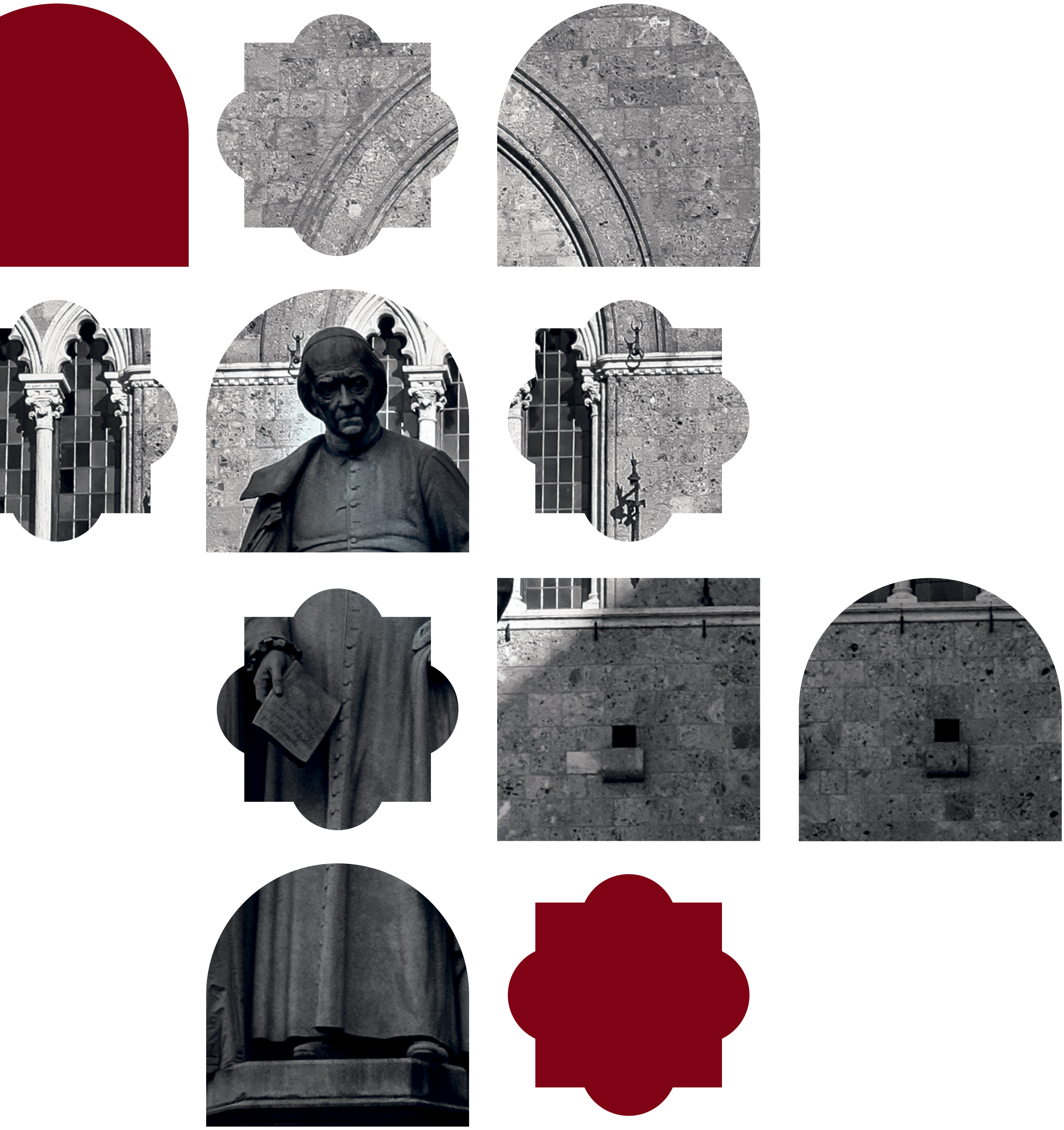
MONTE DEI PASCHI DI SIENA
BANK SINCE 1472



Monte dei Paschi di Siena Bank
Half-yearly Report
as at 30 June 2022

Half-yearly Report of
Banca Monte dei Paschi di Siena
as at 30 June 2022

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

CONTENTS

HALF-YEARLY REPORT ON OPERATIONS

Results in brief

Below are the main economic and financial values of Banca Montepaschi as at 30 June 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 "ESMA 32_51_370 – *Question and answer – ESMA Guidelines on Alternative Performance Measures* (APMs)" published on 17 April 2020, no changes have been made to the APMs in use in order to consider the effects of the COVID-19 crisis. It should be noted that, for each APM, information is provided on its definition and calculation methods, and the amounts used in the calculation may be identified through the information contained in the tables below or in the reclassified financial statements in this half-yearly Report on Operations.

INCOME STATEMENT AND BALANCE SHEET FIGURES			
MONTE DEI PASCHI DI SIENA BANK			
INCOME STATEMENT FIGURES (EUR mln)	30 06 2022	30 06 2021	Chg.
Net interest income	532.9	477.4	11.6%
Net fee and commission income	693.2	711.8	-2.6%
Other income from banking business*	212.1	204.6	3.7%
Other operating income and expenses	24.9	(5.0)	n.m.
Total Revenues*	1,463.1	1,388.7	5.4%
Operating expenses	(983.1)	(995.6)	-1.3%
Cost of customer credit*	(195.5)	(156.1)	25.2%
Other value adjustments	1.5	(0.4)	n.m.
Net operating income (loss)	286.1	236.7	20.9%
Non-operating items	(187.2)	(173.0)	8.2%
Net profit (loss) for the period	97.0	129.3	-25.0%
BALANCE SHEET FIGURES AND INDICATORS (EUR mln)	30 06 2022	31 12 2021	Chg.
Total assets	126,361.5	128,947.4	-2.0%
Loans to customers	64,381.0	63,442.4	1.5%
Direct funding	78,550.4	81,041.5	-3.1%
Indirect funding	87,748.9	98,388.0	-10.8%
of which: assets under management	53,882.9	59,555.0	-9.5%
of which: assets under custody	33,865.9	38,833.0	-12.8%
Net equity	5,011.6	5,026.6	-0.3%
OPERATING STRUCTURE	30 06 2022	31 12 2021	Chg.
Total headcount - end of period	19,355	19,490	-135
Number of branches in Italy	1,368	1,368	n.m.

** Theses items as at 30 June 2021 include the reclassification of economic effects of securities related to Sale/securitization transactions of non performing loans included in the item "Cost of Customer credit"[2]*

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

[2] Please refer to paragraph "Income statement and balance sheet reclassification principles" for more information.

ALTERNATIVE PERFORMANCE MEASURES			
MONTE DEI PASCHI DI SIENA BANK			
PROFITABILITY RATIOS (%)	30 06 2022	31 12 2021	Chg.
Cost/Income ratio	67.2	74.5	-7.3
ROE (on average equity)	3.9	3.1	0.8
ROA	0.2	0.1	0.1
ROTE	3.9	3.1	0.8
CREDIT QUALITY RATIOS (%)	30 06 2022	31 12 2021	Chg.
Net NPE ratio	1.9	2.5	-0.6
Gross NPL ratio	2.0	2.8	-0.8
Rate of change of non-performing loans to customers	(29.3)	5.0	-34.3
Bad loans to custormers/ Loans to Customers	0.6	0.7	-0.1
Loans to customers measured at amortised cost - Stage 2/Performing loans to customers measured at amortised cost	14.8	15.7	-0.9
Coverage of non-performing loans to customers	49.4	44.8	4.6
Coverage of bad loans to customers	66.8	60.4	6.4
Provisioning	0.61	0.36	0.25
Texas Ratio	35.5	46.2	-10.7

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

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

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

Return On Tangible Equity (ROTE): ratio between the annualised Net profit (loss) for the period and the average between the tangible shareholders' equity[3] at the end of period and the shareholders' equity at the end of the previous year.

Net NPE Ratio: ratio between net non-performing exposures to customers and total net exposures to customers, both net of assets under disposal (excluding government securities)[4]

Gross NPL Ratio: gross impact of non-performing loans calculated based on the European Banking Authority (EBA)[5] guidelines as the ratio between Gross non-performing loans to customers and banks, net of assets held for sale, and total Gross loans to customers and banks, net of assets under disposal.

Rate of change in non-performing loans: represents the annual rate of growth in gross non-performing loans to customers and banks net of assets held for sale 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 to customers 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 (net of assets under disposal) and the sum, in the denominator, of the relative loss provisions and tangible shareholders' equity.

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

[4] This measure is used, starting from 31 March 2022, in place of the previous ratio between net non-performing loans to customer and total net loans to customers (this ratio as at 30 June 2022 would have been 2.3) in order to provide a representative indicator of the overall exposure and not just the loans with the highest risk of deterioration. The value as at 31 December 2021 (unchanged compared to the 2021 Financial Statements) has been restated in order to allow for a homogeneous comparison.

[5] EBA GL/2018/10.

REGULATORY MEASURES			
MONTE DEI PASCHI DI SIENA BANK			
CAPITAL RATIOS (%)	**30 06 2022**	**31 12 2021**	**Chg.**
Common Equity Tier 1 (CET1) ratio - phase in	13.0	14.1	-1.1
Total Capital ratio - phase in	17.6	18.7	-1.1

In determining the capital ratios, the "**phase-in**" (or "transitional") version represents the application of calculation rules according to the regulatory framework in force at the reporting date.

Common equity Tier 1 (CET1) ratio: ratio between primary quality capital[6] and total risk-weighted assets (RWA)[7].

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

[6] 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.

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

Executive summary

Changes in the key items of the Bank's main aggregates recorded as at 30 June 2022 are summarised below, noting that the results of the first half 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 (in more detail in the following paragraphs "Russia-Ukraine conflict" and "COVID-19"). The latter, as is well-known, impacted 2021 as well.

- **Net Interest Income** amounted to **EUR 533 mln** as at 30 June 2022, up 11.6% compared to the same period of 2021. This growth was driven primarily by (i) 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; (ii) the positive effects of access to TLTRO III auctions, (iii) the lower cost incurred for the liquidity deposited at central banks, following the reduction in the relative volumes, and (iv) the lower cost of market funding, which benefitted from the maturity of some securities.

- **Net fee and commission income** as at 30 June 2022, totalling **EUR 693 mln**, declined compared to the same period of the previous year (-2.6%). The decrease is attributable to high market volatility, which resulted in lower income from asset management (-8.2%) mainly due to lower commissions on product placement, in addition to the lower income on protection and securities servicing. Continuing commissions are up. Fees and commissions from traditional banking services had recovered compared to the same period of the previous year (EUR +11 mln).

- **Other income from banking business**, equal to EUR 212 million, recorded an increase of EUR 8 million compared to the first half of 2021 due to the combined effect of (i) an increase in dividends attributable above all to the higher income collected by the equity investment in assurance associated company AXA, (ii) lower profits from the sale of securities and (iii) an increase in the Net Result of hedging activities.

- **Other operating income and expense**, totalling EUR 25 mln, improved compared to the result recorded in the same period of 2021 (equal to EUR -5 mln).

- As a result of the trends described above, **Total revenues** amounted to EUR 1,463 mln, up 5.4% compared to the first half of 2021.

