (+2.3%), also due to the increase in energy prices recorded since the start of the year. They were also up compared to the previous quarter (+13.0%), which benefitted from contingent assets.

- **Net adjustments to property, plant and equipment and intangible assets** as at 31 March 2022 were equal to **EUR 44 mln,** down compared to the previous year (-8.1%), partly due to the effects of the introduction of fair value measurements of properties for business use starting from 31 March 2021. The aggregate is also down compared to the previous quarter (-8.8%), also following the impairment recognised at the end of the previous year.

Type of transaction	31 03 2022	31 03 2021	Chg Y/Y		1°Q 2022	4°Q 2021	Chg Q/Q	
			Abs.	%			Abs.	%
Wages and salaries	(256.2)	(261.1)	4.9	-1.9%	(256.2)	(256.6)	0.4	-0.2%
Social-welfare charges	(70.2)	(71.3)	1.1	-1.5%	(70.2)	(69.7)	(0.5)	0.7%
Other personnel expenses	(29.5)	(27.8)	(1.7)	6.1%	(29.5)	(24.8)	(4.7)	18.9%
Personnel expenses	**(355.9)**	**(360.2)**	**4.3**	**-1.2%**	**(355.9)**	**(351.1)**	**(4.8)**	**1.4%**
Taxes	(55.3)	(56.6)	1.3	-2.3%	(55.3)	(54.2)	(1.1)	2.0%
Furnishing, real estate and security expenses	(23.5)	(18.8)	(4.7)	25.0%	(23.5)	(10.2)	(13.3)	n.m.
General operating expenses	(52.0)	(53.3)	1.3	-2.4%	(52.0)	(30.9)	(21.1)	68.3%
Information technology expenses	(31.0)	(31.3)	0.3	-1.0%	(31.0)	(35.0)	4.0	-11.4%
Legal and professional expenses	(14.7)	(15.4)	0.7	-4.5%	(14.7)	(31.3)	16.6	-53.0%
Indirect personnel costs	(0.9)	(0.8)	(0.1)	12.5%	(0.9)	(0.8)	(0.1)	12.5%
Insurance	(4.8)	(11.1)	6.3	-56.8%	(4.8)	(8.6)	3.8	-44.2%
Advertising, sponsorship and promotions	(0.7)	(0.8)	0.1	-12.5%	(0.7)	(1.2)	0.5	-41.7%
Other	(5.3)	(3.2)	(2.1)	64.6%	(5.3)	(9.2)	3.9	-42.0%
Expenses recovery	52.4	58.6	(6.2)	-10.6%	52.4	61.2	(8.8)	-14.4%
Other administrative expenses	**(135.8)**	**(132.7)**	**(3.1)**	**2.3%**	**(135.8)**	**(120.2)**	**(15.6)**	**13.0%**
Property, plant and equipment	(27.1)	(30.8)	3.7	-12.1%	(27.1)	(30.4)	3.4	-11.1%
Intangible assets	(16.6)	(16.7)	0.1	-0.6%	(16.6)	(17.4)	0.8	-4.6%
Net value adjustments to property, plant and equipment and intangible assets	**(43.6)**	**(47.5)**	**3.8**	**-8.1%**	**(43.6)**	**(47.8)**	**4.2**	**-8.8%**
Operating expenses	**(535.3)**	**(540.4)**	**5.1**	**-0.9%**	**(535.3)**	**(519.1)**	**(16.2)**	**3.1%**

As a result of these trends, the Group's **Gross Operating Income** totalled **EUR 248 mln** (EUR 280 mln as at 31 March 2021), up EUR 47 mln compared to the previous quarter.

Cost of customer credit

As at 31 March 2022, the Group's Cost of customer credit was equal to EUR 111 mln, up compared to EUR 74 mln in the same period of the previous year as a result of the trend in non-performing loans and the preliminary estimate of the impacts deriving from the Russia-Ukraine conflict.

The Cost of Customer credit in the first quarter of 2022 marked a reduction compared to the previous quarter equal to EUR 222 mln, which included a negative impact deriving from certain methodological refinements relating to the assessment of unsecured unlikely-to-pay positions with a specific vintage and capital losses recorded on securities deriving from the sale/securitisation of non-performing loans.

As at 31 March 2022, the ratio between the Cost of Customer Credit and the sum of Customer Loans and the value of securities deriving from the sale/securitisation of non-performing loans results in a Provisioning Rate of 56 bps (36 bps as at 31 March 2021 and 31 bps as at 31 December 2021).

Items	31 03 2022	31 03 2021	Chg. Y/Y		1°Q 2022	4°Q 2021	Chg. Q/Q	
			Abs.	%			Abs.	%
Loans to customers measured at amortised cost	(115.2)	(70.7)	(44.5)	62.9%	(115.2)	(192.9)	77.7	-40.3%
Modification gains/(losses)	(0.1)	(4.4)	4.3	-97.7%	(0.1)	(0.8)	0.7	-87.5%
Gains/(losses) on disposal/repurchase of loans to customers measured at amortised cost	0.2	(0.1)	0.4	n.m.	0.2	(1.1)	1.3	n.m.
Net change of Loans to customers mandatorily measured at fair value	8.5	(4.8)	13.3	n.m.	8.5	(4.1)	12.6	n.m.
Net provisions for risks and charges on commitments and guarantees issued	(4.7)	6.1	(10.8)	n.m.	(4.7)	(23.4)	18.7	-79.9%
Adjustments to cost of customer credit	**(111.3)**	**(73.9)**	**(37.3)**	**50.5%**	**(111.3)**	**(222.3)**	**111.0**	**-50.0%**

The Group's **Net Operating Income** as at 31 March 2022 was **positive for approximately EUR 136 mln**, compared to a positive value of EUR 203 mln in the same period of the previous year and a negative value of EUR 19 mln in the previous year.

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

The **Profit (loss) for the year** included the following items:

- **Net provisions for risks and charges,** negative and equal to **EUR -28 mln,** a deterioration of EUR 37 mln compared to the same period of the previous year mainly due to higher provisions for legal, tax and labour risks. They improved compared to the fourth quarter due to lower provisions for legal risks.
- **Other gains (losses) on equity investments** equal to **EUR +2 mln**, against a loss of EUR 3 mln in the same period of the previous year and a basically nil contribution recorded in the fourth quarter of 2021.
- **Restructuring/one-off costs,** amounting to **EUR -0.2 mln** (EUR -0.1 mln in the first quarter of 2021 and EUR +0.8 mln in the fourth quarter of 2021).
- **Risks and charges associated with SRF, DGS and similar schemes**, amounting to **EUR -89 mln**, comprised of the contribution due from the Group to the Single Resolution Fund (SRF), up compared to the balance of EUR 68 mln recorded in the same period of the previous year.
- **DTA fee**, amounting to **EUR -16 mln**, basically unchanged compared to what was recorded in the same period of the previous year and in the previous quarter. This amount, determined according to the criteria set forth in Law Decree 59/2016, converted into Law no. 119 of 30 June 2016, represents the fee as at 31 March 2022 on DTA (Deferred Tax Assets) that can be converted into a tax credit.
- **Net gains (losses) on property, plant and equipment and intangible assets measured at fair value were** nil as at 31 March 2022 (EUR -28 mln as at 31 March 2021 and EUR -15 mln in the fourth quarter of 2021).

- **Gains (losses) on disposal of investments of EUR -0.1 mln**. The aggregate was positive for EUR 17 mln as at 31 March 2021 and zero in the fourth quarter of 2021.

Due to the changes discussed above, the Group's **Profit before tax for the period** stood at **EUR 5 mln**, compared to 31 March 2021, which recorded a profit of EUR 114 mln, and the fourth quarter of 2021, when there was a loss of EUR 92 mln.

Taxes on income from current operations recorded a positive contribution of **EUR 6 mln** (compared to a positive contribution of EUR 6 mln in the first quarter of 2021 and equal to EUR 14 mln in the fourth quarter of 2021), attributable primarily to the valuation of DTAs.

With reference to taxable income for future years, please note that the valuation of DTAs was determined on the basis of the income projections used for the 2021 Consolidated Financial Statements; also at this time, the income projections included in the new 2022-2026 Strategic Plan, approved by the Board of Directors on 17 December 2021 were not considered, as this document is still being reviewed by the competent authorities.

Considering the net effects of the PPA (EUR -0.8 mln), **the Parent Company's Profit for the period amounted to EUR 10 mln**, compared to a profit of EUR 119 mln earned in the first quarter of 2021 and a loss of EUR 79 mln in the previous quarter.

Reclassified balance sheet

The (i) reclassified balance sheet as at 31 March 2022 compared with the balances set forth in the financial statements as at 31 December 2021 and (ii) the statement of its quarterly evolution starting from the same period of the previous year, are provided below.

Reclassified Balance Sheet

Assets	31 03 2022	31 12 2021	Chg abs.	Chg %
Cash and cash equivalents	1,791.0	1,741.8	49.2	2.8%
Loans to central banks	15,392.8	20,769.7	(5,376.9)	-25.9%
Loans to banks	2,424.9	3,493.3	(1,068.4)	-30.6%
Loans to customers	79,259.7	79,380.3	(120.6)	-0.2%
Securities assets	23,382.2	22,127.1	1,255.1	5.7%
Derivatives	2,352.6	2,431.6	(79.0)	-3.2%
Equity investments	985.2	1,095.4	(110.2)	-10.1%
Property, plant and equipment/Intangible assets	2,718.5	2,743.5	(25.0)	-0.9%
of which:				
a) goodwill	*7.9*	*7.9*	-	0.0%
Tax assets	1,798.0	1,774.0	24.0	1.4%
Other assets	1,904.2	2,311.9	(407.7)	-17.6%
Total assets	**132,009.1**	**137,868.6**	**(5,859.5)**	**-4.3%**

Liabilities	31 03 2022	31/12/21	Chg abs.	Chg %
Direct funding	84,428.2	90,300.3	(5,872.1)	*-6.5%*
a) Due to customers	74,992.2	79,859.5	(4,867.3)	-6.1%
b) Securities issued	9,436.0	10,440.8	(1,004.8)	*-9.6%*
Due to central banks	29,081.1	29,154.8	(73.7)	-0.3%
Due to banks	1,763.6	2,125.1	(361.5)	-17.0%
On-balance-sheet financial liabilities held for trading	3,174.4	3,104.1	70.3	2.3%
Derivatives	2,081.9	2,686.1	(604.2)	*-22.5%*
Provisions for specific use	1,820.6	1,814.0	6.6	0.4%
a) Provision for staff severance indemnities	157.8	159.3	(1.5)	-0.9%
b) Provision related to guarantees and other commitments given	147.8	144.0	3.8	2.6%
c) Pension and other post-retirement benefit obligations	29.0	29.7	(0.7)	-2.4%
d) Other provisions	1,486.0	1,481.0	5.0	0.3%
Tax liabilities	6.5	7.0	(0.5)	-7.1%
Other liabilities	3,645.4	2,503.2	1,142.2	45.6%
Group net equity	6,006.1	6,172.7	(166.6)	-2.7%
a) Valuation reserves	131.6	306.8	(175.2)	-57.1%
d) Reserves	(3,330.2)	(3,638.6)	308.4	-8.5%
f) Share capital	9,195.0	9,195.0	-	-
h) Net profit (loss) for the period	9.7	309.5	(299.8)	-96.9%
Non-controlling interests	1.3	1.3	-	0.0%
Total Liabilities and Shareholders' Equity	**132,009.1**	**137,868.6**	**(5,859.5)**	**-4.3%**

Reclassified Balance Sheet - Quarterly Trend					
Assets	**31 03 2022**	**31 12 2021**	**30 09 2021**	**30 06 2021**	**31 03 2021**
Cash and cash equivalents	1,791.0	1,741.8	2,121.6	1,745.3	1,853.4
Loans to central banks	15,392.8	20,769.7	20,940.8	25,570.5	26,116.8
Loans to banks	2,424.9	3,493.3	3,344.0	3,133.9	2,975.3
Loans to customers	79,259.7	79,380.3	81,199.8	81,355.8	82,259.0
Securities assets	23,382.2	22,127.1	24,961.0	23,121.9	22,562.0
Derivatives	2,352.6	2,431.6	2,591.8	2,689.5	2,757.5
Equity investments	985.2	1,095.4	1,041.8	1,027.7	1,069.2
Property, plant and equipment/Intangible assets	2,718.5	2,743.5	2,757.9	2,760.0	2,784.5
of which:					
a) goodwill	*7.9*	*7.9*	*7.9*	*7.9*	*7.9*
Tax assets	1,798.0	1,774.0	1,758.7	1,800.4	1,919.8
Other assets	1,904.2	2,311.9	2,400.5	2,544.7	2,361.3
Total assets	**132,009.1**	**137,868.6**	**143,117.9**	**145,749.7**	**146,658.8**

Liabilities	**31 03 2022**	**31 12 2021**	**30 09 2021**	**30 06 2021**	**31 03 2021**
Direct funding	84,428.2	90,300.3	92,901.5	94,036.5	99,053.6
a) Due to customers	74,992.2	79,859.5	82,389.2	83,315.3	87,124.1
b) Securities issued	9,436.0	10,440.8	10,512.3	10,721.2	11,929.5
Due to central banks	29,081.1	29,154.8	29,230.2	29,305.6	26,373.1
Due to banks	1,763.6	2,125.1	3,019.5	3,854.3	3,816.4
On-balance-sheet financial liabilities held for trading	3,174.4	3,104.1	3,325.0	3,819.3	3,179.5
Derivatives	2,081.9	2,686.1	2,819.1	2,730.1	2,759.0
Provisions for specific use	1,820.6	1,814.0	1,969.0	2,017.1	2,011.3
a) Provision for staff severance indemnities	157.8	159.3	162.2	163.3	164.2
b) Provision related to guarantees and other	147.8	144.0	121.5	144.6	147.1
c) Pension and other post-retirement benefit	29.0	29.7	30.7	31.4	32.3
d) Other provisions	1,486.0	1,481.0	1,654.6	1,677.8	1,667.7
Tax liabilities	6.5	7.0	8.0	8.0	8.1
Other liabilities	3,645.4	2,503.2	3,593.5	3,912.1	3,451.0
Group net equity	6,006.1	6,172.7	6,250.7	6,065.3	6,005.4
a) Valuation reserves	131.6	306.8	302.3	324.7	367.6
d) Reserves	(3,330.2)	(3,638.6)	(3,630.7)	(3,521.0)	(3,415.8)
f) Share capital	9,195.0	9,195.0	9,195.0	9,195.0	9,195.0
g) Treasury shares (-)	-	-	(4.0)	(135.5)	(260.7)
h) Net profit (loss) for the period	9.7	309.5	388.1	202.1	119.3
Non-controlling interests	1.3	1.3	1.4	1.4	1.4
Total Liabilities and Shareholders' Equity	**132,009.1**	**137,868.6**	**143,117.9**	**145,749.7**	**146,658.8**

Customer funding

As at 31 March 2022, the Group's **Total Funding** volumes amounted to **EUR 184.3 bn**, with a decrease in volumes of EUR 10.5 bn compared to 31 December 2021, linked to the decrease in Direct Funding (EUR -5.9 bn) as well as Indirect Funding (EUR -4.6 bn).

The aggregate was down also compared to 31 March 2021 (EUR -19.2 bn), due to the decrease in Direct Funding (EUR -14.6 bn) and Indirect Funding (EUR -4.6 bn).

Background

While tensions and uncertainties linked to the escalation of the war in Ukraine and the upward trend in commodity prices are beginning to impact the economic cycle, banking aggregate trends are not yet incorporating the impacts of the conflict that began at the end of February.
In the first two months of the year, the deceleration in bank deposits held by the private sector continued, from 6.9% on a yearly basis at the end of 2021 to roughly 4.2% in February. The slowdown in this aggregate's trend concerned especially the production sector (non-financial companies and income-generating households), for which growth went from 11% yoy in December to 4.3% yoy in February. For consumer households, the slowdown was more limited, with growth reaching around 4.5% on a yearly basis in February. In terms of types, trends in current account payables of resident customers (net of central administrations) and deposits redeemable with prior notice remained positive, although in deceleration; on the other hand, time deposits were down, marking a decline of roughly 20% in the first two months of the year compared to the same period of 2021.
In the first two months of the year, bonds continued to contract and Eurosystem funding remained stable. The end of the TLTRO III auctions at the end of 2021 interrupted the gradual increase in the exposure of the banking system to the ECB, which over the last two years was more than EUR 230 bn.

In February, the interest rate on deposits of non-financial companies and households recorded a very slight increase to 0.31% (+1 bp compared to December 2021); the rate on current accounts (at the historical low of below 0.02%) and that on term deposits, at roughly 0.96%, were both down; the rate on deposits redeemable with prior notice rose slightly, exceeding 1.4% in February (+3 bps since last December). As regards bonds, the rate on balances was down slightly to approx. 1.73% from 1.76% at year end.

Also in February, the asset management industry raised EUR 6.3 bn, with the total balance of net funding in the first two months of the year rising to EUR 10.6 bn. In the first two months of the year, funds recorded a positive net balance of approx. EUR 10 bn, while a net amount of roughly EUR 1 bn was recorded portfolio management (with growth in retail management offset by the reduction in institutional management). In terms of categories, investors directed their investment choices towards equity funds (EUR +4.8 bn) and balanced funds (EUR +3.5 bn). At the end of February assets under management amounted to EUR 2,508 bn (compared to 2,594 in December 2021) as a result of the market downturn. After 2021 when new business rose by 11.8% compared to the previous year and in which the Class III solutions drove growth, in January 2022 the life insurance market posted a 2.4% decline in new business volumes compared to the same period of the previous year. Traditional products recorded a further decline and the slowdown in the growth of hybrid solutions continued; in particular, negative changes were recorded for Class I which closed at -14.2% compared to January 2021. The component with the most financial content instead consolidated its growth trend (+ 13.8%), with premiums subscribed during the month of EUR 3.7 bn. In January, the financial advisors channel brokered growing business volumes (+11% vs January 2021), while the banking and agency channels decreased by 4.9% and 4.7% yoy, respectively. Overall, the entire segment recorded new issues of EUR 7.5 bn.

Customer Funding

				Chg Q/Q		Chg Y/Y	
	31 03 2022	31 12 2021	31 03 2021	Abs.	%	Abs.	%
Direct funding	84,428.2	90,300.3	99,053.6	(5,872.1)	-6.5%	(14,625.4)	-14.8%
Indirect funding	99,846.6	104,429.7	104,440.5	(4,583.1)	-4.4%	(4,594.0)	-4.4%
Total funding	**184,274.8**	**194,730.0**	**203,494.1**	**(10,455.2)**	**-5.4%**	**(19,219.4)**	**-9.4%**

Volumes of **Direct Funding** stood at **EUR 84.4 bn**, with a decrease of EUR 5.9 bn compared to the end of December 2021, mainly due to the decrease in Repurchase Agreements (EUR -3.4 bn), linked to the decrease in transactions of MPS Capital Services. The bond segment was also down (EUR -1.0 bn) due to the maturity of a covered bond, as were current accounts (EUR -1.0 bn), time deposits (EUR -0.4 bn) and Other forms of funding (EUR -0.1 bn).

With respect to 31 March 2021, the aggregate was down by EUR 14.6 bn, with a decrease across all types. In particular, there was a decrease in Repurchase Agreements (EUR -5.6 bn) due to the decreased transactions of MPS Capital Services and a reduction in current accounts (EUR -2.3 bn) and time deposits (EUR -2.0 bn) due to the continuation of the actions put into place by the Parent Company to optimise the cost of funding. There was also a decline in Other forms of funding (EUR -2.2 bn) and in the bond segment (EUR -2.5 bn), the latter mainly due to the maturity of a covered bond.

The Group's market share[12] on Direct Funding was 3.43% (figure updated in January 2022), down compared to December 2021 (3.47%).

Direct funding							
Type of transaction	31 03 2022	31 12 2021	31 03 2021	Change Q/Q		Change Y/Y	
				Abs.	%	Abs.	%
Current accounts	65,186.2	66,159.1	67,459.2	(972.9)	-1.5%	(2,273.0)	-3.4%
Time deposits	6,040.3	6,438.3	8,074.5	(398.0)	-6.2%	(2,034.2)	-25.2%
Reverse repurchase agreements	903.6	4,298.7	6,519.3	(3,395.1)	-79.0%	(5,615.7)	-86.1%
Bonds	9,436.0	10,440.9	11,929.5	(1,004.9)	-9.6%	(2,493.6)	-20.9%
Other types of direct funding	2,862.1	2,963.3	5,071.1	(101.2)	-3.4%	(2,209.0)	-43.6%
Total	**84,428.2**	**90,300.3**	**99,053.6**	**(5,872.1)**	**-6.5%**	**(14,625.5)**	**-14.8%**

Indirect Funding came to **EUR 99.8 bn**, a decrease of EUR 4.6 bn compared to 31 December 2021, due to the reduction in both the Assets under Management (EUR -2.5 bn) and Assets under Custody (EUR -2.1 bn) components, impacted by a negative market effect.

Also in the comparison with 31 March 2021, there was a reduction in Indirect Funding of EUR 4.6 bn, due to the reduction in Assets under Custody (EUR -5.3 bn), in relation to movements recorded for two large customers as well as a negative market effect. On the other hand, the Assets under Management component increased (EUR +0.7 bn).

Indirect Funding							
	31 03 2022	31 12 2021	31 03 2021	Change Q/Q		Change Y/Y	
				Abs.	%	Abs.	%
Assets under managemen	62,785.4	65,285.5	62,081.7	(2,500.0)	-3.8%	703.7	1.1%
Funds	*28,643.1*	*30,002.2*	*27,856.6*	*(1,359.1)*	*-4.5%*	*786.4*	*2.8%*
Individual Portfolio under Management	*5,326.0*	*5,498.4*	*5,246.9*	*(172.4)*	*-3.1%*	*79.1*	*1.5%*
Bancassurance	*28,816.4*	*29,784.9*	*28,978.2*	*(968.5)*	*-3.3%*	*-161.8*	*-0.6%*
Assets under custody	37,061.1	39,144.2	42,358.8	(2,083.1)	-5.3%	(5,297.7)	-12.5%
Government securities	*12,870.8*	*13,372.0*	*13,685.1*	*(501.2)*	*-3.7%*	*(814.3)*	*-6.0%*
Others	*24,190.3*	*25,772.2*	*28,673.7*	*(1,581.9)*	*-6.1%*	*(4,483.4)*	*-15.6%*
Total funding	**99,846.6**	**104,429.7**	**104,440.5**	**-4,583.1**	**-4.4%**	**-4,594.0**	**-4.4%**

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

Loans to customers

As at 31 March 2022, the Group's **Loans to Customers** amounted to **EUR 79.3 bn**, basically stable compared to the end of December as a result of the decrease in Repurchase Agreements (EUR -1.1 bn), offset by growth in current accounts (EUR +0.4 bn), mortgages (EUR +0.1 bn) and other loans (EUR +0.6 bn). On the other hand, non-performing loans were down (EUR -0.2 bn).

The aggregate declined by EUR 3.0 bn in the comparison with 31 March 2021 primarily due to the decline in Repurchase Agreements (EUR -3.5 bn) and the decrease in mortgages (EUR -0.3 bn) and non-performing loans (EUR -0.2 bn). On the other hand, current accounts (EUR +0.2 bn) and other loans (EUR +0.8 bn) were up.

The Group's market share[13] stood at 4.42% (last available figure from January 2022), down 4 basis points from the end of 2021.

Background

After the significant increase recorded in the first half of 2021, as a result of the actions taken by the government to facilitate access to credit, the trend in bank loans slowed but in any event remains positive in the initial months of 2022 as well. Loans to the private sector (net of Repurchase Agreements with central counterparties and adjusted for exposures sold and derecognised) recorded growth in February aligned with that of last December (approx. +2.1% yoy). The increase in loans to non-financial companies was more limited (+1.2% yoy in February), with demand from companies held back by abundant cash and cash equivalents set aside in the course of the pandemic crisis. The expansion of household lending was confirmed as solid, returning to growth of more than 3.8% yoy in February. The expiry of the moratoria still in place at the end of last December and the resulting resumption of repayments also may have impacted the limited trend in loans to companies at the beginning of 2022. However, there are still a number of measures in place to support the liquidity of companies: the possibility of requesting the CGF and SACE guarantee has been extended to the end of June (requests are up) and, in Law Decree no. 21 of 21 March 2022 on urgent measures to combat the effects of the conflict in Ukraine on the Italian economy, many interventions were introduced to improve the financial situation of companies, from breaking down energy and gas bills into instalments, to SACE guarantees for financial transactions relating to strategic industrial sites, to the extension of the tax credit even to companies not included in the "high energy consumption" segment.

The trend early this year in bank loans to households benefitted from the performance of the home purchase segment, favoured by good real estate market outlooks, while the consumer credit segment was negatively affected by the slowdown in demand for durable goods after the significant increase last year. However, over the coming months inflationary tensions and uncertainty linked to the war in Ukraine will lead to a deterioration in the financial conditions of households, with an expected decline in disposable income in real terms.

The most recent surveys conducted with businesses by the Bank of Italy (Survey on expectations concerning inflation and growth) and Istat are beginning to point to a deterioration in credit access conditions in the first quarter of 2022, incorporating the initial consequences of the slowing economic cycle. Quarterly surveys on bank lending (Bank Lending Survey) conducted by central banks in collaboration with the ECB show a slight stiffening of business lending criteria in the first quarter of the year, associated with a greater perception of risk. Terms and conditions have become harsher as well, particularly by means of an increase of margins on risker loans. The criteria for granting loans to households to purchase homes and for consumption and other purposes are showing a limited slowdown, with stricter terms and conditions in this case as well.

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

With regard to interest rates, there has been a minimal recovery since the end of 2021, as concerns loans to non-financial companies (1.64% in February; +2 bps since December) as well as to households (2.65% in February, +1 bp since December). On new business transactions, the average rate fell by nearly 10 bps from the values marked at the end of 2021, reaching roughly 1.09% in February. On new household transactions, the home loan rate resumed growth, reaching nearly 1.5% in February (around +10 bps compared to December) and the rate on consumer credit touched 6.5%; the rate on loans for other purposes also rose, returning above 3% in February.

In the first two months of the year, the stock of bad loans on bank balance sheets to residents in Italy grew by roughly 3.26 billion from last December's levels, and there were no securitisations or other disposals of bad loans derecognised from bank financial statements; at sector level, the greatest increase was recorded for non-financial companies. In terms of yearly trends, in February the reduction in bad loans to residents neared 20%, a decline that almost reaches zero including bad loans sold and derecognised, analogous to the loan adjustment methodology applied in the European Central Bank System (ECBS).