- **Operating expenses** totalled EUR 983 mln, down 1.3% compared to the same period of the previous year. This aggregate includes **Personnel expenses**, totalling EUR 657 mln, which were down 0.9% compared to 30 June 2021, benefiting from workforce reduction trends. Other administrative expenses, equal to EUR 292 mln, were slightly down compared to the same period of the previous year (-0.5%). **Net value adjustments to property, plant and equipment and intangible assets** totalled EUR 35 mln, a decrease of -12.3% compared to the first half of 2021.

- The **Cost of Customer Credit** is equal to EUR 195 mln, an increase compared to the EUR 156 mln recorded in the same period of the previous year mainly due to the adjustments related to the sale of non-performing loans and, therefore, the use of sales scenarios in the estimation models.

- The **Provisioning Rate**[8] is 61 bps (36 bps as at 31 December 2021).

- The **Net Operating Income** was EUR 286 mln, compared to EUR 237 mln in the corresponding period of the previous year.

- In addition to the changes in these P&L aggregates, there were non-operating items amounting to EUR -187 mln (EUR -173 mln as at 30 June 2021). Notably, **Net provisions for risks and charges**, equal to EUR -79 mln (EUR +53 mln as at 30 June 2021), **Other gains (losses) on investments**, equal to EUR 0.7 mln (EUR -3.1 mln as at 30 June 2021), **Restructuring/One-off costs**, equal to EUR -3 mln (EUR -3.5 mln as at 30 June 2021), costs associated with **SRF (Single Resolution Fund), DGS (Deposit Guarantee Systems) and similar schemes**, equal to EUR -70 mln (basically stable compared to EUR -71 mln as at 30 June 2021), the **DTA fee** equal to EUR -27 mln (unchanged compared to 30 June 2021), the **Net gains (losses) on property, plant and equipment and intangible assets measured at fair value** amounting to EUR -9 mln (EUR -26 mln as at 30 June 2021) and **gains (losses) on disposal of investments**, equal to EUR +0.3 mln (EUR +11 mln as at 30 June 2021).

[8] 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.

- As a result of these trends, together with the negative impact of **Taxes** of **EUR 0.5 mln** (EUR +67 mln as at 30 June 2021) and the net economic effects of the **PPA**, equal to EUR -1.5 mln (EUR -1.8 mln as at 30 June 2021), the Bank posted a **Profit for the period** of **EUR 97 mln**, compared to a profit of EUR 129 mln posted in the same period of the previous year.

- **Total Funding** as at 30 June 2022 amounted to approx. **EUR 166.3 bn**, with a decrease in volumes of EUR 13.1 bn compared to 31 December 2021, due to the decrease in Direct Funding (EUR -2.5 bn) as well as Indirect Funding (EUR -10.6 bn). Going into further detail, the drop in Direct Funding showed a decline distinguishing all segments: current accounts (EUR -0.4 bn), time deposits (EUR -0.5 bn), bonds (EUR -1.0 bn due to the maturity of a covered bond), and Other forms of funding (EUR -0.6 bn). Indirect Funding decreased compared to 31 December 2021 by EUR 10.6 bn, due to the reduction in both the Assets under Management (EUR -5.7 bn) and Assets under Custody (EUR -5.0 bn) components, impacted by a negative market effect.

- **Loans to Customer** stood at around **EUR 64.4 bn** at 30 June 2022, up by EUR 0.9 bn mainly due to the growth in other loans (EUR +1.1 bn) and current accounts (EURO + 0.4 bn). On the other hand, mortgages (EUR -0.4 bn) and non-performing loans (EUR -0.2 bn) were down slightly.

- As at 30 June 2022, the **coverage ratio for non-performing loans** stood at 49.4%, up compared to 31 December 2021 (44.8%) as a result of the increase in the coverage ratio of bad loans (from 60.4% to 66.8%), unlikely-to-pay positions (from 35.4% to 37.3%) and non-performing past-due loans (from 35.4% to 37.3%). The hedging percentage of non-performing past due loans was stable.
- With regard to capital ratios, as at 30 June 2022 the **Common Equity Tier 1 Ratio** stood at **13.0%** (14.1% at the end of 2021) and the **Total Capital Ratio** at **17.6%** (compared to 18.7% recorded at the end of 2021).

Reference context

The international scenario

The world economic cycle is going through a phase of profound uncertainty, slowdown in growth and high inflation. The conflict between Russia and Ukraine, which is destined to continue over time, and the worsening of political relations between Moscow and the West is having serious repercussions on manufacturing production and trade and is fuelling inflation. The high price dynamics reflects, especially in Europe, the tensions/reductions in Russian gas supplies, the fear of rationing and the consequent continuation of the exceptional rise in the price of energy raw materials and, to a lesser extent, food. The dynamics of the global economy are also impacted by the difficulties in the international supply chains of intermediate goods, recently exacerbated by the restrictions introduced by China to combat the spread of COVID-19 infections. Some advanced economies risk experiencing a sharp slowdown; in particular, the United States where the containment of inflation, also caused by a significant increase in aggregate demand and labour costs, required a particularly decisive monetary policy response. Global economic activity also remains exposed to possible resurgence of the pandemic, caused by the spread of variants, to an *escalation* in the geopolitical tensions between China and the US over Taiwan and to the uncertainty linked to the governance of some important advanced economies.

The **United States** recorded a contraction in growth for two consecutive quarters (-1.6% qoq annualized for GDP in the first quarter of 2022, -0.9% in the second quarter), with inflation rising to a maximum historical at 9.1% trend in June; however, the data on "core" inflation, net of the more volatile components, shows a trend of slowdown in growth which foreshadows a possible overcoming of the inflation peak in the short term. In a context such as the United States, in which price tensions are also fuelled by demand factors[9] (while on the supply side the USA benefits from the availability of nationally and Canadian produced natural gas), the highly restrictive monetary policy of The Fed is more effective in bringing inflation back under control, while presenting the risk of depressing the economy excessively. Tensions remain on the labour market, with supply insufficient to meet demand in practically all macro-sectors and relative wage growth, especially in skilled labour. The dynamics of the real estate market, after having reached very high prices, recently showed a cooling of house prices.

In the **Euro Area**, economic growth was positive in the first two quarters of the year (+ 0.5% qoq in the first quarter and + 0.7% qoq in the second quarter). However, uncertainty over military *escalation* has affected the economic environment and further sanctions and counter-sanctions between the EU and Russia have increased fears of a total gas supply shutdown. Inflation thus rose to a maximum of 8.9% on a trend basis in July (preliminary data). The high price level prompted the ECB to change its monetary policy pitch and to raise interest rates by 50 basis points in July. The restrictive interventions introduced by the Authority were more gradual than in the USA, due to the relative greater importance of elements offered in the formation of inflation (such as the cost of energy *inputs*) which are less controllable by monetary policy and make it less effective in containing the rise in prices. Furthermore, the ECB's action also focused on avoiding the fragmentation of the European financial market which could worsen with the worsening of economic growth expectations, by introducing the *Transmission Protection Instrument* (TPI).

Considering the return to restrictive budgetary policies, more complex in the current scenario, the EU Commission at the end of May recommended keeping the general safeguard clause of the Stability Pact active also for 2023, following the guidelines already expressed and consistently with the new temporary framework on State Aid introduced in March. With the aim of reducing the Community's energy dependence on imports more rapidly, the EU Commission, on 18 May 18, 2022, proposed the REPowerEU plan, outlining objectives and measures to be financed with common debt up to almost EUR 300 billion; an amendment to the regulation of the NGEU Recovery and Resilience Facility would finance most of it, using loans that have not been requested.

Implementation of the NRPs continued, with 26 countries submitting their NRPs (except the Netherlands) and 25 obtaining their approval (except Hungary), for a total of EUR 490 billion in allocated resources, which have exhausted all the potential funds available for non-repayable subsidies and 42% of those for loans. About EUR 99.7 bn have already been paid by the EU between pre-financing and instalments conditional on the achievement of milestones and planned objectives.

The high international prices of raw materials, food and energy have forced several **emerging economies** (Brazil, India) to raise their policy rates to keep their credibility in price control intact, with a consequent slowdown in the economy. Other countries such as Turkey continued to record a depreciation of the domestic currency against

[9] In 2021, with the full reopening of the economy emerging from the pandemic and the extraordinary expansionary measures adopted, US demand was stimulated all too effectively. On the labour market, unemployment was reabsorbed and shortly a shortage of manpower was created, favouring the growth of wages. Supply, with downsizing of manufacturing facilities and staff, inventory erosion due to lockdowns, as well as problems in global supply chains have failed to keep up the expansive pace of demand, causing inflation.

unchanged policy rates. Russia, struggling with a heavy drop in production, is seeking the support of other emerging countries in addition to China which, in this context, could expand its basin of influence. The repercussions of the zero-COVID policy, which the central government of Beijing implemented in the spring months with the re-introduction of severe lockdowns on economically relevant areas, were reflected in the growth of GDP in the second quarter of the year (slowing to - 2.6% qoq). The priority of Chinese economic policies remains the support for growth that remains far from the target of GDP expansion, initially set at 5.5% for 2022, and the determination of selective criteria in order not to fuel speculative behaviour, especially in the real estate market. The PBoC[10] still considers domestic inflation under control which, however, rose to 2.5% yoy in June.

Italy: economic context

In Italy, thanks to the growth of the construction and service sectors (especially related to tourism), the trend of economic activity recorded in the first quarter of the year turned out to be higher than expected (+0.1% growth of GDP), as well as in the second quarter (+1% in economic terms, +4.6% in trend terms[11]) once again driven by growth in services and industry, despite the increase in energy costs and difficulties in the procurement of intermediate goods. Geopolitical tensions have a marked impact on the Italian economy which, together with the German one, is among those most dependent on imports of raw materials from Russia. Domestic inflation, which hit 8% in June (a four-fifths increase attributable to the direct and indirect effects of energy and food prices), contributed to curb expansion, significantly squeezing incomes in real terms, only partially offset by the budgetary measures adopted by the Government. The recent resignation of the Draghi government raises further uncertainty on the Italian context and in view of the elections of 25 September, the government will remain in office only for current affairs.

Considerable support for economic activity is coming from the interventions outlined in the National Recovery and Resilience Plan (NRPR), the implementation of which is proceeding in line with the established deadlines. After Italy received the first instalment of EUR 21 billion, on 13 April, following the positive assessment of the payment request presented at the end of December with the achievement of the 51 objectives of 2021, in the coming weeks the EU Commission will evaluate the actual achievement of the 45 goals and objectives agreed for the first half of 2022, the achievement of which is linked to the disbursement of a new loan instalment of EUR 21 billion. For half of the year, the Plan envisaged progress in the context of important reforms, such as that of the code of public contracts and public employment, as well as the launch of various investment programs. The difficulties encountered in awarding some calls for tenders did not compromise the possibility of guaranteeing compliance with the deadlines and the achievement of the expected results.

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 **Law Decree Sostegni** ter (Law Decree 27 January 2022 no. 4) which introduced measures to contain electricity costs and further financial support for activities in crisis. 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), converted with Law 34/2022 of 27 April established measures for energy efficiency and conversion, as well as other interventions in favour of businesses and domestic utilities. 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") (converted into law with the approval of Law no. 52 of 19 May) 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

[10] People's Bank of China, the People's Bank of China

[11] ISTAT Preliminary estimate of GDP 29 July 2022

epidemic. Specifically, the green pass will also be gradually phased out and precautionary quarantines will be eliminated.

The Government adopted the “Price cut” (Law Decree 22/2022 converted with Law no. 51 of 20 May) 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.