Loans to customers

Type of transaction	31 03 2022	31 12 2021	31 03 2021	Change Q/Q		Change Y/Y	
				Abs.	%	Abs.	%
Current accounts	3,085.3	2,695.9	2,935.1	389.4	14.4%	150.2	5.1%
Mortgages	56,418.1	56,268.3	56,750.8	149.8	0.3%	(332.7)	-0.6%
Other forms of lending	13,763.2	13,152.2	12,924.8	611.0	4.6%	838.4	6.5%
Repurchase agreements	4,008.9	5,126.4	7,497.9	(1,117.5)	-21.8%	(3,489.0)	-46.5%
Non performing loans	1,984.2	2,137.5	2,150.4	(153.3)	-7.2%	(166.2)	-7.7%
Total	**79,259.7**	**79,380.3**	**82,259.0**	**(120.6)**	**-0.2%**	**(2,999.3)**	**-3.6%**
Stage 1	*64,471.3*	*64,808.0*	*65,194.8*	*(336.7)*	*-0.5%*	*(723.5)*	*-1.1%*
Stage 2	*12,635.1*	*12,306.3*	*14,774.2*	*328.8*	*2.7%*	*(2,139.1)*	*-14.5%*
Stage 3	*1,978.3*	*2,124.0*	*2,111.1*	*(145.7)*	*-6.9%*	*(132.8)*	*-6.3%*
Purchased or originated impaired financial assets	*10.5*	*10.6*	*32.8*	*(0.1)*	*-0.9%*	*(22.3)*	*-68.0%*
Performing loans measured at fair value	*160.5*	*119.7*	*129.5*	*40.8*	*34.1%*	*31.0*	*23.9%*
Non-performing loans measured at fair value	*4.0*	*11.7*	*16.6*	*(7.7)*	*-65.8%*	*(12.6)*	*-75.9%*

Loans to customers measured at amortised cost		Stage 1	Stage 2	Stage 3	Purchased or originated impaired financial assets	**Total**
31 03 2022	Gross exposure	64,548.8	12,993.5	3,997.8	20.6	**81,560.7**
	Adjustments	77.5	358.4	2,019.5	10.1	**2,465.5**
	Net exposure	64,471.3	12,635.1	1,978.3	10.5	**79,095.2**
	Coverage ratio	*0.1%*	*2.8%*	*50.5%*	*49.0%*	***3.0%***
	% on Loans to customers measured at amortised cost	*81.5%*	*16.0%*	*2.5%*	*0.0%*	***100.0%***

Loans to customers measured at amortised cost		Stage 1	Stage 2	Stage 3	Purchased or originated impaired financial assets	Total
31 12 2021	Gross exposure	64,884.9	12,663.8	4,054.4	20.7	**81,623.8**
	Adjustments	76.9	357.5	1,930.4	10.1	**2,374.9**
	Net exposure	64,808.0	12,306.3	2,124.0	10.6	**79,248.9**
	Coverage ratio	*0.1%*	*2.8%*	*47.6%*	*48.8%*	***2.9%***
	% on Loans to customers measured at amortised cost	*81.8%*	*15.5%*	*2.7%*	*0.0%*	***100.0%***

Loans to customers measured at amortised cost		Stage 1	Stage 2	Stage 3	Purchased or originated impaired financial assets	Total
31 03 2021	Gross exposure	65,273.0	15,259.5	3,981.8	47.3	**84,561.6**
	Adjustments	78.2	485.3	1,870.7	14.5	**2,448.7**
	Net exposure	65,194.8	14,774.2	2,111.1	32.8	**82,112.9**
	Coverage ratio	*0.1%*	*3.2%*	*47.0%*	*30.7%*	***2.9%***
	% on Loans to customers measured at amortised cost	*79.4%*	*18.0%*	*2.6%*	*0.0%*	***100.0%***

The gross exposure of loans classified in stage 1 was equal to EUR 64.5 bn, a decrease both compared to 31 December 2021 (EUR 64.9 bn) and 31 March 2021 (EUR 65.3 bn).

Positions classified in stage 2, the gross exposure of which amounted to EUR 13.0 bn, were up slightly compared to EUR 12.7 bn as at 31 December 2021 and down compared to EUR 15.3 bn as at 31 March 2021.

There was slightly negative growth in stage 1, with a resulting increase in stage 2 due primarily to the deterioration of the creditworthiness of several counterparties, resulting in their classification in the High Risk segment (binding trigger for classification in stage 2). On the other hand, stage 3 was down thanks to the limited default flow observed in the first quarter of 2022 as well as the good performance observed in the non-performing portfolio in terms of the cure rate and recoveries.

Non-performing exposures of loans to customers

The Group's **total non-performing loans to customers** as at 31 March 2022 were equal to **EUR 4.0 bn** in terms of gross exposure, down slightly compared to 31 December 2021 (EUR 4.1 bn) and 31 March 2021 (EUR 4.1 bn). In particular,

- the gross bad loan exposure, equal to EUR 1.8 bn, was stable compared to 31 December 2021 (EUR 1.7 bn) and up compared to 31 March 2021 (EUR 1.5 bn);
- the gross unlikely-to-pay loan exposure, equal to EUR 2.2 bn, was down compared to 31 December 2021 (EUR 2.3 bn) as well as 31 March 2021 (EUR 2.4 bn);
- the gross non-performing past-due loan exposure, equal to EUR 45.6 mln, was down compared to 31 December 2021 (EUR 60.7 mln) and 31 March 2021 (EUR 121.5 mln).

As at 31 March 2022, the Group's **net exposure in terms of non-performing loans to customers** was equal to **EUR 2.0 bn**, down slightly compared to both 31 December 2021 (EUR 2.1 bn) and 31 March 2021 (EUR 2.2 bn).

Loans to customers		Bad loans	Unlikely to pay	Non-performing Past due Loans	**Total Non-performing loans to customers**	Perfoming loams	**Total**
31 03 2022	Gross exposure	1,762.7	2,220.9	45.6	**4,029.2**	77,711.6	**81,740.8**
	Adjustments	1,156.6	877.7	10.7	**2,045.0**	436.1	**2,481.1**
	Net exposure	606.1	1,343.2	34.9	**1,984.2**	77,275.5	**79,259.7**
	Coverage ratio	*65.6%*	*39.5%*	*23.5%*	***50.8%***	*0.6%*	***3.0%***
	% on Loans to customers	*0.8%*	*1.7%*	*0.0%*	***2.5%***	*97.5%*	***100.0%***
31 12 2021	Gross exposure	1,740.6	2,303.4	60.7	**4,104.7**	77,677.3	**81,782.0**
	Adjustments	1,108.6	844.8	13.8	**1,967.2**	434.5	**2,401.7**
	Net exposure	632.0	1,458.6	46.9	**2,137.5**	77,242.8	**79,380.3**
	Coverage ratio	*63.7%*	*36.7%*	*22.7%*	***47.9%***	*0.6%*	***2.9%***
	% on Loans to customers	*0.8%*	*1.8%*	*0.1%*	***2.7%***	*97.3%*	***100.0%***
31 03 2021	Gross exposure	1,544.0	2,424.2	121.5	**4,089.7**	80,673.0	**84,762.7**
	Adjustments	999.7	908.5	31.1	**1,939.3**	564.4	**2,503.7**
	Net exposure	544.3	1,515.7	90.4	**2,150.4**	80,108.6	**82,259.0**
	Coverage ratio	*64.7%*	*37.5%*	*25.6%*	***47.4%***	*0.7%*	***3.0%***
	% on Loans to customers	*0.7%*	*1.8%*	*0.1%*	***2.6%***	*97.4%*	***100.0%***

As at 31 March 2022, the **coverage ratio for non-performing loans** stood at 50.8%, up compared to 31 December 2021 (47.9%) as a result of the increase in the coverage ratio of bad loans (from 63.7% to 65.6%), unlikely-to-pay positions (from 36.7% to 39.5%) and non-performing past-due loans (from 22.7% to 23.5%).

The coverage ratio for non-performing loans was also up compared to 31 March 2021, when it amounted to 47.4% thanks to the increase in the coverage ratio of bad loans (from 64.7% to 65.6%) and unlikely-to-pay positions (from 37.5% to 39.5%). On the other hand, the non-performing past-due loans coverage ratio declined from 25.6% to 23.5%.

Change in gross exposures

abs/%		Bad loans	Unlikely to pay	Non performing past due exposures	**Total Non-performing loans to customers**	Perfoming loams	**Total**
Q/Q	abs.	22.1	(82.5)	(15.1)	**(75.5)**	34.3	**(41.2)**
	%	1.3%	-3.6%	-24.9%	**-1.8%**	0.0%	**-0.1%**
Y/Y	abs.	218.7	(203.3)	(75.9)	**(60.5)**	(2,961.4)	**(3,021.9)**
	%	14.2%	-8.4%	-62.5%	**-1.5%**	-3.7%	**-3.6%**

Changes in coverage ratios

	Bad loans	Ulikely to pay	Non performing past due exposures	**Total Non-performing loans to customers**	Perfoming loams	**Total**
Q/Q	*1.9%*	*2.8%*	*0.7%*	***2.8%***	*0.0%*	***0.1%***
Y/Y	*0.9%*	*2.0%*	*-2.1%*	***3.3%***	*-0.1%*	***0.1%***

Trend of non-performing loans to customers	1°Q 2022		31 12 2021		4°Q 2021		1°Q 2021		Chg. 1°Q 2022/4°Q2021 Total Non-performing loans to customers		Chg. Y/Y Total Non-performing loans to customers	
	Non-performing loans to customers	*of which Bad loans*	Non-performing loans to customers	*of which Bad loans*	Non-performing loans to customers	*of which Bad loans*	Non-performing loans to customers	*of which Bad loans*	Abs.	%	Abs.	%
Gross exposure, opening balance	**4,104.7**	**1,740.6**	**4,012.3**	**1,498.7**	**4,029.2**	**1,762.7**	**4,012.3**	**1,498.7**	**75.5**	**1.9%**	**92.4**	**2.3%**
Increases from performing loans	107.0	4.0	1,120.6	51.6	393.4	25.8	223.3	3.1	(286.4)	-72.8%	(116.3)	-52.1%
Transfers to performing loans	(67.3)	-	(235.7)	(15.2)	(104.1)	-	(59.7)	(15.0)	36.8	-35.4%	(7.6)	12.7%
Collections (including gains on disposals)	(142.6)	(33.9)	(639.9)	(69.8)	(283.8)	(18.7)	(108.9)	(15.3)	141.2	-49.8%	(33.7)	30.9%
Write-offs (including loss on disposal)	(34.2)	(22.5)	(188.0)	(156.2)	(134.1)	(119.8)	(16.3)	(8.7)	99.9	-74.5%	(17.9)	n.m.
+/- Other changes	61.6	74.5	35.4	431.5	204.1	90.6	39.0	81.2	(142.5)	-69.8%	22.6	57.9%
Gross exposure, closing balance	**4,029.2**	**1,762.7**	**4,104.7**	**1,740.6**	**4,104.7**	**1,740.6**	**4,089.7**	**1,544.0**	**(75.5)**	**-1.8%**	**(60.5)**	**-1.5%**
Opening balance of overall adjustments	**(1,967.2)**	**(1,108.6)**	**(1,852.1)**	**(933.7)**	**(2,045.0)**	**(1,156.6)**	**(1,852.1)**	**(933.7)**	**77.8**	**-3.8%**	**(115.1)**	**6.2%**
Adjustments / write-backs	(120.3)	(28.8)	(360.3)	(156.9)	(360.3)	(156.9)	(99.7)	(44.1)	240.0	-66.6%	(20.6)	20.7%
+/- Other changes	42.5	(19.2)	245.2	(18.0)	438.1	204.9	12.5	(21.9)	(395.6)	-90.3%	30.0	n.m.
Closing balance of overall adjustments	**(2,045.0)**	**(1,156.6)**	**(1,967.2)**	**(1,108.6)**	**(1,967.2)**	**(1,108.6)**	**(1,939.3)**	**(999.7)**	**(77.8)**	**4.0%**	**(105.7)**	**5.5%**
Net exposure, closing balance	**1,984.2**	**606.1**	**2,137.5**	**632.0**	**2,137.5**	**632.0**	**2,150.4**	**544.3**	**(153.3)**	**-7.2%**	**(166.2)**	**-7.7%**

Other financial assets/liabilities

As at 31 March 2022, the Group's **Securities Assets** were equal to **EUR 23.4 bn**, up compared to 31 December 2021 (EUR +1.3 bn) due to the increase in financial assets held for trading, attributable in particular to the subsidiary MPS Capital Services.

The aggregate was also up compared to 31 March 2021 (EUR +0.8 bn), due to the increase in the trading component attributable in particular to the subsidiary MPS Capital Services, and the component at fair value through other comprehensive income, offset in part by the component at amortised cost mainly attributable to disposals carried out during the period. Note that the market value of the securities in Loans to customers at amortised cost is EUR 8,574.0 mln (with implicit capital losses of around EUR 212.0 mln) and the market value of the securities in Loans to banks at amortised cost is EUR 652.1 mln (with implicit capital losses of roughly EUR 55.0 mln).

On-balance-sheet financial liabilities held for trading, referring in particular to the subsidiary MPS Capital Services, were equal to *EUR 3.2 bn* as at 31 March 2022 and were up slightly compared to 31 December 2021 (EUR 3.1 bn) and basically stable compared to 31 March 2021 (EUR 3.2 bn).

As at 31 March 2022, the **Net position in derivatives, a positive EUR 271 mln**, posted an improvement compared to 31 December 2021 (EUR -255 mln) as well as 31 March 2021 (EUR -2 mln).