The Council of Ministers approved Law Decree no. 50 (so-called **Aiuti Law Decree**) of 17 May 2022, which introduces urgent measures in the field of national energy policies, business productivity and attraction of investments, as well as in the field of social policies and reception and economic support for the benefit of the Ukrainian population. The decree subsequently implemented Legislative Decree no. 80 of 30 June 2022, "Urgent measures to contain the costs of electricity and natural gas for the third quarter of 2022 and to ensure the liquidity of companies that store natural gas", which intervenes on the rates relating to general system charges for some types of users, VAT regime for the supply of methane gas for civil and industrial uses and rates relating to general system charges for natural gas and on the electricity and gas social bonus. Furthermore, the decree extends SACE guarantees to companies that store natural gas.

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. The temporary crisis framework will be in place until 31 December 2022 for liquidity support measures and measures to cover rising energy costs. Aid to support the roll-out of renewable energy and the decarbonisation of industry can be granted until the end of June 2023.

The European Commission presented the REPowerEU plan in response to the difficulties and disturbances of the world energy market caused by the invasion of Ukraine by Russia. The transformation of the European energy system has the dual objective of ending the EU's dependence on Russia's fossil fuels and tackling the climate crisis. The measures contained in the REPowerEU plan intend to achieve this ambition through: energy saving, diversification of energy supply and a more rapid deployment of renewable energies to replace fossil fuels in homes, industry and electricity generation. The Recovery and Resilience Facility (RRF), at the heart of the REPowerEU plan, supports coordinated planning and financing of cross-border and national infrastructure and energy projects and reforms.

Financial markets and monetary policy

The non-easing of geopolitical tensions, the prolongation of the armed conflict, the price tensions, the actual or announced start of monetary tightening and the fears of recession heavily penalized the markets. From the beginning of the year to 30 June 2022, the S&P500 lost almost 21%, the FTSE Mib lost over 22% and the Euro Stoxx just under 20%; the Japanese Nikkei and the Chinese Shenzhen have contained more losses, recording declines of approximately 8% and 9% respectively. The expectations of more restrictive monetary policies have reflected on the strongly upward *trend* of the long-term yields of *risk-free* countries. Since the beginning of the year, the US ten-year has risen steadily to almost 3.5% in mid-June before retracing and closing the half year around 3% (up by about 150 basis points compared to the levels at the end of 2021); similar for the German ten-year which, since January, has advanced until reaching 1.8% in mid-June, and then retraces to just under 1.35% at 30 June 2022 (approximately +150 bps compared to last December). Even more decisive was the growth of the Italian ten-year period which closed the semester at approximately 3.26%, from 1.17% at the end of 2021 (almost +210 basis points) after having also approached 4.2% in mid-June. The growing tensions on Italian debt securities were reflected in a widening of the BTP-Bund *spread* which, starting from May, repeatedly exceeded 200 basis points to exceed 240 basis points in June, before retracing and closing the semester at 193 bps (58 bps more than in December). The announcement by the ECB of the introduction of a new anti-fragmentation instrument contributed to the generalized retreat of long-term European government yields and the spreads of the peripheral areas of the area, recorded at the end of the half-year.

In the first half of 2022, the Fed decisively launched a restrictive monetary policy, adopting a series of measures aimed at avoiding an unanchoring of inflation expectations, in a context in which inflation continues to rise and the labour market remains tense. After raising the Fed Funds Target Rate by 25 bps in March, by 50 bps in May, and by 75 bps in June, he further raised the policy rate by *75 bps* in the July meeting, bringing it into range 2.25-2.5%. The Authority has also started to reduce its securities portfolio in the balance sheet in line with the repayment plan announced in May (*Quantitative tightening*), which provides for an initial reduction of USD 47.5 billion per month until August, and USD 95 billion since September.

In its July meeting, the ECB, in line with its commitment to preserve price stability, decided to raise the reference rates by 50 basis points in order to bring inflation back towards its medium-term target of 2%. Therefore, the interest rates on the main refinancing operations, the marginal lending facility and the deposits with the central bank were raised to 0.50%, 0.75% and 0% respectively with effect from 27 July 2022. The intervention was broader than announced at the previous meeting in June, also following the new assessment of inflation risks and following the introduction of the new Transmission Protection Instrument (*TPI).* In particular, the ICC will ensure that the monetary policy stance is transmitted in an orderly manner across all euro area countries. This new instrument consists in the purchase of securities on the secondary market, without quantitative limits established ex ante, activated at the discretion of the ECB which will assess whether the increase in interest rates in the country in question is to be considered "unjustified and disordered" on the basis of certain indicators and whether the country complies with a series of criteria concerning public finance and the macroeconomic condition: the country is not subject to excessive deficit procedures or procedures for excessive macroeconomic imbalances or is adopting corrective measures following recommendations of the European Council, the public debt is considered sustainable, the country respects the commitments presented in the PNRR.

The flexibility in reinvesting the repaid capital, at least until the end of 2024, on the maturing securities of the portfolio of the *pandemic Emergency Purchase Program (PEPP*) remains the main tool for the ECB to counter risks for the transmission mechanism related to the pandemic. Furthermore, in July, the Authority suspended new purchases as part of its monthly purchase program of securities (*Asset Purchase Program* - APP), continuing to reinvest "for an extended period of time" the securities that reach maturity. Finally, the ECB announced further normalization of interest rates at its next meetings.

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 Bank performed an analysis in the first half 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 Bank with respect to Russia and Ukraine. In detail, as at 30 June 2022, the exposure is represented by unsecured loans and receivables of around EUR 16 mln, of which EUR 9 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 Bank's main exposures exposed to such risks. This portfolio, subject to specific management overlays as at 30 June 2022 (please refer to paragraph "Estimates and assumptions when preparing the Condensed Half-Yearly Financial Statements") continues to be subject to careful monitoring and on the date on which this half-yearly report 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, the data of the first half show a very limited default flow (0.9% linearly annualized). The expectations for the second half of the year are for a slight increase, but with an overall forecast for 2022 of a default rate at around 1%.

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.

Furthermore, in order to ensure oversight over the operational risks inherent in the new restrictive measures introduced by the Regulators as of 25 February 2022, a Task Force was established with the duty of verifying existing oversight mechanisms, coordinating risk mitigation measures and identifying any critical issues for the Bank. In particular, the mitigation measures evaluated as priorities were completed in the first quarter of 2022, while at 30 June 2022, monitoring, analysis and coordination activities continue on the remaining points for attention.

Lastly, please recall that the Bank has a Representative Office in Moscow that has been operating since 1986 with a view to helping to channel commercial transactions between domestic customers and Russian counterparties towards the Group. Following Russia's occupation of Crimea in 2014, turnover declined significantly as a result of the application of the first financial restriction packages by the EU as well as OFAC (Office of Foreign Assets Control). Observance of these restrictions limited the possibility of financing Russian banks through post-financing operations. In 2019, in order to streamline its international network, the Bank modified its presence in Russia, maintaining a formal Representation Licence managed remotely from Italy, contracts with local staff were terminated and the lease on the Moscow office was cancelled and, after notifying the competent Russian Authorities, the registered office was transferred to an Italo-Russian law firm. As of 24 February 2022, the Office's activities, in line with those of the Bank, are compliant with the financial restrictions adopted by the EU and OFAC as a result of the invasion of Ukraine.

COVID-19

Summary of measures to support households and businesses

Type of Loans	Gross exposures			Total impairment (losses)			New Loans	
	EBA Compliant-moratoria	EBA Non-compliant moratoria	**Total Gross exposures**	EBA Compliant-moratoria	EBA Non-compliant moratoria	**Total impairment (losses)**	Gross exposures	**Total impairment (losses)**
Performing exposures	1.4	164.3	**165.7**	-	7.2	**7.2**	10,138.3	33.4
Non performing exposures	-	46.3	**46.3**	-	14.5	**14.5**	173.4	41.6
Total 30 06 2022	**1.4**	**210.6**	**212.0**	**-**	**21.7**	**21.7**	**10,311.7**	**75.0**
Loans measured at FV	-	16.7	**16.7**	-	-0.1	**-0.1**	-	-
Stage 1	-	45.4	**45.4**	-	0.2	**0.2**	7,773.8	19.3
Stage2	1.4	102.2	**103.6**	-	7.1	**7.1**	2,383.2	28.0
Stage 3	-	46.3	**46.3**	-	14.5	**14.5**	154.7	27.7
Purchased or originated credit impaired financial assets	-	-	**-**	-	-	**-**	-	-

Gross performing exposures affected by moratorium measures in place as at 30 June 2022 were equal to about EUR 0.2 bn (EUR 1.6 bn as at 31 December 2021), of which 62.5% classified in stage 2 and 27.4% in stage 1. The total of moratoria amounts to roughly 0.3% of the portfolio of performing loans to Bank 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. The latter were classified as *forborne* to the extent of 69% following the assessment of the financial difficulty carried out as part of the credit review plans.

Gross non-performing exposures with current moratoria amounted to around EUR 46.3 mln as at 30 June 2022.

The remaining exposure of the total moratoria granted since the pandemic began amounted to EUR 9.9 bn as at 30 June 2022, of which EUR 0.2 bn still active at the date of this Half yearly Report, and shown in the table above, and EUR 9.7 bn with a suspension period that has come to an end ("expired"), EUR 8.9 bn of which classified as performing and EUR 0.7 bn o which as non-performing. With respect to the performing exposure expired, roughly 95% have instalments that have fallen due and been paid, with some limited overdue amounts, and for the remaining 5% the first instalment subsequent to the suspension has not yet fallen due.

With regard to the actions undertaken in application of the "Liquidity Decree", the Bank continued with the disbursement of loans guaranteed by the State. In detail, in the first half of 2022, additional loans of roughly EUR 1.1 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 10.3 bn, of which EUR 10.1 bn classified as performing loans.

Around 54% of exposures originating from guaranteed loans have finished their pre-amortisation period, recording payment delays to the extent of 1.2%; for the remaining 46% of exposures, approximately 53% require payment of the first principal instalment in the second half of 2022, while 47% will complete pre-amortisation starting from the first quarter of 2023.

Of the performing guaranteed amounts disbursed, about 23.5% represents exposures classified as stage 2, with roughly 30% representing disbursements made pursuant to letter E of the Liquidity Decree, the latter with exposure totalling EUR 3.0 bn as at 30 June 2022. The guarantee coverage rate compared to the total disbursed is roughly 87%, basically unchanged compared to the end of 2021.

The NPE ratio on total guaranteed loans was equal to around 1,8%, 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.

Security management in the context of the COVID-19 pandemic

In the first half of 2022, the Bank continued to work to guarantee the protection of occupational health and safety, the prevention of the risk of contagion and business continuity, always in compliance with the government provisions in force at the time.

In particular, taking into account the cessation of the state of emergency and the progress of the health situation, measures aimed at the gradual return to the ordinary have been introduced, while the need for prevention of infections and compliance with the primary individual behavioural measures are not lacking. and collective.

As part of the initiatives aimed at ensuring the safe performance of the workplace, the main changes at 30 June 2022 consist of:

- <u>COVID-19 measures</u>:
  - from 16 June **lapsing of the obligation to use masks** in the workplace (it remains recommended in locations open to the public, during meetings and training courses, and on occasions when there is crowding and it is not possible to guarantee an adequate interpersonal distance);
  - maintenance of **the interpersonal safety distance (reduced to 1 metre)** in particular during training courses and in canteens;
  - return to use **of all workstations**;
  - **application of the isolation measure only for those who have contracted the virus**. Those who have had close contact apply the self-surveillance regime with the obligation to wear the FFP2 mask for 10 days from the last close contact;
  - **protection of particular categories of workers** for whom agile working methods under the "simplified" regime are confirmed **until 31 August** ("fragile" workers or workers with serious illnesses and colleagues with serious disabilities ascertained pursuant to Law 104; pregnant workers or with children up to 7 months of age; usually up to 4 days a month, for colleagues from the Branches and Specialised Centres, to meet the needs of family care);

- <u>Control of possession and display of the *green pass*</u>:
  - from 1 April **forfeiture of the obligation for customers to show the green pass**;
  - from 1 May **the obligation for all workers to possess a "Basic" Green Pass** for access to the workplace is no longer valid;

- <u>Resumption of activity</u>:
  - return to **ordinary working methods from 1 May 2022** and possible access to agile work according to the provisions of the relevant company legislation;
  - resumption of **ordinary procedures for carrying out business trips**;
  - possibility of **holding meetings in person**;
  - **resumption of face-to-face training activities** (also in subjects other than health and safety at work) **and conferences**;
  - **disabling of the thermal scanners** installed at the entrance of some workplaces for measuring body temperature (even if it is still forbidden to go or access work in cases of high body temperature or in the presence of flu symptoms).

Shareholders

As at 30 June 2022, 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. On 13 June 2022, as per Consob communication, Assicurazioni Generali SpA sold a part of its shareholding going from 4.319% to a stake of less than 3%.

According to the communications received pursuant to the applicable legislation and based on other information available, as well as based on information on CONSOB's website, the entities that, as at 30 June 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 30 June 2022

Declarant	% of shares held on the ordinary share capital
Ministry of Economy and Finance	64.230%

Information on the BMPS share

Share price and trends

In the second quarter, the main international equity markets did not reverse the trend triggered in the first quarter by the outbreak of the war in Ukraine, extending the accumulated losses almost everywhere. The growing energy crisis, combined with the tensions of the ongoing conflict that has amplified its effects, is among the main factors that have determined a decisive increase in inflation, difficult to control for many central banks, and a strong downsizing of the prospects for an increase in the GDP for the main national economies.

In the US, inflation growth figures have alarmed the Federal Reserve, which has implemented a sharp acceleration in rate hikes. The statement by Fed Chairman Jerome Powell, who also promised to be willing to slow down the economy, in order to bring inflation back to the desired levels, contributed, at the end of the quarter, to a marked decline in the S & P500 (-16.4%). In China, the gradual normalization of activities, following the end of a new wave of Covid, allowed in the second half of the quarter a strong recovery of the Shanghai index (SHCOMP), the only one among the main world markets to close with a positive period, equal to +4.5%. The Tokyo stock exchange also closed in negative, with the Nikkei index falling -4.2%, in a quarter that confirmed a sharp rise in inflation and a depreciation of the yen.

In Europe, the proximity to the conflict scenario has largely amplified the same international crisis factors, causing generalized drops on all the main lists. In particular, in a context of rising inflation, the ECB announced its planned rate hike policy and the end of its continental asset purchase policy. At the same time, President Christine Lagarde announced an anti-fragmentation shield, aimed at avoiding increases, deemed excessive, in bond yields in some Eurozone countries. The quarter therefore closed with heavy losses both on the DAX in Frankfurt, which recorded a -11.3%, and on the Paris Stock Exchange (CAC40), which closed at -11.1%; instead, the falls in the IBEX40 index in Madrid (-4.1%) and in the UKX index in London (-4.6%) were more contained.

Italy was one of the countries most affected by the increase in the spread, a figure that accompanied a downward revision of the GDP rates. These factors contributed to making the FTSE MIB index among the worst on the continent, with a quarterly loss of -14.9%. The same elements also had a strong impact on the banking sector, as evidenced by the IT8300 "All Italian Banks" index, which also closed the second quarter with decreasing values, with a -14.3%.

The BMPS share closed the quarter ending on 30 June 2022 at a value of EUR 0.54, with growth of -42.2% in the quarter. Also on a quarterly basis, the average volume of trades on a daily basis was around 4.4 million.

SHARE PRICE SUMMARY STATISTICS (from 31/03/2022 to 30/06/2022)	
Average	0.76
Minimum	0.54
Maximum	0.94

Rating

The ratings assigned by the rating agencies are provided below:

Rating agency	Short-term debt	Outlook	Long-term debt	Outlook	Last rating action (as at 30/06/22)
Moody's	(P)NP	-	Caa1	Stable	17/03/22
Fitch	B		B	Evolving	01/12/21
DBRS	R-4	Stable	B (High)	Stable	15/06/22

- On 15 June 2022, 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”.
- 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.

Significant events in the first half of the year

On **7 February 2022**, the Board of Directors of the Bank 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 Bank'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 Bank.

On **30 March 2022**, the Bank, 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 2022-2026 Business Plan approved by the bank on 17 December 2021, also as concerns the amount of the underlying capital increase.

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, for integration of the Board of Directors following the revocation of Mr Guido Bastianini.

On **14 June 2022,** the Bank's Board of Directors has unanimously resolved the appointment of Andrea Maffezzoni as new *Chief Financial Officer* following the resignation of Giuseppe Sica.

On **22 June 2022**, the Bank's Board of Directors approved the new 2022-2026 Business Plan: "*A* Clear and Simple Commercial Bank" (the "Business Plan" or the "Plan") and the updated Capital Plan developed in line with the Plan that was sent to the European Central Bank on 24 June 2022.

In the same board meeting, the Board of Directors of the Bank, as part of the initiatives of the Plan, which envisage, inter alia, a capital increase operation to be offered as an option to BMPS shareholders for a maximum amount of EUR 2.5 bn, took note of the availability of the MEF, owner of a shareholding equal to 64.23% of the share capital of Banca MPS, to "support the capital initiatives that the Parent Company will undertake for capital strengthening within the framework of the 2022-2026 Business Plan (…), for the share of its competence at market conditions and within the framework of the provisions that should be established by the supervisory and control Authorities".

Furthermore, the Board of Directors approved the signing of a *pre-underwriting* agreement for the capital increase concerning the commitment - subject to conditions in line with market practice for similar transactions, including, among other things, the positive *feedback* from institutional investors in relation to the proposed capital increase and the agreement on the final terms and conditions of the same - to sign an *underwriting agreement*, relating to the newly issued ordinary shares, which may have remained unexercised at the end of the offer of the unexercised rights pursuant to art. 2441, paragraph 3, of the Italian Civil Code. The terms and conditions of the transaction (including the subscription price of the shares) will be determined, in agreement between Banca MPS and the *Joint Global Coordinators* (as defined below), close to the launch of the offer, taking into account, inter alia, market conditions and institutional investor *feedback*. BofA Securities, Citigroup, Credit Suisse and Mediobanca - Banca di Credito Finanziario SpA will act as *Joint Global Coordinators*.

On **23 June 2022**, the Bank, based on the implementation of the development strategies envisaged in the Plan, also announced the division of the *Chief Commercial Officer* Department into three Departments, with the aim of aiming for greater specialisation and offering of a "*tailor-made*" service for customers. The new configuration makes it possible to operate with faster and more effective decision-making processes. More specifically:

- CCO Retail Department which will have a specific focus on consumer credit, managed savings, bank-insurance and digital banking activities.
- Corporate and Private CCO Department which will deal with Corporate and Private Banking products and markets.
- CCO Large Corporate & Investment Banking Department which will be focused on large companies and with a structure dedicated to investment banking services.

In order to strengthen the control and management of costs with the centralisation of authorisation processes, in line with the initiatives of the Plan, a "Cost Governance" structure was also set up under the responsibility of the Chief Financial Officer, who reports directly to the CEO.

Significant events after the end of the first half of the year

Below are highlighted significant events occurring in the period between the reporting date of this Half-yearly Financial Report (30 June 2022) and the date of its approval by the Board of Directors (4 August 2022), entirely qualifying as "non-adjusting events" in accordance with IAS 10 i.e. events that do not entail any adjustment to the balance in the financial statements, as they are expression of situation occurring after the reporting date, with the exception of what is expressively indicated in relation to mediation/out-of-court claims and legal disputes connected to the 2008-2015 financial statements, as specified hereunder.

In July and up to 1 August 2022, the Bank received mediation and out-of-court claims from a consulting firm and a Law firm on behalf of professional investor, related to capital increase transaction and allegedly incorrect financial disclosure in the prospectus and/or in the financial statements and/or in any price sensitive information for the period 2008 -2015, for a total relief sought (principal amount), excluding any repeated request, of EUR 853.3 mln and EUR 32.2 mln respectively. These events have been assessed for the purpose of the Condensed Consolidated Half-yearly financial statements. In fact, even if notified after 30 June 2022, they provide evidence of existing situations at the reporting date of this Condensed Half-yearly financial statements.

On **2 August 2022,** MEF informed that DG Comp had approved the revision of the "Commitments" that had been undertaken by the Italian Republic in order to enable the precautionary recapitalisation of the Bank in 2017, in compliance with EU and Italian regulations. The Commitments was revised on the basis of a proposal submitted in July to the EU Commission by the MEF and are consistent with the targets of the recently approved 2022-2026 Business Plan.

On **3 August 2022,** the Bank received a write summons regarding the same case, for a total amount of EUR 741 mln which includes the arguments of certain out-of-court claims notified to the Parent Company in previous years for an amount of EUR 522 mln. The Bank, consistently with the approach adopted for out-of-court claims, has classified as probable the risk of losing this dispute and has quantified as at 30 June 2022, the estimate of the probable future disbursement, in line with the requirements of the accounting rules on "adjusting events".

On **4 August 2022,** an agreement between the Group and Trade Unions was signed for the management of 3,500 voluntary exits as of 1 December 2022 as envisaged in 2022-2022 Business Plan, thanks to an early-retirement scheme based on the various pension options already accrued and the activation of sector's Solidarity Fund. The effectiveness of this agreement in its full application, is subject to the availability of the relevant capital resources as set forth in the 2022-2026 Business Plan.

On the same date, the Bank's Board of Directors resolved to expand the underwriting syndicate for the share capital increase, with the participation of other leading banking institutions: Banco Santander SA, Barclays Bank Ireland PLC, Société Générale and Stifel Europe Bank AG, as Joint Bookrunners through the signing of a pre-underwriting agreement in line with the agreement already executed by the other Joint Global Coordinators included in the existing syndicate of banks. Other financial institutions could be invited to join the syndicate before the launch of the rights offering.

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 Bank was completed. The 2017-2021 Restructuring Plan is subject to formal monitoring by the European Commission, through a Monitoring Trustee[12]. 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 Bank, 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 Bank 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 subsidiary did not reach the target of EUR 2.6 bn established for the end of the Plan.
- Commitment #17 – Sale of property assets:
  - the commitment calls for the closure of the Perimetro Consortium (concluded in 2019) as well as the disposal over the course of the Plan of owned properties for an equivalent value of EUR 500 mln. From the approval of the Plan (4 July 2017) to 30 June 2022, the Group sold real estate for a value of roughly EUR 332.9 mln, including a large part of the real estate within the scope of the disposal to Ardian. Furthermore, commitments were also signed for the sale of additional real estate assets at the total price of EUR 71.3 mln, against a total carrying amount as at 20 June 2022 of EUR 64.1 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 – Sale of non-core equity investments:
  - the Bank has not completed the sale of the equity investments in the Bank of Italy, MPS Tenimenti Poggio Bonelli and Chigi Saracini SpA and Immobiliare Novoli SpA (on the other hand, the equity investments in Bassilichi SpA., CO.EM SpA and Consorzio Triveneto SpA, Banca Popolare of Spoleto SpA and Intermonte SIM were sold as required by 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 Bank by the end of the Restructuring Plan. Thus, the MEF should have submitted to the European Commission by the end of 2019 a plan to sell its stake in the Bank's capital. On 30 December 2019, the MEF communicated that, in agreement with the services of the European Commission, the presentation of the plan to sell the equity investment in MPS had been postponed, pending the completion of the Bank'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

[12] As Monitoring Trustee the Parent Company confirmed Degroof Petercam Finance, whit the positive opinion of the European Commission Directorate General for Competition – hereafter DG Comp.