Items	31 03 2022	31 12 2021	31 03 2021	Chg. Q/Q		Chg. Y/Y	
				Abs.	%	Abs.	%
Securities assets	23,382.2	22,127.1	22,562.1	1,255.1	5.7%	820.1	3.6%
Financial assets held for trading	*7,838.5*	*6,790.9*	*7,440.8*	*1,047.6*	*15.4%*	*397.7*	*5.3%*
Financial assets mandatorily measured at fair value	*316.0*	*322.6*	*338.1*	*(6.6)*	*-2.0%*	*(22.1)*	*-6.5%*
Financial assets measured at fair value through other comprehensive income	*5,734.7*	*5,460.7*	*4,938.0*	*274.0*	*5.0%*	*796.7*	*16.1%*
Financial assets held for sale	*(0.1)*	*0.0*	*0.1*	*(0.1)*	*n.m.*	*(0.2)*	*n.m.*
Loans to customers measured at amortised cost	*8,786.0*	*8,811.6*	*9,116.9*	*(25.6)*	*-0.3%*	*(330.9)*	*-3.6%*
Loans to banks measured at amortised cost	*707.1*	*741.3*	*728.2*	*(34.2)*	*-4.6%*	*(21.1)*	*-2.9%*
On-balance-sheet financial liabilities held for trading	(3,174.4)	(3,104.1)	(3,179.5)	(70.3)	2.3%	5.1	-0.2%
Net positions in Derivatives	270.7	(254.5)	(1.6)	525.2	n.m.	272.3	n.m.
Other financial assets and liabilities	**20,478.5**	**18,768.5**	**19,381.0**	**1,710.0**	**9.1%**	**1,097.5**	**5.7%**

Items	31 03 2022		31 12 2021		31 03 2021	
	Securities assets	On-balance-sheet financial liabilities held for trading	Securities assets	On-balance-sheet financial liabilities held for trading	Securities assets	On-balance-sheet financial liabilities held for trading
Debt securities	22,795.3	-	21,508.4	-	22,008.9	-
Equity instruments and Units of UCITS	586.9	-	618.7	-	553.2	-
Loans	-	3,174.4	-	3,104.1	-	3,179.5
Total	**23,382.2**	**3,174.4**	**22,127.1**	**3,104.1**	**22,562.1**	**3,179.5**

Interbank position

As at 31 March 2022, the **net interbank position** of the Group stood at **EUR 13.0 bn** of net funding, against EUR 7.0 bn of net funding as at 31 December 2021. The change was mainly due to the reduction in loans in relation to the decrease in deposits on the compulsory reserve account.

Also compared to 31 March 2021 (which had a net interbank position of EUR 1.1 bn in funding), the change is due to the reduction in loans in relation to the decrease in deposits in the compulsory reserve account. The increase in funding attributable to additional access to the TLTRO III auctions was, indeed, for the most part offset by the decline in Repurchase Agreements.

Interbank balances				Change Q/Q		Change Y/Y	
	31/03/22	31/12/21	31/03/21	Abs.	%	Abs.	%
Loans to banks	2,424.9	3,493.3	2,975.3	(1,068.4)	-30.6%	(550.4)	-18.5%
Deposits from banks	1,763.6	2,125.1	3,816.4	(361.5)	-17.0%	(2,052.8)	-53.8%
Net position with banks	**661.3**	**1,368.2**	**(841.1)**	**(706.9)**	**-51.7%**	**1,502.4**	**n.m.**
Loans to central banks	15,392.8	20,769.7	26,116.8	(5,376.9)	-25.9%	(10,724.0)	-41.1%
Deposits from central banks	29,081.1	29,154.8	26,373.1	(73.7)	-0.3%	2,708.0	10.3%
Net position with central banks	**(13,688.3)**	**(8,385.1)**	**(256.3)**	**(5,303.2)**	**63.2%**	**(13,432.0)**	**n.m.**
Net interbank position	**(13,027.0)**	**(7,016.9)**	**(1,097.4)**	**(6,010.1)**	**85.7%**	**(11,929.6)**	**n.m.**

As at 31 March 2022, the operational liquidity position showed an unencumbered ***Counterbalancing Capacity* equal to approx. EUR 25.0 bn**, basically unchanged compared with 31 December 2021. There was a decrease compared to 31 March 2021 (EUR -6.0 bn) due to lower commercial funding and the maturity of market bonds (in particular, due to the maturity of covered bonds).

Other assets

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

As at 31 March 2022, the Group finalised approx. 7,100 purchase transactions for a nominal amount of EUR 278.7 mln. Taking into account offset receivables, totalling EUR 32.5 mln, the residual nominal amount as at 31 March 2022 came to EUR 246.1 mln. The corresponding carrying amount, recognised in the item "Other assets" at amortised cost, which takes into account the acquisition price and the net amounts accrued as at 31 March 2022, was EUR 220.2 mln.

It should also be noted that, as at 31 March 2022, the Group had received requests for the sale of these receivables for a total amount of approximately EUR 1.8 bn, currently being assessed/processed.

Shareholders' equity

As at 31 March 2022, the **Shareholders' equity of the Group and non-controlling interests** was roughly **EUR 6.0 bn,** down EUR 167 mln compared to 31 December 2021, due to the decrease in valuation reserves.

With respect to 31 March 2021, the Group's shareholders' equity and non-controlling interests were basically stable. The reduction in valuation reserves was offset by the trend in results for the period and the net effect of sales of treasury shares carried out by the Group in the course of 2021.

Reclassified Consolidated Balance Sheet							
Equity	31 03 2022	31 12 2021	31 03 2021	Chg Q/Q		Chg Y/Y	
				Abs.	%	Abs.	%
Group Net Equity	6,006.1	6,172.7	6,005.4	(166.6)	-2.7%	0.7	0.0%
a) Valuation reserves	131.6	306.8	367.6	(175.2)	-57.1%	(236.0)	-64.2%
d) Reserves	(3,330.2)	(3,638.6)	(3,415.8)	308.4	-8.5%	85.6	-2.5%
f) Share capital	9,195.0	9,195.0	9,195.0	-	n.m.	-	n.m.
g) Treasury shares (-)	-	-	(260.7)	-	n.m.	260.7	-100.0%
h) Net profit (loss) for the period	9.7	309.5	119.3	(299.8)	-96.9%	(109.6)	-91.9%
Non-controlling interests	1.3	1.3	1.4	-	0.0%	(0.1)	-7.1%
Shareholders' equity of the Group and Non-controlling interests	**6,007.4**	**6,174.0**	**6,006.8**	**(166.6)**	**-2.7%**	**0.6**	**0.0%**

Please note that due to the loss recorded as at 31 December 2020 of EUR 1.9 bn, the Parent Company is now in the situation envisaged in art. 2446 of the Italian Civil Code.

The Shareholders, at the meeting on 12 April, in compliance with art. 6 of Law Decree no. 23 of 8 April 2020, converted with amendments by Law no. 40 of 5 June 2020, as amended by Law no. 178 of 30 December 2020, resolved to refer - in continuity with shareholders' resolution of 6 April 2021 - the decisions set forth in article 2446 paragraph 2 of the Italian Civil Code, concerning the share capital decrease, to the Shareholders' Meeting that will be called to resolve on the capital strengthening measures, and therefore to carry over the loss for the year 2020.

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 2020 and also taking into account the information received after that date, with the submission on 2 February 2022 of the 2021 SREP Decision, the ECB asked the Parent Company to maintain, effective 1 March 2022, a consolidated TSCR level of 10.75%, which includes 8% as a Pillar 1 minimum requirement ("P1R") pursuant to art. 92 of the CRR and 2.75% as Pillar 2 additional requirement ("P2R"), which must be respected at least for 56.25% with CET1 and at least 75% with Tier 1.

With regard to Pillar II Capital Guidance (P2G), the ECB expects the Parent Company to adapt, on a consolidated basis, to a requirement of 2.50%, to be fully met with Common Equity Tier 1 capital in addition to the overall capital requirement (OCR). Failing to comply with this capital guideline is not, at any rate, equivalent to failing to comply with the capital requirements.

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

Accordingly, the Group must meet the following requirements at consolidated level as at 31 March 2022:

- CET1 Ratio of 8.80%;
- Tier 1 Ratio of 10.81%;
- Total Capital Ratio of 13.50%.

These ratios include, in addition to the P2R, 2.5% for the Capital Conservation Buffer, 0.25% for the O-SII Buffer, and 0.002% for the Countercyclical Capital Buffer.[14]

[14] Calculated considering the exposure as at 31 March 2022 in the various countries in which MPS Group operates and the requirements established by the competent national authorities.

As at **31 March 2022**, the Group's level of capital on a transitional basis was as shown in the following table:

Categories / Values	31 03 2022	31 12 2021	Chg. 31 12 2021	
			Abs.	%
OWN FUNDS				
Common Equity Tier 1 (CET1)	5,551.6	5,991.8	(440.2)	-7.35%
Tier 1 (T1)	5,551.6	5,991.8	(440.2)	-7.35%
Tier 2 (T2)	1,784.0	1,713.4	70.6	4.12%
Total capital (TC)	**7,335.6**	**7,705.2**	**(369.6)**	**-4.80%**
RISK-WEIGHTED ASSETS				
Credit and Counterparty Risk	33,698.6	33,556.8	141.8	0.42%
Credit valuation adjustment risk	626.8	556.6	70.2	12.61%
Market risks	2,668.9	2,724.1	(55.2)	-2.03%
Operational risk	10,968.5	10,949.4	19.1	0.17%
Total risk-weighted assets	**47,962.8**	**47,786.9**	**175.9**	**0.37%**
CAPITAL RATIOS				
CET1 capital ratio	**11.57%**	**12.54%**	**-0.96%**	
Tier1 capital ratio	**11.57%**	**12.54%**	**-0.96%**	
Total capital ratio	**15.29%**	**16.12%**	**-0.83%**	

Compared to 31 December 2021, CET1 decreased by a total of EUR -440 mln, essentially due to the following phenomena:

- decrease in the balance of the Valuation reserve of financial assets at fair value through other comprehensive income, for a total of EUR -175 mln, due in particular to the decline in valuation reserves of debt securities;
- increase in deductions related to prudential filters, DTAs, securitisations and intangible assets (EUR -22 mln), in addition to the decrease in non-deductible deductions relating to significant financial investments and DTAs (EUR +43 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 -325 mln, attributable to the transition of the filter from 50% to 25%;
- increase of EUR +23 mln in the prudential filter relating to the Valuation reserve of financial assets at fair value through other comprehensive income on securities issued by governments or central administrations, also attributable to the transition of the filter from 70% to 40% in 2022;
- reduction of the additional deduction on CET1 (pursuant to art. 3 of the CRR Regulation) carried out to implement the minimum coverage requirements for non-performing loans in accordance with the ECB Guidelines (equal to EUR +18 mln).

Tier 2 rose by EUR +71 mln compared to the end of December 2021, due primarily to the increase in the contribution to Tier 2 of the excess value adjustments over expected losses.

Hence, the Total Capital Ratio reflects an overall decrease in own funds equal to EUR -369 mln.

RWAs were basically stable (EUR +176 mln). As regards credit and counterparty risk, there was a slight increase (EUR +142 mln) attributable to the AIRB component, while standard credit risk remained unchanged. Other risks were also basically stable with respect to December 2021: CVA risk (EUR +70 mln), market risks (EUR -55 mln) and operational risk (EUR +19 mln).

As at 31 March 2022, the Parent Company, on a consolidated basis, met the overall capital requirement; on the other hand, on the same date it had a shortfall with respect to the P2G, linked to the increase in the value of the guidance set forth in the 2021 SREP Decision (2.50% vs. 1.30%) and the planned capital reduction linked to the IFRS 9 phase-in (roughly EUR 325 mln).

In the course of 2021 a series of supervisory measures issued by the ECB continued to apply, envisaging 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. Several of them will also continue to apply in 2022. In particular, the ECB announced that until 31 December 2022 it will allow significant banks to temporarily operate below the capital level defined by Pillar II Capital Guidance and the capital conservation buffer (CCB).

As regards regulatory developments on capital requirements, in 2021, following the receipt of the final decision relating to two ECB inspections, the Group implemented the revision of the AIRB models carried out in 2019 (2019 Model Change), also with reference to the New Definition of Default, subject to specific ECB review.

Also in relation to the revision of internal models, in the course of 2022 an overall increase of roughly EUR 5.6 bn is expected in RWAs, linked in part to the update of the probabilities of default on counterparties subject to the process rating (Large Corporate and SME), linked to the 2019 Model Change, and in part to the re-estimation of models for full alignment with the EBA Guidelines (EBA-GL-2017-16) carried out in the course of 2021, subject to review by the ECB in 2022.

Over the 12-month time horizon as of the reference date, or 31 March 2023, in the absence of the capital strengthening operation and assuming the full implementation of the inflationary effects on risk-weighted assets relating to changes in the credit risk measurement models as a result of the EBA Guidelines, a shortfall of about EUR 500 mln could emerge with respect to the overall capital requirements.

Disclosure on risks

Main risks and uncertainties

Detailed information on the risks and uncertainties to which the Group is exposed is provided in the Consolidated Financial Statements as at 31 December 2021, to which reference is made.

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

Risks linked to the prospective capital shortfall

The expectation of a prospective capital shortfall with respect to the overall capital requirements and the results of the EBA 2021 stress test have highlighted the need for capital strengthening estimated at EUR 2.5 bn.

In the absence of the "structural solution", DG Comp and ECB should assess, insofar as they are responsible, the intervention of the State based on the Bank's stand-alone viability taking into account the new 2022-2026 Strategic Plan. It cannot be excluded that, as part of this assessment, unforeseeable elements might arise that could affect the Parent Company's capital strengthening process and the structure and feasibility of a capital increase under market conditions. If the capital increase does not take place under market conditions, the State intervention will be classified by DG Comp as "State aid" and the principle of cost sharing envisaged by regulations in force will be applied.