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 condition agreed with the MEF. On 24 October 2021, UniCredit and the MEF announced the suspension of the negotiations.

2022-2026 Group Business Plan

The 2022-2026 Business Plan approved by the Bank's Board of Directors on 22 June 2022 aims to strengthen BMPS in its nature as a "simple commercial bank in the operation and interaction with customers" and is developed on three strategic directives:

- **Business model with sustainable profitability**: optimization of the organisational structure in order to make the Bank's operations agile and efficient, accompanied by the relaunch of the commercial platform. The goal is to strengthen the role of BMPS as a point of reference in the territories to which it belongs, through a product offer focused on families and companies and the support of important interventions for digitization, thus guaranteeing a solid generation of revenues.
- **Solid and resilient balance sheet**: significant strengthening of the Bank's capital position following the completion of the capital increase of EUR 2.5 bn expected by the end of 2022, accompanied by the implementation of a sustainable funding strategy and the improvement of the risk by virtue of the credit policies adopted
- **Management of the Bank's legacy**: approach based on factual elements and the experience gained in the management of extraordinary legal risks.

These strategies will be preliminarily pursued through a capital increase of EUR 2.5 bn, to be carried out in the last quarter of 2022 and supported by three distinctive factors of the Group: the reputation of the brand and of the historical business of BMPS, the capabilities and employee motivation, the Bank's historic ESG culture.

The Business Plan is based on the support previously expressed by the MEF, the controlling shareholder, in compliance with national and European legislation, in supporting the interventions on the capital that the Bank will undertake for capital strengthening within the framework of the Plan, as far as its competence is concerned , at market conditions and within the framework of the provisions that may be established by the Supervisory and Control Authorities. Furthermore, the objectives of the Plan take into account the forthcoming review of the commitments between the Italian Republic and the European Commission relating to the Bank.

The capital increase will be submitted to the resolutions of the Shareholders' Meeting called for next 15 September. The Shareholders' Meeting may only be held following the successful completion of the authorization process currently underway at the ECB. Regarding DG Comp's assessments, on 2 August 2022 the MEF informed that the aforementioned Authority had approved the revision of the "Commitments" that had been undertaken by the Italian Republic in order to enable the precautionary recapitalisation of the Bank in 2017, in compliance with EU and Italian regulations, and that the revised commitments were consistent with the 2022-2026 Business Plan targets.

Main pillars of the 2022-2026 Business Plan

1. **Business Model with Sustainable Profitability**
   For the Bank, important initiatives are envisaged in the Business Plan aimed at achieving a *business* model characterised by sustainable profitability, thanks to an optimisation of the organisational structure in order to make the Bank's operations agile and efficient, accompanied by the relaunch of the commercial platform, aimed at strengthening the role of BMPS as a point of reference in the territory to which it belongs, through a business model and a product offer focused on families and companies. The push towards digitisation is enabled by a plan focused on key projects to support the engines of revenue rebalancing, with the aim of guaranteeing their effective and timely completion, in order to obtain tangible results over the course of the Plan. In particular, the following key actions are envisaged:
   - simplification of the Group structure through mergers by incorporation into BMPS of subsidiaries (MPS Capital Services, MPS Leasing & Factoring and Consorzio Operativo Gruppo MPS) to trigger and enable the rationalization of the company's business and operating model. The mergers will produce significant synergies in terms of incremental costs and revenues;
   - disciplined and rigorous control of administrative costs through the optimization of needs through the centralization of the various cost centres in a single unit, renegotiation of existing contracts and review of cost processes and *policies* according to a "zero-based" logic.

- The transformation of the Group's *business* model is also expected to involve a voluntary exit plan through the Solidarity Fund, with cost savings of EUR 270 mln on an annual basis starting from 2023, against restructuring costs equal to approximately EUR 0.8 bn. A reallocation of resources in commercial activity and in customer services is also envisaged;
- optimisation of the distribution network: reduction of 150 branches, which will bring the total number to approximately 1,218. This downsizing will be enabled by (i) a business-minded approach (such as the closure of non-performing or overlapping branches, i.e. at a low distance from another branch); (ii) spread of branch lean models thanks to the introduction of self-technology (e.g. Advanced ATMs) and (iii) evolution of customer preferences towards digital channels and the consequent reduction in branch activity. Specific customer care initiatives are envisaged to safeguard the customer base.

The Bank will implement, inter alia, the following actions envisaged in the Plan:

- strengthening of the offer of household financing products, in particular with regard to consumer credit and mortgages. In support of these objectives, specific actions have been envisaged, such as strengthening the knowledge of its customers with the introduction of new advanced CRM tools, higher levels of activity in consumer credit, in particular on the Group's customers. The achievement of the full potential on consumer credit is closely linked to the very recent launch of the new internal product factory which makes it possible to combine the traditional distribution of third party products with an offer of “in-house products”;
- enhancement of the role of "advisor" for the management of household savings. The Plan aims to: achieve full commercial potential in wealth management through the consolidated partnership with Anima and the new advisory platform to better support the Bank's customers with a complete product offering that perfectly meets the needs and customer risk profile; continue the successful path in bancassurance, developed in partnership with AXA, both in the Protection and Savings areas. With particular reference to the Protection business, the Plan forecasts challenging results that can be achieved thanks to joint work with the AXA for the upgrade of the product range and for the innovation of the manager/customer interaction model, with multichannel customer experience; fully enhance Widiba, the Group's challenger bank, for which major investments of over EUR 30 mln are planned to scale up its business model, increasingly oriented towards financial advice;
- new commercial proposition for small and medium-sized enterprises. In this context, initiatives will be put in place to strengthen the supervision and capture the specialisation opportunities of each territory with a view to integrated financing for the entire supply chain;
- expansion of the customer base focused on the household and SME segments through targeted win-back initiatives, referral programmes, development of a value proposition dedicated to specific customer targets and strengthening of organizational units dedicated to customer acquisition, both centrally and peripherally.

Finally, the strengthening of the digital strategy through a further enhancement of the internet and mobile banking products and offer, as well as of the automatic tools to support banking operations(for example, advanced ATMs).

For the purpose of relaunching the commercial platform, additional investments will be made to support growth for an amount of approximately EUR 500 mln over the period of the Plan. These investments will be aimed at executing the Plan initiatives, with particular reference to the multi-channel digital offer, the customer development plan through CRM and *data analytics* tools, the *wealth management* and *consumer finance* area, the industrialization of *performing* and non-*performing* credit platform.
The initiatives are supported by the evolution of internal document management and *data governance* platforms and by significant evolutions in the technological platform. Widiba is the subject of *ad hoc* initiatives aimed at the evolution of its platform in terms of digitization of the *user experience*, development of the digital offer, evolution of *robo-advisory* tools and development of data intelligence. Widiba will have its own dedicated growth path by leveraging its specific features and technological excellence.

Finally, the Plan defines the strategic direction of the Group in the ESG area with the aim of contributing positively to development through the integration of sustainability principles within the corporate strategy. The Plan will allow the Group to strengthen its path towards a sustainable development model, which has already begun a few years ago, also with adherence to the international initiatives of the *Net Zero Banking Alliance* and the *Principles for Responsible Banking*, and achieve a distinctive positioning on the market in the management of ESG issues by supporting its customers in the green transition path and contributing to the creation of a more sustainable, equitable and inclusive society.

The Plan establishes concrete actions and objectives on all the pillars of sustainability and according to the guidelines of the Internal and External Dimension. In particular:

- contribute to the environment by gradually reducing direct emissions (-60% vs 2017 - *scope* 1);
- continue in the *Diversity & Inclusion* program with the objective of 40% of women in positions of responsibility, the adoption of rules on inclusion and gender equality certifications;
- enhance human capital by pursuing the full qualification of agile work and the implementation of *welfare* initiatives on the emerging needs of resources, as well as spreading the "ESG Culture" through awareness-raising and training programs that will involve the entire company population;
- continue to play an active role in the areas in which the Bank operates, promoting initiatives in support of communities, culture and enhancement of the artistic and museum heritage and financial education and professional guidance;
- actively support the ecological and sustainable transition of Companies and Families through the pursuit of at least 20% of new disbursements for ESG purposes, the issuance of *Green* and *social bonds* for EUR 2.5 bn in the period of the Plan, the achievement of 50 % of new purchases of *corporate bonds* and the expansion of the commercial offer of ESG investment products pursuing the objective of 40% of ESG AuM on the total AuM placed;
- adopt ESG credit *rating* systems for the evaluation of counterparties as well as credit policies to support the achievement of the objectives of reducing emissions financed by 2030 for the NZBA priority sectors;
- insert, in the *governance* area, the ESG criteria in the *performance management* system, in the management processes of activities, risks and investment and reporting policies;
- strengthen its positioning in terms of ESG rating, acquiring an additional general ESG *rating*.

2. **Solid and Resilient Balance Sheet**

The Plan provides for a significant strengthening of the Bank's capital position following the completion of the EUR 2.5 bn capital increase expected by the end of 2022; Fully loaded CET1 14.2% by 2024 and 15.4% by 2026, with significant buffers compared to regulatory requirements, despite the expected regulatory headwinds and in the hypothesis of dividend distribution from 2025 (pay-out ratio of 30% on results 2025-2026).
The capital initiatives are accompanied by the implementation of a sustainable funding strategy and the creation of a "virtuous circle" in improving the Bank's risk profile by virtue of the adopted credit policies.

As part of the Group's Liquidity and Funding Strategy, the profile of the maturities for the 2022-2024 three-year period is represented primarily by the TLTRO III auctions, to which the Bank 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. In addition, there are institutional bonds also maturing in the 2022-2024 three-year period for 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) and 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, also 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 the MREL requirements. These strategies are defined in line with the Group's strategic plans and to this end, their operating design will be fully defined pending completion of the 2022-2026 Business Plan authorisation processes, which is still pending at the ECB. The achievement of a more stable funding structure involve refocusing on customer deposits and institutional funding (the latter based on a EUR 12 bn programme of new issues over the Plan period) and reducing recourse to *funding* from central banks (ECB *funding* on total liabilities expected to be about 13% by 2024, compared to the current approximately 22%). As a result of the funding strategy outlined above, liquidity ratios are expected to be above regulatory requirements (NSFR ~130%, LCR ~160%), also confirming a solid MREL position over the Plan period, with buffers against targets even including the CBR.

As regards the improvement of the risk profile, the Plan provides for initiatives to strengthen the supervision of loans, through the establishment of specialised assessment centres in line with the priorities for the development of loans and of the monitoring and management system for impaired loans.
A reduction of EUR 1.3 bn in the stock of impaired loans is expected over the course of the Plan (from the current EUR 4.1 bn to EUR 2.8 bn in 2026), of which EUR 0.8 bn sales of bad loans to be realised in 2022.

3. **Management of the Bank's *legacy***
   Management, through a *data driven* approach and the experience gained, of extraordinary legal risks.

Status of implementation of the Plan at the date of preparation of this half-yearly financial report

The three new Commercial Departments: Retail, Corporate and Private, *Large Corporate & Investment Banking* were set up as part of the reorganization of the Bank. In addition, a *Cost Governance* structure was set up to ensure effective spending management and two dedicated units, one for Premium customers and the development of *wealth management* and another for *consumer finance*, to support the development of commercial revenues.

The Bank's Board of Directors, with a view to simplifying the Group's structure, approved on 22 June 2022 the merger projects by incorporation into the Bank itself of the three subsidiaries: MPS Leasing & Factoring, MPS Capital Services and Consorzio Operativo Gruppo MPS. The merger transactions are expected to be completed by May 2023 with accounting effects backdated to 1 January 2023 for the first two subsidiaries, with reference to the Consorzio Operativo Gruppo MPS, the definition of the transaction is expected by the end of the current year with accounting effects backdated to 1 January 2022.

In June 2022, a project for the sale without recourse of impaired loans called "Fantino" was launched, aimed at reducing the NPE *ratio* at the end of the Plan and at structurally mitigating the impact of *calendar provisioning*. The portfolio being sold consists of non-performing loans originating from the Parent Company and the subsidiaries MPS Capital Services and MPS Leasing & Factoring, for a total gross exposure of EUR 0.9 bn, of which EUR 0.6 bn of bad secured and unsecured loans, and EUR 0.3 bn of unlikely to pay exposures. The competitive process sees the participation of the main market *players*. The negotiation phase is underway between the Group and the counterparties that have formulated the binding offers, received on 28 July 2022, was concluded on 4 August with the signing of the relevant sale agreements, and effectiveness deferred to a date falling in the fourth quarter of the year. At 30 June 2022, the receivables falling within the scope of the project in question were classified under asset item 110 of the Balance Sheet - "Non-current assets held for sale and disposal groups" and valued at the expected price of disposal.

On 8 and21 July 2022, the Bank conducted the first round tables with the Group Trade Union delegations, for starting the Solidarity Fund procedure, with the purpose of identifying shared solutions able to protect the right of the employees involved in the exit manoeuvre, and the organisational, employment and contractual perspectives of the employees who will continue to work in the Bank and in the Group. The agreement between the Bank and the Trade Unions for the management of 3,500 voluntary exits as of 1 December 2022, was signed on 4 August 2022

On 4 August 2022, the Board of Directors of the Parent Company on 4 August resolved to call the Extraordinary Shareholders' Meeting for 15 September 2022, called, among other things, to resolve on the measures to strengthen the Parent Company's capital by means of a share capital increase by payments for an amount of EUR 2.5 bn and on the decisions referred to in article 2446, paragraph 2 of the Civil Code, relating to the reduction of the share capital.

MPS BANK’S HALF-YEARLY FINANCIAL STATEMENTS

Balance Sheet

(in unitis of EUR)

	Assets	30 06 2022	31 12 2021
10.	Cash and cash equivalents	2,674,437,919	3,020,461,265
20.	Financial assets measured at fair value through profit or loss	1,111,151,597	980,752,195
	a) financial assets held for trading	693,048,398	611,809,865
	c) other financial assets mandatorily measured at fair value	418,103,199	368,942,330
30.	Financial assets measured at fair value through other comprehensive income	4,817,507,912	5,312,987,811
40.	Financial assets measured at amortised cost	109,261,879,747	111,382,878,496
	a) Loans to banks	37,375,304,956	39,656,674,108
	b) Loans to customers	71,886,574,790	71,726,204,388
50.	Hedging derivatives	722,682,449	4,821,999
60.	Change in value of macro-hedged financial assets (+/-)	(500,245,297)	577,405,326
70.	Equity investments	2,492,913,786	2,494,336,453
80.	Property, plant and equipment	2,254,194,285	2,308,896,452
90.	Intangible assets	870,952	1,334,953
100.	Tax assets	1,202,127,476	1,204,416,406
	a) current	353,421,825	418,012,265
	b) deferred	848,705,651	786,404,140
110.	Non-current assets held for sale and disposal groups	279,560,155	72,291,890
120.	Other assets	2,044,406,087	1,586,812,420
	Total Assets	**126,361,487,068**	**128,947,395,666**

below: **Balance Sheet**

(in unitis of EUR)

	Total Liabilities and Shareholders' Equity	30 06 2022	31 12 2021
10.	Financial liabilities measured at amortised cost	113,917,215,443	117,613,228,016
	a) due to banks	35,496,114,919	36,717,073,472
	b) due to customers	69,226,028,250	70,378,165,795
	c) debts securities issued	9,195,072,274	10,517,988,749
20.	Financial liabilities held for trading	633,737,393	516,980,622
30.	Financial liabilities designated at fair value	129,343,210	145,333,293
40.	Hedging derivatives	371,848,948	1,258,598,544
50.	Change in value of macro-hedged financial liabilities (+/-)	(44,437,910)	15,874,620
60.	Tax liabilities	5,037	4,862
	a) current	5,037	4,862
80.	Other liabilities	4,589,193,257	2,633,713,999
90.	Provision for employees severance pay	137,359,154	153,827,465
100.	Provision for risks and charges:	1,615,653,988	1,583,221,870
	a) financial guarantees and other commitments issued	145,579,605	141,153,805
	b) post-employment benefits	22,211,771	26,792,789
	c) other provisions	1,447,862,612	1,415,275,277
110.	Valuation reserves	57,449,055	168,395,984
140.	Reserves	(4,337,857,864)	(4,487,801,125)
160.	Share capital	9,195,012,197	9,195,012,197
180.	Profit (loss) for the period (+/-)	96,965,160	151,005,319
	Total Liabilities and Shareholders' Equity	**126,361,487,068**	**128,947,395,666**

Income statement

(in unitis o f EUR)

Items		30 06 2022	30 06 2021
10.	Interest income and similar revenues	842,669,535	843,246,969
	of which interest income calculated applying the effective interest rate method	*722,517,074*	*744,500,238*
20.	Interest expense and similar charges	(311,619,359)	(368,105,692)
30.	**Net interest income**	**531,050,176**	**475,141,277**
40.	Fee and commission income	759,050,901	767,070,770
50.	Fee and commission expense	(65,868,368)	(55,300,480)
60.	**Net fee and commission income**	**693,182,532**	**711,770,290**
70.	Dividends and similar income	120,091,547	47,598,616
80.	Net profit (loss) from trading	6,004,621	14,475,054
90.	Net profit (loss) from hedging	7,573,110	1,575,980
100.	Gains/(losses) on disposal/repurchase of:	45,900,941	127,554,521
	a) financial assets measured at amortised cost	45,011,726	122,473,468
	b) Financial assets measured at fair value through other comprehensive income	889,210	8,390
	c) financial liabilities	5	5,072,663
110.	Net profit (loss) from financial assets and liabilities measured at fair value through profit or loss	38,268,687	9,169,323
	a) financial assets and liabilities designated at fair value	21,817,829	2,283,946
	b) other financial assets mandatorily measured at fair value	16,450,858	6,885,377
120.	**Net interest and other banking income**	**1,442,071,614**	**1,387,285,061**
130.	Net impairment (losses)/reversals for credit risk on	(194,550,486)	(154,895,455)
	a) financial assets measured at amortised cost	(194,582,044)	(156,257,192)
	b) financial assets measured at fair value through other comprehensive income	31,558	1,361,737
140.	Modification gains/(losses)	1,145,388	(5,227,631)
150.	**Net income from banking activities**	**1,248,666,516**	**1,227,161,975**
160.	Administrative expenses:	(1,151,799,517)	(1,174,500,599)
	a) personnel expenses	(659,099,061)	(665,416,028)
	b) other administrative expenses	(492,700,456)	(509,084,571)
170.	Net provision for risks and charges:	(85,569,522)	(45,234,633)
	a) commitments and guarantees issued	(6,201,153)	7,715,290
	b) other net provisions	(79,368,369)	(52,949,923)
180.	Net adjustments to/recoveries on property, plant and equipment	(45,576,949)	(50,625,119)
190.	Net adjustments to/recoveries on intangible assets	(471,351)	(467,530)
200.	Other operating expenses/income	139,941,272	122,913,142
210.	**Operating expenses**	**(1,143,476,067)**	**(1,147,914,739)**
220.	Gains (losses) on investments	693,416	(3,111,240)
230.	Net gains (losses) on property, plant and equipment and intangible assets measured at fair value	(9,417,035)	(26,030,406)
250.	Gains (losses) on disposal of investments	281,750	10,981,774
260.	**Profit (loss) before tax from continuing operations**	**96,748,579**	**61,087,362**
270.	Tax (expense)/recovery on income from continuing operations	216,581	68,254,806
300.	**Profit (loss) for the period**	**96,965,160**	**129,342,168**

Statement of comprehensive income

(in units of EUR)

	Items	30 06 2022	30 06 2021
10.	**Profit (loss) for the period**	**96,965,160**	**129,342,168**
	Other comprehensive income after tax not recycled to profit or loss	**(2,798,678)**	**155,587,209**
20.	Equity instruments measured at fair value through other comprehensive income	925,589	4,218,774
30.	Financial liabilities designated at fair value through profit or loss (change in the entity's own credit risk)	(2,141,725)	(9,047,884)
50.	Property, plant and equipment	(13,606,489)	159,568,757
70.	Defined benefit plans	12,023,947	847,561
	Other comprehensive income after tax recycled to profit or loss	**(108,148,251)**	**(11,734,329)**
110.	Exchange differences	1,718,061	820,330
120.	Cash flow hedges	(3,096,940)	(3,915,748)
140.	Financial assets (other than equity securities) measured at fair value through other comprehensive income	(106,769,372)	(8,638,911)
170.	**Total other comprehensive income after tax**	**(110,946,929)**	**143,852,879**
180.	**Total comprehensive income (Item 10+170)**	**(13,981,769)**	**273,195,047**

Statement of changes in equity – 30 June 2022

	Balance as at 31 12 2021	Change in opening balances	Balance as at 01 01 2022	Allocation of profit from prior year		Changes during the period									Total equity as at 30 06 2022
							Shareolders'equity transactions								
				Reserves	Dividends and other payout	Change in Reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Treasury shares derivatives	Stock options	Change in equity investments	Total comprehensive income as at 30 06 2022	
Share capital:	9,195,012,197	-	9,195,012,197	-	-	-	-	-	-	-	-	-	-	-	9,195,012,197
a) ordinary shares	9,195,012,197	-	9,195,012,197	-	-	-	-	-	-	-	-	-	-	-	9,195,012,197
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reserves:	(4,487,801,125)	-	(4,487,801,125)	151,005,319	-	(1,062,058)	-	-	-	-	-	-	-	-	(4,337,857,864)
a) from profits	(4,613,911,211)	-	(4,613,911,211)	151,005,319	-	(1,062,058)	-	-	-	-	-	-	-	-	(4,463,967,951)
b) other	126,110,087	-	126,110,087	-	-	-	-	-	-	-	-	-	-	-	126,110,087
Valuation reserves	168,395,984	-	168,395,984	-	-	-	-	-	-	-	-	-	-	(110,946,929)	57,449,055
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net profit (loss) for the period	151,005,319	-	151,005,319	(151,005,319)	-	-	-	-	-	-	-	-	-	96,965,160	96,965,160
Total equity	**5,026,612,374**	**-**	**5,026,612,374**	**-**	**-**	**(1,062,058)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(13,981,769)**	**5,011,568,547**

At 30 June 2022, shareholders' equity, including the result for the period, amounted to EUR 5,011.6 mln, compared to EUR 5,026.6 mln at 31 December 2021, with an overall net decrease of EUR 15 mln due to 'combined effect of: (i) net negative change in valuation reserves equal to EUR 110.9 mln, almost entirely attributable to the write-down of debt securities; (ii) profit for the period of EUR 97.0 mln.