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

Credit risk

Lending activity represents the Group's core business and the main risk component, representing approximately 50% of the Group's total RWAs (and more than half of the Pillar 1 RWAs). The classification as high risk remained unchanged compared to the previous year, especially in relation to the current macroeconomic context, which could lead to a significant increase in default flows in the next three years.

In general, a continuation of the situation of uncertainty linked to the effects of the COVID-19 pandemic, as well as international geopolitical tensions deriving from Russia's invasion of Ukraine, 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, in 2022 the Group continued to support the companies most impacted by the Covid-19 pandemic by providing new loans and applying forbearance measures, while on non-performing loans, activities continue in order to limit the stock of NPLs.

Other risks and uncertainties

Risks linked to the breach of the MREL requirements

In light of the deferral to 2022 of the share capital increase and the absence of issues of debt securities in the course of 2021, as at 31 March 2022 the Parent Company has a temporary breach of the combined buffer requirement (CBR) considered in addition to the MREL requirements in force. For a detailed disclosure, please refer to what is described in the section "Funding strategy and MREL capacity" above.

With reference to the above-mentioned variance, on the basis of what is set forth in art. 78a CRR and the SRB "Communication on application of RTS provisions on prior permissions" published in September 2021, the Parent Company was unable to obtain prior authorisation to operate as a market maker on its Senior Bonds, requested in accordance with the regulation starting from 1 January 2022, pursuant to art. 77 (2) of the CRR. Therefore, as of that date, the Parent Company and its subsidiaries have suspended this type of operation.

Also in relation to the temporary variance with respect to the CBR on top of the MREL requirements, in a letter dated 2 May 2022, pursuant to art. 10-bis of Regulation 806/2014 (SRM), SRB sent the Parent Company the Decision relating to the ban on carrying out the following distributions:

- Distribution of CET1 (dividends);
- Payment of coupons on AT1 instruments;
- Assumption of obligations for the payment of variable remuneration or discretionary pension benefits or payment of variable remuneration against commitments assumed when the combined capital buffer requirement was not respected (breach of the CBR-MREL),

beyond the limit of the "M-MDA" (Maximum distributable amount in relation to the MREL).

This decision is effective as of 2 May 2022.

Risks related to the economic-political context

The Group is exposed to the risk linked to the evolution of Italian economic conditions and to a general trend of the European and global economy, which continue to exhibit significant elements of uncertainty (see the "Reference context" 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 expected economic growth outlooks, domestic energy supply sources, the solidity perceived by investors, creditworthiness and the stability of the political context), as it is the country in which the Group operates almost exclusively.

Inflation persistently at all-time highs, fuelled by global supply chain disruptions and rising commodity prices, aggravated by the ongoing military conflict (aside from supplying fossil fuels, Russia is one of the top global wheat exporters and one of the main metal manufacturers), may force the Monetary Authorities to rapidly withdraw their economic support measures with the risk of depressing the expansionary cycle. The armed invasion of Ukrainian territory by the Russian armed forces is encountering Ukrainian opposition and triggered a decisive response from the Western countries which imposed heavy economic sanctions on Moscow and provided support to resistance on the ground. The risk that the conflict will continue for an extended period of time and that the military escalation will involve other countries is possible in a scenario in which counteracting blocks of power will begin to confront each other once again, with evident repercussions in terms of the stability of the economic cycle. The expulsion of several Russian banks from the Swift circuit[15], the freezing of the assets of the Russian Central Bank and the "selective default" on Moscow's foreign debt, after the payment of several bonds in Roubles rather than in dollars, could generate tensions in the international financial markets, with higher impacts on the intermediaries most exposed to Russia. At the same time, geopolitical tensions and the possibility of an embargo on Russian energy supplies contribute towards maintaining high price pressures, especially on natural gas, with Europe and Italy strongly dependant on supplies from the Kremlin. An inefficient or incomplete implementation of the growth support policies set forth in the National Recovery and Resilience Plan (NRRP) in the medium term and political tensions within the current government majority could further depress the Italian economic recovery. Lower expected growth could fuel fears as to the sustainability of public debt, with repercussions on the BTP-Bund spread.

Risks associated with the COVID-19 pandemic

The situation in the financial markets and the macroeconomic scenario in which the Group is operating are characterised by significant aspects of uncertainty, also in consideration of the possible negative impacts on public health and the economy caused by the continuation of the COVID-19 pandemic.

A deterioration in the health situation, the removal of government support measures, the ineffectiveness of the vaccination plan, as well as the evolution of virus variants, could have a further impact on the Italian economic, social and financial position and therefore, as a result, on the Group's credit quality, capitalisation and profitability.

[15] *The Society for Worldwide Interbank Financial Telecommunication is a secure messaging system that guarantees very rapid transactions with very high security standards, which in fact settles the vast majority of international financial transactions.*

Exposure to sovereign debt risk

Below is a breakdown of the Group's exposure to sovereign debt risk in government bonds, loans and credit derivatives as at 31 March 2022.

The exposures are broken down by accounting categories.

COUNTRY	DEBT SECURITIES					LOANS	CREDIT DERIVATIVES
	Financial assets measured at fair value through profit or loss		Financial assets measured at fair value through other comprehensive income		Financial assets measured at amortised cost	Financial assets measured at amortised cost	Financial assets held for trading
	Nominal	Fair value=book value	Nominal	Fair value=book value	Book value	Book value	Nominal
Argentine	0.3	-	-	-	-	-	-
Belgium	-	-	8.0	5.4	-	-	-
France	-	-	15.0	13.2	13.2	-	-
Italy	3,900.2	3,615.5	4,711.0	4,665.9	5,634.7	1,740.4	3,290.1
Mexico	0.1	0.1	15.0	12.8	-	-	-
Peru	-	-	2.0	1.7	-	-	-
Portugal	0.8	0.7	34.6	31.6	3.3	-	-
Romania	-	-	30.0	26.3	-	-	-
Spain	31.1	39.3	10.0	10.1	1,306.2	-	-
United States	-	-	45.0	49.2	-	-	-
South Africa	-	-	5.0	5.3	-	-	-
Other Countries	3.9	3.1	-	(0.1)	-	-	-
Total 31 03 2022	**3,936.4**	**3,658.7**	**4,875.6**	**4,821.4**	**6,957.4**	**1,740.4**	**3,290.1**
Total 31 12 2021	**2,764.6**	**2,586.9**	**4,566.0**	**4,607.1**	**6,889.4**	**1,655.4**	**3,147.1**

As at 31 March 2022, the residual duration of the exposure to the most significant component of sovereign debt (Italian debt securities) was 5.98 years.

Main types of legal, employment and tax risks and complaints

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

The most significant events in the first quarter of 2022 are shown below. For more details on legal, employment and tax disputes, please refer to the Consolidated Financial Statements as at 31 December 2021.

Legal disputes and out-of-court claims

As at 31 March 2022, the following were pending:

- legal disputes with total relief sought, where quantified, equal to EUR 4.7 bn. In particular:
    - approximately EUR 2.3 bn in relief sought in disputes for which the risk of losing the case is deemed "likely" and provisions of EUR 1.0 bn have been made;
    - approx. EUR 0.7 bn in claims attributable to disputes for which there is a "possible" risk of losing the case;
    - approx. EUR 1.7 bn relief sought in the remaining disputes, for which the risk of losing the case is deemed "remote";
- out-of-court claims totalling, where quantified, approximately EUR 0.85 bn, primarily linked to disputes classified with a "likely" risk of losing the case.

Disputes regarding compound interest, interest rates and conditions

For this type of dispute, provisions for risks have been made equal to EUR 120.1 mln (against total relief sought of EUR 290.1 mln), compared with EUR 122.7 mln recognised as at 31 December 2021 (against relief sought of EUR 293.1 mln).

Dispute regarding bankruptcy rescindments

For this type of dispute, as at 31 March 2022, provisions for risks of EUR 16.4 mln were allocated (against a total claim amount of EUR 112.4 mln), compared to EUR 17.4 mln recognised as at 31 December 2021 (against a claim of EUR 116.9 mln).

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

For this type of dispute, provisions for risks have been made equal to EUR 6.6 mln (against total relief sought of EUR 19.9 mln), unchanged with respect to 31 December 2021 (against relief sought of EUR 20.2 mln).

Dispute with purchasers of subordinated bonds issued by Group companies

The total claim for these disputes is EUR 33.7 mln as at 31 March 2022, in continuity with 31 December 2021. The focus of the opposing claims concerns the lack of disclosure and/or in any case violations of specific regulations on financial intermediation. As at 31 March 2022, the provisions recognised amounted to roughly EUR 15.7 mln (down by EUR 0.1 mln compared to 31 December 2021).

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

As at 31 March 2022, the total relief sought for this type of dispute amounted to approx. EUR 1.87 bn, broken down as follows (data in EUR mln):

Type	**31/03/22**	**31/12/21**
Civil dispute *	763	738
Filed civil claim cp 29634/14**	123	125
Filed civil claim cp 955/16	158	158
Out-of-court claims ***	825	713
Total relief sought	**1,869**	**1,734**

(*) The increase in the relief sought is due to the flow of new disputes, including the appeal of the Alken Funds.
(**) The decrease in relief sought, with reference to the civil action claims in PP no. 29634/14, is due to the conclusion of settlement agreements with several civil parties.
(***) The increase in the relief sought with respect to 31 December 2021 is due for the most part to claims concerning the 2014-2015 capital increases received during the quarter from a number of individuals represented by two law firms.

Criminal proceeding no. 29634/14

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

The Parent Company, as civilly liable person (not accused pursuant to Legislative Decree 231/2001 as a result of a previous plea bargaining) was convicted – jointly with the accused natural persons and the two foreign banks – and ordered to pay damages to the civil parties still making an appearance, to be settled in separate civil proceedings, having the Court rejected the request to make available an amount on a provisional and immediately enforceable basis, pursuant to art. 539 of the Italian Code of Criminal Procedure.

The Parent Company filed an appeal before the Court of Appeal of Milan against the ruling of first instance, as the civilly liable party, jointly and severally liable with the defendants.

At the hearing of 3 February 2022, the appeal was discussed in the interest of the Parent Company. On 6 May 2022, the Court of Appeal of Milan, Second Criminal Section, acquitted all the defendants in the case with large formula stating the "the fact does not exist". At the date of these interim report, only the operative part of the judgment is available. It will be necessary to carefully examine the grounds of the judgment as soon as they become available, in order to be able to verify all the implications of the acquittal verdict issued by the Court of Appeal.

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

On 17 July 2018, the Finance Department of the Sicily Region sent to the Parent Company an order of injunction pursuant to art. 2 of Italian Royal Decree no. 639/1910 and repayment, pursuant to art. 823, paragraph 2 of the Italian Civil Code, in the amount of EUR 68.6 mln, setting a term of 30 days for the Parent Company to make the payment and warning that, in the event of failure to pay, it would proceed with the forced recovery through the registration of the claim. This followed the Parent Company's decision to suspend the credit line granted to Riscossione Sicilia, which, in the period between 18 October and 9 November 2017, would fail to pay the amount of EUR 68.6 mln to the Sicily Region. The Parent Company filed notice of opposition, with first hearing set for 12 December 2018, to said injunction, and applied to obtain the suspension of the enforceability of said injunction (or execution if launched in the meantime) with the request for a provision without prior hearing of the other side. After reserving its right to consider its verdict at the hearing of 21 August, the Court, by order of 24 August, rejected the suspension request, specifying, however, that the injunction may be enforced on the positive current account balances held by Riscossione Sicilia. The Sicily Region requested the summon of Riscossione Sicilia, leading to the Court of Palermo's postponement of the first hearing - already scheduled for 12 December 2018 - to 20 March 2019. This first hearing, postponed again to 17 July 2019 due to the unavailability of the Judge, was then rescheduled for 26 September 2019. At the first hearing, upon acknowledging the statements provided by the parties, the Judge set out the terms for lodging the statements pursuant to art. 183 of the Italian Code of Civil Procedure and adjourned to an evidentiary hearing scheduled for 26 November 2020. On that occasion, the Parent Company asked for the hearing for the statement of the conclusions to be scheduled, requesting the Court to verify the action had become devoid of purpose, as

Riscossione Sicilia during the proceedings had proved that the receivable claimed by the Sicily Region had been fully cancelled. The Judge then postponed the judgement to 29 April 2021 for the hearing for closing arguments. At the hearing on 29 April 2021, the case was adjourned pending decision and legal terms were set for the filing of written counterarguments.

With Ruling no. 3649/2021, published on 4 October 2021 and notified on 5 October 2021, the Court of Palermo rejected the Bank's objection to the aforementioned Ordinance and ordered this to pay legal expenses. The Bank filed an appeal against this ruling before the Court of Appeal of Palermo, requesting the suspension of the provisional enforceability of the injunction order and the first instance ruling. The Court of Appeal of Palermo, with order dated 21 December 2021, rejected the suspension request, referring the discussion of the appeal to the hearing of first appearance on 11 February 2022. By order filed on the same date, the Court of Appeal ordered the integration of the cross-examination against the Revenue Agency - Collection (ADER), as successor of Riscossione Sicilia S.p.A., ordering it to appear at the hearing scheduled for 1 July 2022.
Given the confirmation of the enforceability of the order of injunction, if the Bank proceeds with the payment of the roughly EUR 68.6 mln under dispute in response to the request of the Sicily Region, it is entitled to demand the payment of the same amount from the Revenue Agency - Collection (ADER), as the universal successor of Riscossione Sicilia S.p.A..