Statement of changes in equity – 30 June 2021

	Balance as at 31 12 2020*	Change in opening balances	Balance as at 01 01 2021	Allocation of profit from prior year		Changes during the period									Total equity as at 30 06 2021
							Shareolders'equity transactions								
				Reserves	Dividends and other payout	Change in Reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Treasury shares derivatives	Stock options	Change in equity investments	Total comprehensive income as at 30 06 2021	
Share capital:	9,195,012,197	-	9,195,012,197	-	-	-	-	-	-	-	-	-	-	-	9,195,012,197
a) ordinary shares	9,195,012,197	-	9,195,012,197	-	-	-	-	-	-	-	-	-	-	-	9,195,012,197
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reserves:	(2,448,301,979)	-	(2,448,301,979)	(1,880,133,394)	-	4,431,108	(153,098,631)	-	-	-	-	-	-	-	(4,477,102,897)
a) from profits	(2,733,900,227)	-	(2,733,900,227)	(1,880,133,394)	-	4,431,108	-	-	-	-	-	-	-	-	(4,609,602,514)
b) other	285,598,248	-	285,598,248	-	-	-	(153,098,631)	-	-	-	-	-	-	-	132,499,617
Valuation reserves	51,107,701	-	51,107,701	-	-	-	-	-	-	-	-	-	-	143,852,879	194,960,581
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	(185,957,994)	-	(185,957,994)	-	-	-	178,189,767	-	-	-	-	-	-	-	(7,768,227)
Net profit (loss) for the period	(1,880,133,394)	-	(1,880,133,394)	1,880,133,394	-	-	-	-	-	-	-	-	-	129,342,168	129,342,168
Total equity	**4,731,726,531**	**-**	**4,731,726,531**	**-**	**-**	**4,431,108**	**25,091,137**	**-**	**-**	**-**	**-**	**-**	**-**	**273,195,047**	**5,034,443,821**

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

As at 30 June 2021, shareholders' equity, including net income for the period, was equal to EUR 5,034.4 mln, against EUR 4,731.7 mln as at 31 December 2020, with a total net increase of EUR 302.7 mln.

This performance is mainly due to (i) profit for the period of EUR 129.3 mln; (ii) comprehensive income of EUR 143.8 mln, mainly attributable to the effect of the revaluation carried out on properties for business use from 31 March 2021 and the decrease in treasury shares of EUR 178.2 mln as a result of the sales made by the Bank, which led to a negative trading result of EUR 153.1 mln recognised under the item "Reserves-other".

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Cash flow statement - indirect method

(in units of EUR)

A. OPERATING ACTIVITIES	30 06 2022	30 06 2021
1. Cash flow from operations	**519,603,989**	**414,952,714**
Profit (loss) for the period (+/-)	96,965,160	129,342,168
Capital gains/losses on financial assets held for trading and on assets/liabilities measured at fair value (+/-)	(16,326,120)	4,844,917
Net gains (losses) on hedging activities	(7,573,110)	(1,575,980)
Net impairment losses/reversals	251,603,893	191,728,767
Net adjustments/ recoveries on property, plant and equipment and intangible assets (+/-)	55,465,336	77,123,055
Net provisions for risks and charges and other costs/revenues (+/-)	89,617,044	48,463,691
Unpaid charges, taxes and tax credits	(216,581)	(68,254,806)
Other adjustments	50,068,367	33,280,902
2. Cash flow from (used in) financial assets	**2,381,841,645**	**(1,562,100,128)**
Financial assets held for trading	(100,719,557)	66,521,689
Other financial assets mandatorily measured at fair value	(35,171,553)	(10,921,927)
Financial assets measured at fair value through other comprehensive income	278,695,993	524,912,998
Financial assets measured at amortised cost	2,355,405,080	(2,683,674,897)
Other assets	(116,368,318)	541,062,009
3. Cash flow from (used in) financial liabilities	**(3,349,376,629)**	**1,189,896,988**
Financial liabilities measured at amortised cost	(3,481,566,427)	972,272,372
Financial liabilities held for trading	116,756,771	(61,906,438)
Financial liabilities designated at fair value	2,638,141	(161,511,847)
Other liabilities	12,794,886	441,042,901
Net cash flow from (used in) operating activities	**(447,930,995)**	**42,749,574**
B. INVESTMENT ACTIVITIES		
1. Cash flow from	**108,674,672**	**(34,361,829)**
Sales of equity investments	-	1,002,832
Dividends collected on equity investments	106,303,852	(38,692,764)
Sales of property, plant and equipment	2,370,820	3,328,103
2. Cash flow used in	**(6,767,023)**	**(2,742,096)**
Purchase of property, plant and equipment	(6,767,023)	(2,742,096)
Net cash flow from (used in) investment activities	**101,907,649**	**(37,103,925)**
C. FUNDING ACTIVITIES		
Issue/purchase of treasury shares	-	178,189,767
Net cash flow from (used in) funding activities	**-**	**178,189,767**
NET CASH FLOW FROM (USED IN) OPERATING, INVESTMENT AND FUNDING ACTIVITIES DURING THE PERIOD	**(346,023,346)**	**183,835,416**

Reconciliation

Accounts	30 06 2022	30 06 2021
Cash and cash equivalents at beginning of the period	3,020,461,265	2,265,890,003
Net increase (decrease) in cash and cash equivalents	(346,023,346)	183,835,416
Cash and cash equivalents at end of the period	2,674,437,919	2,449,725,419

EXPLANATORY NOTES

Accounting Policies

Basis of preparation

The Half-yearly Report as at 30 June 2022 of Banca Monte dei Paschi di Siena, approved by the Board of Directors on 4 August 2022, includes the Half-yearly Report on Operations and the Condensed Half-Yearly Financial Statements and has been prepared in accordance with the IAS/IFRS international accounting standards issued by the International Accounting Standards Board (IASB) including interpretations by the IFRS Interpretations Committee (IFRIC), endorsed by the European Commission and effective as at 30 June 2022, pursuant to EU Regulation no. 1606 of 19 July 2002.

The condensed half-yearly financial statements, prepared using the Euro as the accounting currency, are drawn up in summary form and in compliance with the provisions of IAS 34 "Interim Financial Reporting", in relation to the forthcoming publication of the explanatory report drawn up pursuant to Article 2446 of the Italian Civil Code, taking into account that the Shareholders' Meeting called to resolve on the measures to strengthen the Bank's capital, will take decisions on the appropriate measures pursuant to the aforementioned article in relation to previous losses which have reduced the share capital of the Bank by more than one third.

The Condensed Half-Yearly Financial Statements, comprise the Balance Sheet, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Cash Flow Statement and the Explanatory Notes; the tables of the Condensed Half-Yearly Financial Statements and the Explanatory Notes, unless otherwise noted, are prepared in units of Euros.

In preparing the Condensed Half-Yearly Financial Statements, the provisions of Bank of Italy Circular no. 262 of 22 December 2005 "Banks' financial statements: layouts and rules for preparation", and subsequent updates (most recently, the 7th update, published on 29 October 2021) were applied. The Condensed Half-Yearly Financial Statements show not only the amounts pertaining to the relevant period, but also the corresponding comparison data as at 31 December 2021 for the Balance Sheet and for the first half of 2021 for:

- the income statement;
- the statement of comprehensive income;
- the statement of changes in equity and
- the cash flow statement.

The Condensed Half-Yearly Financial Statements as at 30 June 2022 are prepared with clarity and give a true and fair view of the financial position and results of operations for the period, the changes in shareholders' equity and the cash flows generated.

With reference to the classification, recognition, valuation and derecognition of the various asset and liability entries, as well as the methods for recognising revenue and costs, the accounting principles used for the preparation of these Condensed Half-Yearly Financial Statements are unchanged from those applied to the Financial Statements as at 31 December 2021, to which the reader is referred for more detail.

The Condensed Half-Yearly Financial Statements as at 30 June 2022 are accompanied by the certification of the Financial Reporting Officer, pursuant to art. 154-bis of the Consolidated Law on Finance, and are subject to a review by the Independent Auditors PricewaterhouseCoopers S.p.A.

An illustration of the new accounting standards, or the changes to existing standards approved by the IASB is provided below, as well as the new interpretations or changes to existing interpretations published by IFRIC, with separate reporting on those applicable in 2022 from those applicable in subsequent years.

IAS/IFRS accounting standards and related SIC/IFRIC interpretations endorsed whose application is mandatory as of the 2022 financial statements

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 the onerousness of the contract. More specifically, the cost to fulfil a contract includes the costs that refer directly to the contract. They may be incremental costs (for example, costs for the direct material used in processing), but also the costs that the company cannot avoid as it has entered into the contract (e.g., the share of the personnel costs and the depreciation of the machinery used to fulfil the contract);
- **"Annual Improvements to IFRS Standards 2018–2020"**, 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. Early adoption was allowed, but the Bank did not make use of this option. The adoption of these amendments did not have any effects on the Bank's financial statements.

IAS/IFRS accounting standards and related SIC/IFRIC interpretations endorsed, the application of which is mandatory as of 31 December 2022

On 23 November 2021, Regulation no. 2021/2036, which endorses IFRS 17 "Insurance Contracts", was published, issued by the IASB on 18 May 2017 and subsequently amended on 25 June 2020. The new standard governs the accounting treatment of insurance contracts issued by companies with the objective of ensuring relevant and comparable information that faithfully represents the effects of said insurance contracts on the entity's financial position, financial performance and cash flows.

The key new features introduced by IFRS 17 concern:

- introduction of the concept of the expected profit from insurance contracts (*Contractual Services Margin*), representing the present value of the expected profits that will be recognised over the life of the contracts. This item, involves, at the moment an insurance contract is signed, the company's recognition of a liability whose amount is given by the algebraic sum of the present value of expected contractual cash flows (discounted by also taking account of an appropriate risk margin, for non-financial risks) and the expected profit (present value of unearned profits);
- the measurement at the close of each reporting period of the elements indicated above (expected cash flows and profit), to verify the consistency of the estimates with the current market conditions. The effects of any misalignments must be immediately reflected in the financial statements: in the income statement if the changes relate to events that have already occurred in the past; as a reduction of expected profit if the changes relate to future events;
- the reporting in the income statement of profitability "by margins" achieved over the life of the policies, i.e. based on the service rendered by the company to policy-holders instead of at the moment contract is stipulated.

The standard is first applied starting from 1 January 2023, after the June 2020 amendment to the standard by the IASB which postponed its entry into force due to operational complexity.

The introduction of the new standard assumes indirect significance for the Bank since, although it does not carry out insurance activities, it holds shareholdings in the capital of the associated insurance companies "AXA MPS Assicurazioni Danni SpA" and "AXA MPS Assicurazione Vita SpA".