Employment law disputes

Risks relating to employment law are subject to monitoring and evaluation by the relevant Group functions; in the event of disputes with "likely" risk, appropriate allocations are made to the provision for risks and charges. The overall relief sought for this type of disputes is equal to EUR 85.7 mln, of which EUR 46.7 mln refers to claims for which there is a "likely" risk of losing the case.

Risks for tax disputes

Risks for tax disputes are subject to monitoring and evaluation by the relevant Group functions; in the event of disputes with "likely" risk, appropriate allocations are made to the provision for risks and charges. The overall relief sought for this type of disputes is equal to EUR 79.6 mln, of which EUR 12.7 mln refers to claims for which there is a "likely" risk of losing the case.

Compensation for transactions in diamonds

As at 31 March 2022, more than twelve thousand claims had been received for a total value of roughly EUR 315.5 mln, while the claims concluded amounted to EUR 315.1 mln (of which EUR 311.9 mln for settlements carried out, covered for the countervalue net of the market value of the stones by the provision for risks and charges made in previous years and EUR 3.2 mln rejected due to their failure to meet requirements) and represent approx. 91% of the total volume of diamond offers reported by the Parent Company. Residual provisions for risks and charges recognised against the compensation initiative amounted to EUR 5.1 mln at the end of March 2022.

Market risks

The Group has a significant exposure to market risk, with particular reference to sovereign exposures, both in the Trading and in the Banking Book, given the potential volatility of the underlying market variables, the concentration on Italian government bonds in terms of issuer risk and the corresponding vulnerability of the portfolio to unfavourable changes in market conditions, in particular in regard to the Italian credit spread, for positions mainly classified in the accounting portfolio at amortised cost.

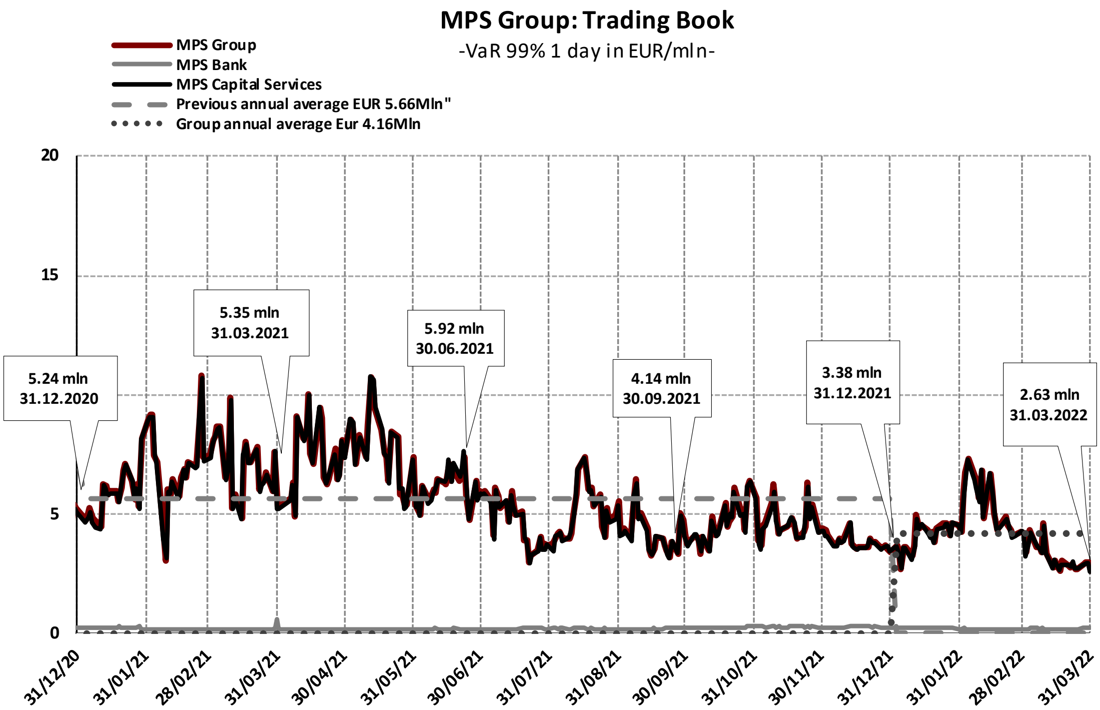
During the quarter, the credit spread on Italian government securities was confirmed at the lowest levels of the last few years. However, given the general market context characterised by rising rates, as a condition of greater capital stability, within the scope of market risks the Group's decision to apply the temporary prudential filter for the 2020-2022 period to positions in FVOCI has been maintained[16].

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 mitigated with the application of the phase-in percentages established by the regulation (100% for 2020, 70% for 2021 and 40% for 2022), resulting in greater stabilisation of the impacts on capital linked to variability in market parameters for the Group's FVOCI portfolio sensitive to Italy credit spread risk and interest rate trends.

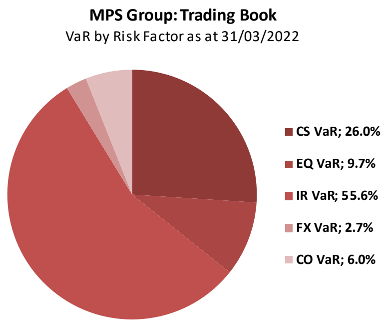
As at 31 March 2022, the market risks of the Group's Regulatory Trading Book, measured as VaR, equal to EUR 2.63 mln, were down on the end of 2021 (EUR 3.38 mln) and lower than the yearly average (EUR 4.16 mln).

During the first quarter, VaR trends were influenced by the subsidiary MPS Capital Services, mainly for own trading activities in the Credit Spread – Interest Rate segment (transactions in Italian government bonds and long futures) and, to a lesser extent, Client-Driven activities in the Equity segment (options and equity futures on the main market indices). Starting from the month of February, there was a reduction in the VaR, particularly in the Credit Spread (CS VaR) segment following the scrolling of the time window underlying the model, with the exit of tail events linked to the market crisis due to the March 2020 pandemic phase, and the resulting growth in the Interest Rate (IR VaR) segment on overall VaR.

During the first part of the quarter, VaR volatility resulted from auctions on Italian government securities by the subsidiary MPS Capital Services for primary dealer activities, with temporary changes in the overall CS Italy risk exposure, primarily short term. During the quarter, the average of Italian sovereign bonds held in the Group's trading books amounted to EUR 4.6 bn in nominal terms, stable with respect to the previous quarter.



[16] See art. 468 of Regulation (EU) 2020/873 of the European Parliament and 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.



The breakdown of the VaR shows that the IR is the main risk factor, accounting for 55.6% of the RTB Gross VaR of the Group, while CS factor accounts for 26.0%, EQ for 9.7%, CO (Commodities) for 6.0% and FX (Forex) for 2.7%.

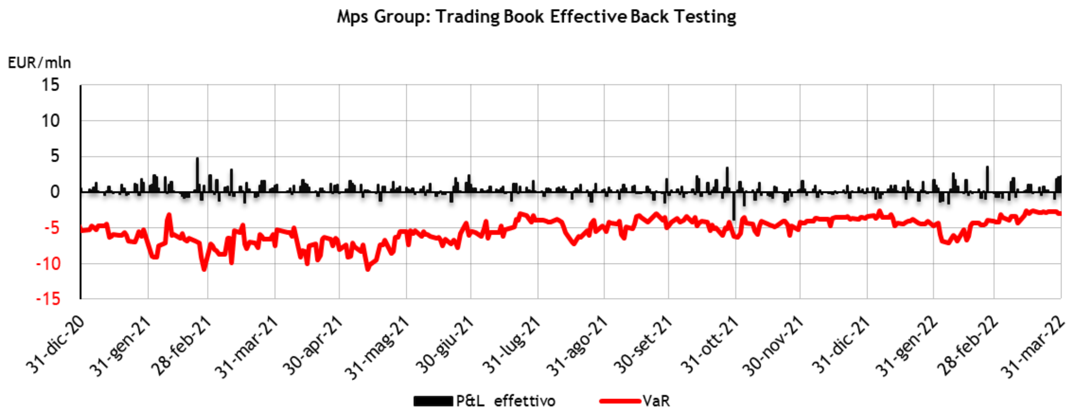
MPS Group: Trading Book
VaR 99% 1 day in EUR/mln

	VaR	Date
End of Period	2.63	31/03/2022
Min	2.58	17/03/2022
Max	7.29	04/02/2022
Average	4.16	

In the first three months of 2022, the Group's VaR in the Regulatory Trading Book ranged between a low of EUR 2.58 mln recorded on 17 March 2022 and a high of EUR 7.29 mln on 4 February 2022 with an average value registered of EUR 4.16 mln. The Regulatory Trading Book VaR as at 31 March 2022 amounted to EUR 2.63 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 2021 and the first three months of 2022:



No exceptions were recorded in the first quarter of 2022.

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.

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

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

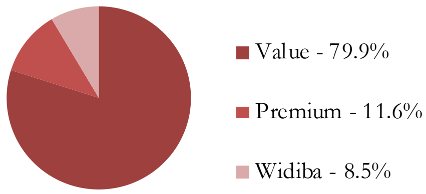
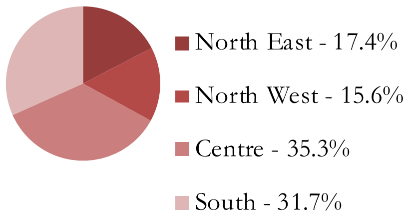
Results in brief

The following table reports the main income statement and balance sheet aggregates that characterised the Group's Operating Segments as at 31 March 2022:

SEGMENT REPORTING	Operating Segments									
Primary segment	Retail banking		Wealth Management		Corporate banking		Corporate Center		Total MPS Group	
(EUR mln)	31/03/22	Chg % Y/Y	31/03/22	Chg % Y/Y	31/03/22	Chg % Y/Y	31/03/22	Chg % Y/Y	31/03/22	Chg % Y/Y
PROFIT AND LOSS AGGREGATES										
Total Revenues	314.7	-4.4%	34.2	-4.2%	309.0	5.2%	125.2	-22.6%	783.2	-4.6%
Operating expenses	(333.1)	3.0%	(23.7)	-9.6%	(158.4)	-10.3%	(20.2)	42.0%	(535.3)	-0.9%
Pre Provision operating Profit	(18.4)	n.m.	10.5	10.6%	150.7	28.3%	105.0	-28.9%	247.8	-11.6%
Cost of customer loans/Net impairment (losses)-reversals on securities and loans to banks	(11.4)	59.5%	(1.5)	6.6%	(99.0)	45.3%	0.2	n.m.	(111.7)	43.9%
Net Operating Income	(29.8)	n.m.	9.0	11.3%	51.7	4.9%	105.3	-28.3%	136.2	-32.8%
	31/03/22	Chg.. % 31/12	31/03/22	Chg.. % 31/12	31/03/22	Chg.. % 31/12	31/03/22	Chg.. % 31/12	31/03/22	Chg.. % 31/12
BALANCE SHEET AGGREGATES										
Gross Interest-bearing loans to customers (*)	31,129	0.3%	593	2.2%	42,161	2.5%	6,095	-41.7%	79,978	-3.9%
Direct funding	42,737	0.2%	3,020	-4.2%	25,326	-5.6%	13,346	-24.5%	84,428	-6.5%
Indirect Funding	53,425	-3.9%	15,497	-4.6%	13,892	-3.9%	17,033	-6.2%	99,847	-4.4%
Assets under management	*45,600*	*-3.5%*	*11,852*	*-5.0%*	*2,696*	*-2.0%*	*2,637*	*-5.6%*	*62,785*	*-3.8%*
Assets under custody	*7,825*	*-5.9%*	*3,645*	*-3.3%*	*11,195*	*-4.3%*	*14,396*	*-6.3%*	*37,061*	*-5.3%*

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

Retail Banking

Business areas	Customers
Retail MPS • Funding and provision of insurance products. • Lending. • Financial advisory services. • Electronic payment services. **Widiba** • Banking products and services, deposit account, cards and advanced payment systems; customer self-service through the bank's digital channels or in assisted mode with the support of a Financial Advisor. • Fully customisable online platform that relies on a Network of 536 Financial Advisors present throughout the country. • Funding and Global advisory services and financial planning through the advanced WISE platform and the skills of the Financial Advisor Network. • Mortgage loans, credit facilities and personal loans. • Innovative interaction through computers, smartphones, tablets, watches and TV.	The number of Retail Banking customers is roughly 3.4 mln and includes 288,000 Widiba customers, of which around 141,600 in the Financial Advisor Network channel, 85,100 in the self-service channel and 61,200 customers migrated from the MPS branch network. **Breakdown by type**  **Breakdown by geography** 

Income statement and balance sheet results

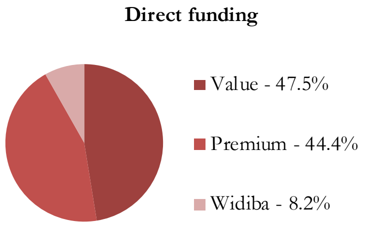
As at 31 March 2022, **Total Funding** for Retail Banking amounted to approximately **EUR 96.2 bn**, down by EUR 2.1 bn from the end of 2021 and basically stable compared to the levels in March 2021. More specifically:

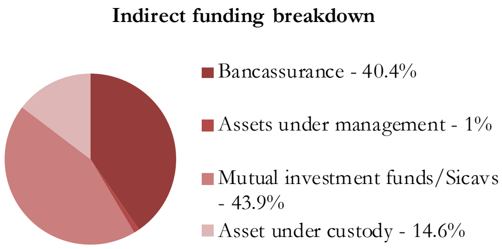
- **Direct Funding** stood at **EUR 42.7 bn,** basically unchanged compared to 31 December 2021, due to the growth in deposits on demand (EUR +0.3 bn), almost entirely offset by the decrease recorded in medium / long-term (EUR -0.2 bn) and short-term technical forms of funding. The aggregate was also stable in the comparison with 31 March 2021 due to the increase in on-demand deposits (EUR +1.8 bn), offset by a decrease in the medium/long-term (EUR -1.3 bn) and short-term (EUR -0.5 bn) funding component.

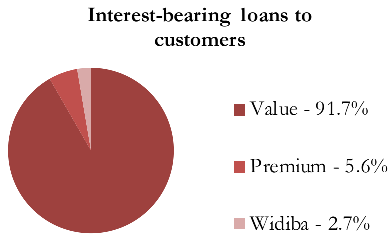
- **Indirect Funding**, amounting to approx. **EUR 53.4 bn**, decreased compared to December 2021 levels by EUR 2.2 bn, in both the assets under management (EUR -1.7 bn) and assets under custody (EUR -0.5 bn) components. The aggregate was basically stable compared to 31 March 2021, as a result of the decline in the assets under custody component (EUR -0.8 bn) and growth in assets under management (EUR +0.8 bn), impacted by positive net flows and a negative market effect.

- **Gross interest-bearing loans** to Retail Banking customers were **EUR 31.1 bn**, substantially in line with December 2021 and up slightly on March 2021 (EUR +0.2 bn).

RETAIL BANKING - BALANCE SHEET AGGREGATES							
(Eur mln)	31/03/22	31/12/21	31/03/21	Chg Abs Q/Q	Chg % Q/Q	Chg Abs Y/Y	Chg % Y/Y
Direct funding	**42,737**	**42,656**	**42,776**	**81**	**0.2%**	**(39)**	**-0.1%**
Assets under management	*45,600*	*47,269*	*44,816*	*(1,669)*	*-3.5%*	*784*	*1.8%*
Assets under custody	*7,825*	*8,314*	*8,666*	*(490)*	*-5.9%*	*(842)*	*-9.7%*
Indirect Funding	**53,425**	**55,583**	**53,482**	*(2,159)*	**-3.9%**	*(57)*	**-0.1%**
Total Funding	**96,161**	**98,239**	**96,258**	*(2,078)*	**-2.1%**	*(96)*	**-0.1%**
Gross Interest-bearing loans to customers	**31,129**	**31,036**	**30,970**	**92**	**0.3%**	**159**	**0.5%**







With regard to profit and loss, Retail Banking achieved total **Revenues** of approx. **EUR 315 mln** as at 31 March 2022, down 4.4% compared to the same period of last year. A breakdown of the aggregate shows:

- Net interest income was equal to approx. EUR 80 mln, down by 9.2% on an annual basis as a result of the lower contribution of funding deriving mainly from the decline in the internal transfer rate. There was a recovery in the return on commercial assets;
- Net fees and commissions were equal to approx. EUR 225 mln, with a 1.3% decrease on the same period of the previous year, primarily due to lower income from asset management, particularly on product placement.

Considering the impact of Operating Expenses, which increased by 3.0% Y/Y, Retail Banking generated a **Gross Operating Loss** of about **EUR -18 mln** (income of EUR 6 mln as at 31 March 2021). Cost of credit totalled **EUR -11 mln** (EUR -7 mln as at 31 March 2021).

The **Net Operating Income** recorded since the beginning of the year was **negative and around EUR 30 mln.**

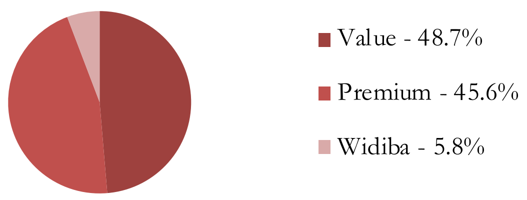
The non-operating components amounted to roughly EUR -0.9 mln, a deterioration of EUR 7 mln compared to the same period of the previous year due mainly to the reduction in Other net provisions.

The Result before tax from continuing operations was **EUR -31 mln** (EUR -9 mln as at 31 March 2021).

The cost-income ratio of the Operating Segment is **105.8%** (98.3% in the first quarter of 2021).

RETAIL BANKING - PROFIT AND LOSS AGGREGATES				
			Chg. Y/Y	
(EUR mln)	31/03/22	31/03/21	Abs.	%
Net interest income	*79.6*	*87.7*	*(8.0)*	*-9.2%*
Net fee and commission income	*225.0*	*228.1*	*(3.0)*	*-1.3%*
Other Revenues from Banking and Insurance Business	*10.9*	*16.0*	*(5.1)*	*-31.9%*
Other operating expenses/income	*(0.9)*	*(2.5)*	*1.6*	*-65.6%*
Total Revenues	**314.7**	**329.2**	**(14.5)**	**-4.4%**
Operating expenses	*(333.1)*	*(323.5)*	*(9.6)*	*3.0%*
Pre Provision Operating Profit	**(18.4)**	**5.7**	**(24.1)**	**n.m.**
Cost of customer loans/Net impairment (losses)-reversals on securities and loans to banks	(11.4)	(7.1)	(4.2)	59.5%
Net Operating Income	**(29.8)**	**(1.4)**	**(28.4)**	**n.m.**
Non-operating components	**(0.9)**	**(7.9)**	**7.0**	**-88.6%**
Profit (loss) before tax from continuing operations	**(30.7)**	**(9.3)**	**(21.4)**	**n.m.**

Breakdown of revenues



Results for the subsidiary

Banca Widiba S.p.A.: as at 31 March 2022**, Total Funding** of Banca Widiba came to roughly **EUR 9.5 bn**, down by EUR -0.3 bn compared to 31 December 2021 and basically stable (EUR +77 bn) at the levels recorded at 31 March 2021, absorbing the unfavourable impacts of financial market trends in the first quarter of 2022 (market effect of roughly EUR -370 mln).

With regard to profit and loss, as at 31 March 2022 Banca Widiba achieved total **Revenues** of **EUR 18.2 mln**, up by EUR 2.0 mln (+12%) compared to the same period of the previous year, due to increases in Net interest income (EUR +1.1 mln, an increase entirely attributable to commercial items to customers and the reduction in the cost of funding) and Net fee and commission income (EUR +1.0 mln, an increase referring primarily to Assets under Management and the banking and e-money segment).

The **Gross Operating Income**, which includes the figure of Operating Expenses (EUR 15.0 mln during the quarter), basically aligned with 1Q21 (higher costs by EUR 0.1 mln, +0.7%), came to **EUR 3.2 mln**, up by EUR 1.9 mln compared to the same period of the previous year. In relation to the higher incidence of the Cost of credit by EUR 0.4 mln compared to 1Q21, **Net Operating Income** amounted to **EUR 2.4 mln**, marking an increase of EUR 1.5 mln compared to the same period of the previous year.

Lastly, as a result of non-operating components that absorb reversals on some items of provisions for risks and charges, the **Result before tax from continuing operations** was **EUR 3.0 mln**, with an increase of EUR 2.2 mln compared to the first quarter of the previous year.

Wealth Management

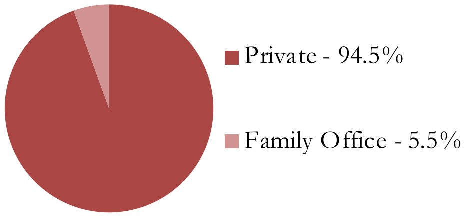
Business areas

- 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).

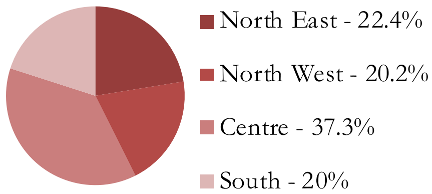
Customers

There are around 37,800 private customers.

Breakdown by type



Breakdown by geography



Income statement and balance sheet results

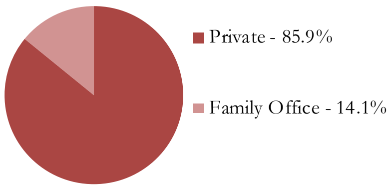
As at 31 March 2022, **Total Funding** for *Wealth Management* amounted to approximately **EUR 18.5 bn**, down by roughly EUR 0.9 bn compared to the end of 2021 and EUR 0.4 bn compared to 31 March 2021. More specifically:

- **Direct Funding** was equal to **EUR 3.0 bn**, basically in line with 31 December 2021 and the levels at March 2021;
- **Indirect Funding**, amounting to about **EUR 15.5 bn**, was down compared to the end of 2021 (EUR -0.7 bn) and compared to 31 March 2021 (EUR -0.5 bn);
- **Gross interest-bearing loans** to Wealth Management customers were essentially in line with both December 2021 and 31 March 2021, amounting to roughly **EUR 0.6 bn**.

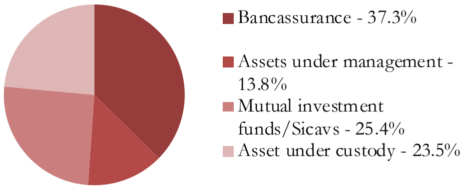
WEALTH MANAGEMENT - BALANCE SHEET AGGREGATES

(EUR mln)	31/03/22	31/12/21	31/03/21	Chg Abs Q/Q	Chg % Q/Q	Chg Abs Y/Y	Chg % Y/Y
Direct funding	**3,020**	**3,151**	**2,936**	**(131)**	**-4.2%**	**84**	**2.9%**
Assets under management	*11,852*	*12,470*	*12,191*	*(618)*	*-5.0%*	*(339)*	*-2.8%*
Assets under custody	*3,645*	*3,770*	*3,773*	*(125)*	*-3.3%*	*(128)*	*-3.4%*
Indirect Funding	**15,497**	**16,239**	**15,964**	**(743)**	**-4.6%**	**(467)**	**-2.9%**
Total Funding	**18,516**	**19,390**	**18,900**	**(874)**	**-4.5%**	**(384)**	**-2.0%**
Gross Interest-bearing loans to customers	**593**	**581**	**520**	**13**	**2.2%**	**73**	**14.1%**

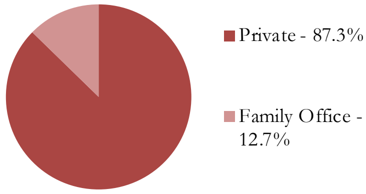
Direct funding



Indirect funding breakdown



Interest-bearing loans to customers



With regard to profit and loss, Wealth Management achieved total **Revenues** of approx. **EUR 34 mln** as at 31 March 2022, down 4.2% compared to the same period of last year. A breakdown of the aggregate shows:

- Net Interest Income amounted to approx. EUR 0.8 mln, up EUR 0.7 mln compared to the same period of the previous year, due to the higher contribution from direct funding;
- Net fee and commission income amounted to approximately EUR 30 mln, down by EUR 0.5 mln compared to 31 March 2021.

Considering the impact of Operating Expenses, which were down by 9.6% Y/Y, Wealth Management generated **Gross Operating Income** of about **EUR 10 mln** (EUR +1 mln Y/Y). Including Cost of credit equal to EUR -1.5 mln, the **Net Operating Income** totalled roughly **EUR 9 mln**.

The non-operating components were equal to approx. EUR -0.1 mln, a EUR 0.5 mln improvement compared to the same period of the previous year.

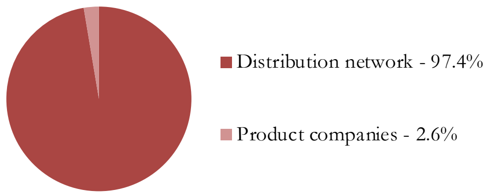
The Result before tax from continuing operations was **EUR 9 mln** (EUR +8 mln as at 31 March 2021).

The cost-income ratio of the Operating Segment is **69.3%** (73.4% at the end of March 2021).

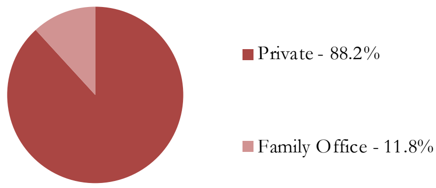
WEALTH MANAGEMENT - PROFIT AND LOSS AGGREGATES

			Chg. Y/Y	
(EUR mln)	31/03/22	31/03/21	Abs.	%
Net interest income	*0.8*	*0.1*	*0.7*	*n.m.*
Net fee and commission income	*30.5*	*31.0*	*(0.5)*	*-1.8%*
Other Revenues from Banking and Insurance Business	*3.0*	*4.7*	*(1.7)*	*-35.6%*
Other operating expenses/income	*(0.1)*	*(0.2)*	*0.1*	*-31.5%*
Total Revenues	**34.2**	**35.7**	**(1.5)**	**-4.2%**
Operating expenses	*(23.7)*	*(26.2)*	*2.5*	*-9.6%*
Pre Provision Operating Profit	**10.5**	**9.5**	**1.0**	**10.6%**
Cost of customer loans/Net impairment (losses)-reversals on securities and loans to banks	(1.5)	(1.4)	(0.1)	6.6%
Net Operating Income	**9.0**	**8.1**	**0.9**	**11.3%**
Non-operating components	**(0.1)**	**(0.5)**	**0.5**	**-89.6%**
Profit (loss) before tax from continuing operations	**8.9**	**7.5**	**1.4**	**18.3%**

Breakdown of revenues



Breakdown of revenues

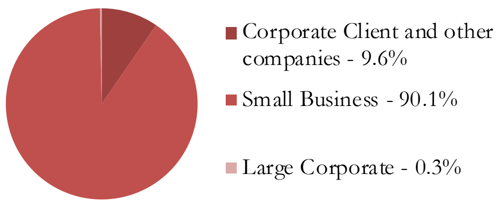
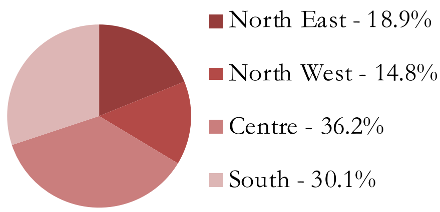


Results for the subsidiary

MPS Fiduciaria: in 1Q22 the subsidiary reported a profit for the period equal to EUR 0.2 mln.

Corporate Banking

In January 2022, as part of the "Business Market Revision and Relaunch" project, revisions were introduced as regards the service models relating to the Business and Private Banking Business. In particular, SMEs and Key Clients were unified within a single service model named "Corporate Clients".

Business areas	Customers
• Lending and offering financial products and services to businesses, including through strategic partnerships with trade associations and Confidi (credit guarantee consortia), with Guarantee Institutions (including public) and Institutional Entities, through which funding is acquired at favourable terms. • Offer of integrated leasing and factoring packages for businesses, artisans and professionals (through the subsidiary MPS Leasing & Factoring). • Corporate finance - medium/long-term credit facilities, corporate finance, capital markets and structured finance also through the subsidiary MPS Capital Services. • Custody and deposit services for dairy products on behalf of third parties (through the subsidiary Magazzini Generali Fiduciari di Mantova S.p.A., which is also authorised to issue documents of title to the merchandise, providing for easier access to bank lending).	Corporate Banking directly supports about 324,500 Corporate and Large Group customers of the Parent Company.
	Breakdown by type 
	Breakdown by geography 

Income statement and balance sheet results

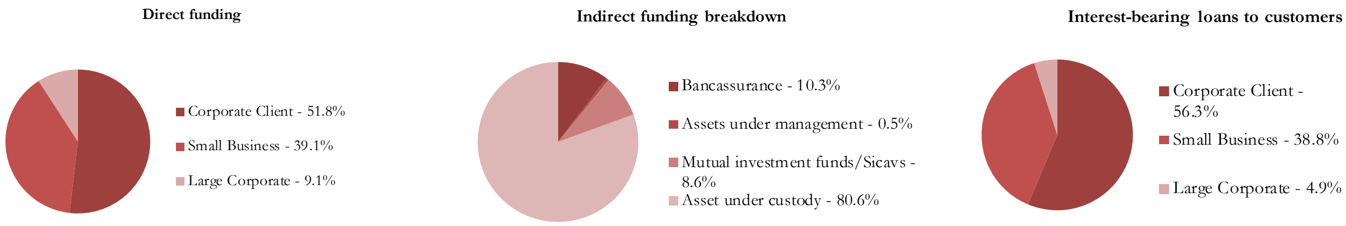
The **Total Funding** from *Corporate Banking* as at 31 March 2022 amounted to **EUR 39.2 bn**, down by EUR 2.1 bn with respect to 31 December 2021, mainly due to the decrease in Direct Funding (EUR -1.5 bn) and Indirect Funding (EUR -0.6 bn). There was also a EUR 4.7 bn decrease compared to the end of March 2021, as a result of a decrease in both Indirect Funding (EUR -2.7 bn) recorded mainly on Assets under Custody, and Direct

Funding (EUR -2.0 bn). The decrease in Direct Funding was influenced by the actions taken by the Parent Company to optimise the cost of funding. With regard to Indirect Funding, instead, the decline recorded in the Assets under custody sector was mainly due to changes related to two major customers.

With regard to lending, as at 31 March 2022, **Gross interest-bearing loans** to Corporate Banking customers stood at approximately **EUR 42.2 bn** (up EUR 1.0 bn compared to December 2021 and EUR 0.6 bn compared to 31 March 2021).

CORPORATE BANKING - BALANCE SHEET AGGREGATES

(EUR mln)	31/03/22	31/12/21	31/03/21	Chg Abs Q/Q	Chg % Q/Q	Chg Abs Y/Y	Chg % Y/Y
Direct funding	**25,326**	**26,818**	**27,299**	**(1,492)**	**-5.6%**	**(1,973)**	**-7.2%**
Assets under management	*2,696*	*2,753*	*2,317*	*(56)*	*-2.0%*	*379*	*16.4%*
Assets under custody	*11,195*	*11,700*	*14,288*	*(505)*	*-4.3%*	*(3,093)*	*-21.6%*
Indirect Funding	**13,892**	**14,453**	**16,605**	**(561)**	**-3.9%**	**(2,713)**	**-16.3%**
Total Funding	**39,217**	**41,271**	**43,904**	**(2,054)**	**-5.0%**	**(4,687)**	**-10.7%**
Gross Interest-bearing loans to customers	**42,161**	**41,144**	**41,609**	**1,016**	**2.5%**	**551**	**1.3%**



For profit and loss aggregates, as at 31 March 2022 *Corporate Banking Revenues* came to approx. **EUR 309 mln** (+5.2% compared to the same period of the previous year). A breakdown of the aggregate shows:

- Net Interest Income was approximately EUR 151 mln, up 5.2% annually due to the increase in returns on commercial assets, despite the lower contribution of direct funding;
- Net Fee and Commission income was up 0.4% compared to the same period of the previous year to around EUR 137 mln;
- Other Revenues from Banking and Insurance Business were equal to approx. EUR 22 mln compared to EUR 18 mln in the first quarter of 2021.

Considering the impact of Operating Expenses, down by 10.3% compared to 31 March 2021, **Gross Operating Income** came to about **EUR 151 mln** (+28.3% Y/Y).

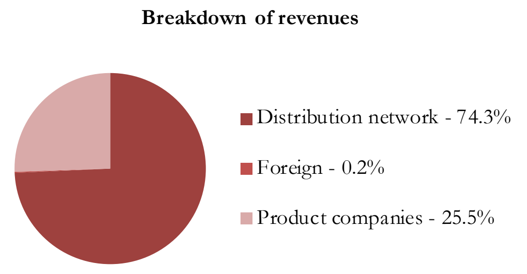
Net Operating Income was equal to **EUR 52 mln** (EUR 49 mln in the same period of the previous year), against a Cost of credit standing at EUR -99 mln (compared to EUR -68 mln as at 31 March 2021).

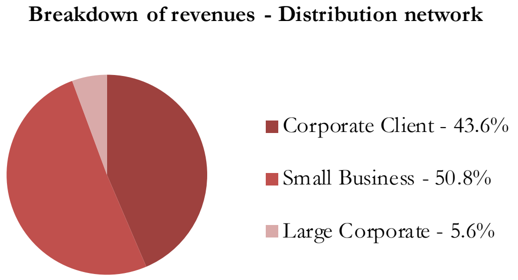
The non-operating components were equal to approx. EUR -26 mln, up compared to EUR -28 mln in the same period of the previous year.

The Result before tax from continuing operations was **EUR 25 mln** (EUR +21 mln as at 31 March 2021).

The Corporate Banking cost-income ratio stood at **51.2%** (60.1% as at 31 March 2021).

CORPORATE BANKING - PROFIT AND LOSS AGGREGATES				
			Chg. Y/Y	
(EUR mln)	31/03/22	31/03/21	Abs.	%
Net interest income	*151.3*	*143.8*	*7.5*	*5.2%*
Net fee and commission income	*136.5*	*136.0*	*0.5*	*0.4%*
Other Revenues from Banking and Insurance Business	*22.2*	*17.7*	*4.6*	*25.8%*
Other operating expenses/income	*(1.0)*	*(3.6)*	*2.5*	*-70.8%*
Total Revenues	**309.0**	**293.9**	**15.2**	**5.2%**
Operating expenses	*(158.4)*	*(176.5)*	*18.1*	*-10.3%*
Pre Provision Operating Profit	**150.7**	**117.4**	**33.3**	**28.3%**
Cost of customer loans/Net impairment (losses)-reversals on securities and loans to banks	(99.0)	(68.1)	(30.9)	45.3%
Net Operating Income	**51.7**	**49.3**	**2.4**	**4.9%**
Non-operating components	**(26.5)**	**(28.1)**	**1.6**	**-5.9%**
Profit (loss) before tax from continuing operations	**25.2**	**21.1**	**4.1**	**19.2%**





Results of the main subsidiaries

- **MPS Capital Services**: result before tax of EUR 15 mln, down by EUR 18 mln compared to 31 March 2021, mainly due to the trend in the Cost of Credit. The profit for the period was EUR 13 mln, down compared to a profit of EUR 33 mln as at 31 March 2021 due to the trends described above.
- **MPS Leasing & Factoring**: result before tax of EUR 3.6 mln, up by EUR 0.8 mln compared to 31 March 2021. The profit for the period was EUR 4.4 mln compared to profit for the period of EUR 3.9 mln as at 31 March 2021.
- **MP Banque[17]:** loss of EUR 1.6 mln compared to a loss of EUR 0.4 mln recorded 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;

[17] The performance indicated above is that calculated on an operational basis. Please recall that in 2018 the Parent Company approved the run-off of MP Banque

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

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

As regards Finance activities, in the first quarter of 2022 securities from the Parent Company's portfolio were sold, particularly roughly EUR 815 mln classified at amortised cost, which contributed a total profit of roughly EUR 48 mln, down by around EUR 76 mln compared to the same period of the previous year when disposals from the securities portfolio were carried out for a total of around EUR 850 mln. Partially offsetting these sales, to support net interest income in the course of the quarter around EUR 1 bn in securities, also classified at amortised cost, were repurchased.

Prospects and outlook on operations

In a phase of basically living with the virus, in which the recovery is becoming consolidated for the global economy even in the presence of high inflation, the conflict between Russia and Ukraine is altering global geopolitical balances and is bringing uncertainty back to the international scenario at extremely high levels; the IMF[18] has lowered global GDP growth forecasts for 2022 to 3.6%, with evident risks for growth outlooks.

The increase in energy prices, exacerbated by dependence on Russian supplies, has resulted in a non-negligible deterioration in the expected macroeconomic scenario for Italy, and the International Monetary Fund decreased GDP expansion estimates to 2.3% per annum in 2022.

The greater uncertainty characterising the current economic context may also have effects on the Group's performance over the coming months. In any event, the Group will be committed to supporting businesses by working alongside them as they resume activities in a post-pandemic world, also exploiting the potential offered by the NRRP, supporting development projects and local activities, leveraging their unique features through specific initiatives and products, with a view to supporting and directing the recovery towards a more sustainable development model, integrating environmental, social and governance (ESG) criteria within investment and lending policies and continuously interpreting the Bank's historical role in supporting and promoting local areas and economies. Net interest income will be able to benefit from the expected interest rate hike, when it takes place, and the contribution of the new consumer credit platform, as well as the lower cost of commercial funding in light of actions taken to limit the most costly components already launched in 2021. For the second half of the current year, a reduction is expected in the contribution to net interest income of the TLTRO III liabilities (equal to EUR 51 mln as at 31 March 2022) following the expiry of the additional special period and the consequent increase in the rate of remuneration of these liabilities from -1% to the base rate of -0.5% starting from 24 June 2022. The effects of the Russia-Ukraine conflict are lastly attenuating the growth outlooks of fees and commissions from asset management: the higher financial market volatility and higher uncertainty are increasing the preference for liquidity on the part of households, with the propensity to save also expected to decline.

The actual figures confirm the very robust liquidity position of the Group, with indicator levels (LCR/NSFR) that are significantly higher than regulatory and operational limits. Expected institutional maturities for 2022 are primarily represented by EUR 0.75 bn in covered bonds (already repaid in the course of January), EUR 0.5 bn in unsecured senior bonds and roughly EUR 1 bn in bilateral funding (of which around EUR 0.8 bn with ECB eligible collateral), of which EUR 0.5 bn already matured in the first quarter; furthermore, in the final quarter of the year the TLTRO III auctions will mature for EUR 4 bn. The remaining stock of TLTRO III auctions (equal to EUR 25.5 bn) may be subject to a possible early repayment, based on Group liquidity position trends, as well as any changes in the ECB regulatory framework. Against the planned maturities, the Group's funding strategies aim to maintain liquidity indicators at adequate levels, broadly above regulatory limits, as well as reabsorb, with reference to public bond issue plans and also considering the planned capital increase, the breaches of MREL requirements. These strategies are defined in line with the Group's strategic plans and, in that sense, their structuring for operational purposes will be fully defined only following the approval of the 2022-2026 Strategic Plan, currently subjected to the required disclosure, approval and regulatory procedures that the Bank has initiated with the competent Authorities.

As concerns capital requirements, in the absence of the capital strengthening operation and taking into account the planned capital reduction due to the IFRS 9 phase-in and assuming the full implementation of the inflationary effects on risk-weighted assets relating to changes in the credit risk measurement models as a result of the EBA Guidelines, as at 31 March 2023 a shortfall of approx. EUR 500 mln could emerge with respect to the overall capital requirements.

[18] World Economic Outlook, International Monetary Fund, April 2022

DECLARATION OF THE FINANCIAL REPORTING OFFICER

Pursuant to para. 2, article 154-bis of the Consolidated Law on Finance, the Financial Reporting Officer, Mr. Nicola Massimo Clarelli, declares that the accounting information contained in this Interim Report on Operations as at 31 March 2022 corresponds to the underlying documentary evidence and accounting records.

Siena, 5 May 2022

Signed by

The Financial Reporting Officer

Nicola Massimo Clarelli