Regulation no. 2022/357 of 3 March 2022 endorsed the amendment to IAS 1 "**Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)**" and the amendment to IAS 8 "**Definition of Accounting Estimates (Amendments to IAS 8)**", both published by the IASB on 12 February 2021. The amendments are aimed at:

- improving the disclosure of accounting policies to provide more useful information to investors and other primary users of financial statements, by replacing the concept of significance with that of materiality and including a guide on the application of this concept to the disclosure of accounting policies;
- distinguishing changes in accounting estimates from changes in accounting policies.

The amendments to IAS 1 and IAS 8 are effective for financial years starting on or after 1 January 2023, with early application permitted, an option the Bank did not take.

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

On 23 January 2020 the IASB also published a document amending IAS 1 **"Presentation of Financial Statements: Classification of Liabilities as Current or Non-current"**, with the objective of clarifying how to classify payables and other liabilities as either current or non-current. The amendment specifies that the classification is made on the basis of the rights existing at the reporting date, without considering the expectation of exercising payment deferment. The entry into force of the amendments, originally scheduled for 1 January 2022, was then deferred by the IASB with the amendment published on 15 July 2020 to financial years starting on 1 January 2023 or later. Early application is permitted.

On 9 December 2021, the IASB published the amendment to IFRS 17 "Insurance contracts: **Initial Application of IFRS 17 and IFRS 9 – Comparative Information**". The document concerns the transition to IFRS 17 for companies that apply IFRS 17 and IFRS 9 simultaneously for the first time and, in particular, introduces an option that allows to improve the usefulness of the comparative information presented on the first-time application of the two standards. The entry into force of the amendments is set for 1 January 2023.

On 7 May 2021, IASB published the amendment to IAS 12 "Deferred Tax related to Assets and Liabilities arising from a Single Transaction" (Amendments to IAS 12) to specify how deferred taxes on certain transactions that can generate assets and liabilities of the same amount, such as leases and those deriving from decommissioning obligations, must be recognised. The amendments apply as of 1 January 2023, but early adoption is permitted.

In preparing these Condensed Half-yearly Financial Statements, the documents providing interpretations and support to the application 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, shall also be considered, in addition to the documents issued by ESMA in the first half of 2022, with specific reference to the Russia-Ukraine crisis and the application of IFRS 17, illustrated hereunder.

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 the 2021 financial reports, at the Annual Shareholders' Meeting and in interim financial reporting.

Subsequently, again with specific reference to the implications of the Russian conflict in Ukraine, ESMA published on 13 May a further Public Statement with a series of recommendations aimed at promoting transparency and uniformity of the disclosure to be made in the 2022 half-yearly financial reports. In particular, ESMA stresses the importance of specifying the current and expected impacts of the Russian invasion on the company's financial position, income and cash flows in addition to providing information on the main risks and uncertainties to which the entity is exposed. Since the war has triggered uncertainty and, consequently, the risk of having to make material adjustments to the carrying amount of assets and liabilities, ESMA underlines the importance of updating the disclosure on the judgment elements applied, on the material uncertainties to which the entity is exposed and on the risks surrounding business continuity. In addition, the entity must verify whether the effects of the war constitute an indicator of impairment for non-financial assets in relation, for example, to the decision to dispose of investments in the areas affected by the conflict. By contrast, as regards the impairment of financial instruments, ESMA focusses attention on the conflict's effects on the measurement of the significant increase in credit risk (SICR) and on the determination of the forward-looking Expected Credit Loss (ECL), by highlighting the possibility of using a collective assessment to verify the existence of a SICR for the staging of credit exposures[13], if said measurement is difficult at individual level.

The recommendations contained in ESMA's *Public Statement* are fully referenced in the documents published by Consob on 18 March 2022 and 19 May 2022.

Lastly, given the expected impact and the importance of the entry into force of IFRS 17 "***Insurance Contracts***", ESMA underlines, in its *Public Statement* dated 13 May 2022, the need for issuers, especially in the case of insurance firms and financial conglomerates, to provide pertinent and comparable information in their financial statements which makes it possible to assess the impacts of the application of the standard. ESMA expects its recommendations to be taken into consideration in preparing the interim financial statements and the annual financial statements for 2022.

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

The application of certain accounting standards necessarily implies the use of 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 Half-Yearly Financial Report 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 Bank will be operating. The results achieved in the future therefore could differ from the estimates developed in order to draft this Half-Yearly Financial Report and, as a result, adjustments may be required, to an extent that cannot be currently predicted or estimated, with respect to the carrying amount of the assets and liabilities recognised in the financial statements. In particular, taking account of the elements of extreme uncertainty regarding i) the evolution of the Russia-Ukraine conflict, ii) a new flare-up of the COVID-19 pandemic iii) the growing trend in inflation fuelled, from 2021, by the increase in the prices of energy commodities and some inelasticity of supply, and accentuated in 2022 by the outbreak of the aforementioned conflict, and also taking into consideration the associated consequences on the macroeconomic scenarios which are difficult to predict as things stand, we cannot rule out having to revise the estimated carrying amounts during the second half of 2022, in light of new information becoming available from time to time.

It should be noted that the period subject to disclosure was not characterised by changes in the estimate criteria already applied for the preparation of the Financial Statements as at 31 December 2021, to which full reference is made for a broad description of the most relevant valuation processes for the Bank, except for the new aspects that have been introduced during the first half of 2022, as illustrated below.

Quantification of impairment losses on loans and IFRS 9 staging

For the first half of 2022, the regulatory framework comprised of the provisions published in 2020 and 2021 by the various supervisory authorities on the application of IFRS 9 in the pandemic context, remained valid. For a detailed examination of the content of the provisions issued by the various regulators and on the methods of application by the Bank, please refer to the 2021 Financial Statements. In the first half of 2022, the regulations did not undergo significant changes, limited to the updating of the economic scenarios published by the ECB and by the Bank of Italy on 9 and 10 June 2022 respectively and the recommendations on the disclosure relating to the impacts of the war in Ukraine published by ESMA on 13 May 2022; for details please refer to the section "Basis of preparation".

Macroeconomic forecasts for 2022, 2023 and 2024

On 9 June 2022, the ECB published the periodic update of the macroeconomic forecasts for the Eurozone prepared by its staff with the contribution of the individual national central banks. The baseline scenario of the projections is based on the assumption that the current sanctions against Russia (including the oil embargo imposed by the European Union) will remain valid throughout the entire period under review, that the intense phase of the war will continue until the end of this year without any further exacerbation, that the disruption in the supply of energy will not lead to rationing in Eurozone countries and that supply-side bottlenecks will gradually be resolved by the end of 2023. More specifically, the projections point to Eurozone GDP growth in real terms of 2.8% in

[13] In particular, see IFRS 9 B5.5.1, IFRS 9 B5.5.4, IFRS 9 B5.5.5 and IFRS 9 B5.5.18.

2022 (+3.7% forecast in March 2022) and 2.1% in both 2023 and in 2024 (+2.8% and +1.6% expected in March 2022).

Overall inflation measured on the Harmonised Index of Consumer Prices (HICP) would remain extremely high during most of 2022 due to the increase in the prices of energy commodities and foodstuffs, also as a result of the war in Ukraine, sitting at an average of 6.8%[14] (5.1% expected in March 2022), then gradually drop from 2023 to 3.5% (2.1% forecast in March 2022 and decline further in 2024 to 2.1% (1.9% forecast in March 2022) in the assumption of a limitation of energy costs, easing of supply-side problems linked to the pandemic and a normalisation of the monetary policy.

In the less favourable scenario, inflation is on average equal to 8.0% in 2022 and 6.4% in 2023, and then falls below the level envisaged in the basic scenario of the projections, reaching 1.9% in the 2024. GDP in real terms grows by just 1.3% in 2022, falls by 1.7% in 2023 and, despite rising again by 3% in 2024, stays well below the level indicated in the baseline scenario for the entire reference time horizon.

Based on these assumptions, the Bank of Italy's experts, as part of the exercise coordinated by the Eurosystem, indicated, in the document "Macroeconomic projections for the Italian economy" published on 10 June 2022, GDP growth in Italy of 2.6%[15] this year (+3.8% forecast in January), 1.6% in 2023 and 1.8% in 2024 (2.5% and 1.7% expected in January). Consumer inflation would average 6.2% this year[16], driven by the effects of the sharp rise in the prices of energy commodities and supply-side bottlenecks; it would fall to 2.7% in 2023 and 2.0% in 2024.

The baseline scenario described is heavily dependent on the assumptions regarding the development of the conflict in Ukraine, in an adverse scenario characterised by a freeze in supplies from the summer quarter, only partially offset, for our country, through other sources, GDP would increase by about zero on average in 2022, fall by more than 1% in 2023 and start to grow again in 2024. Consumer inflation would undergo a net increase in 2022, approaching 8.0%, and would also remain high in 2023, at 5.5%, then drop markedly only in 2024.

Lastly, it should be noted that, in its Economic Bulletin of 15 July 2022, the Bank of Italy updated the aforementioned projections - also in light of the most recent economic information - estimating, in the baseline scenario, a more sustained increase in GDP in Italy for 2022 (3.2%, an increase of 0.6%), slightly more contained growth for 2023 (equal to 1.3%, down by 0.3 percentage points) and 2024 (1.7%, down by 0.1 percentage points). Inflation would sit at 7.8% in 2022 then drop to 4.0% and 2.0% in 2023 and 2024 respectively.

In the adverse scenario, growth of under 1% would be recorded in 2022, a contraction of almost 2% in 2023, with average annual growth only in 2024. Consumer inflation would reach 9.3% in 2022 and would also remain high in 2023, at 7.4%, then drop markedly only in 2024.

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 30 June 2022 (see below).

[14] According to the rapid estimate of Eurostat, published following completion of the forecasting in June 2022, overall inflation measured on the HICP was 8.1% in May 2022, slightly above the figure outlined in the projections of Eurosystem experts. An automatic update of the projections would indicate an inflation rate of 7.1% in 2022.

[15] According to the data from the quarterly accounts circulated by Istat on 31 May, not included in the growth projections, GDP increased by 0.1% in the first quarter of 2022, 0.3% more than the figure indicated in the flash estimate published on 29 April; this correction and the revisions to the 2021 data automatically involve an increase in the annual average growth for 2022 of 0.4%.

[16] The projection does not include the *flash* estimate of inflation in May, circulated at the end of the month, which surprised on the upside in Italy as in other countries in the Eurozone. Including said estimate, average annual inflation in 2022 would be automatically more than 0.5% higher.

		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 Half-yealy financial statements as at 30 06 2022	Update April 2022	Data used for 31 12 2021 financial statements and Half-yealy financial statements as at 30 06 2022	Update April 2022	Data used for 31 12 2021 financial statements and Half-yealy financial statements as at 30 06 2022	Update April 2022	Data used for 31 12 2021 financial statements and Half-yealy financial statements as at 30 06 2022	Update April 2022	Data used for 31 12 2021 financial statements and Half-yealy financial statements as at 30 06 2022	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 WORST	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 recoveries in value, the Bank 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 Half-Yearly Financial Report.

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As reported in the paragraph “Audit”, to which reference should be made for more details, an “on-site” inspection by the ECB got underway on 28 April 2022, regarding the risk of Corporate and Large SME exposures. More specifically, the inspection concerns the review of the quality of assets vis-à-vis the aforementioned counterparties, an analysis of the statistical models used to support the classification into stage 2 and the estimate of expected credit losses as well as the evaluation of the related management processes and procedures.

At the date of this Half-Yearly Financial Report, the inspection is still in progress and is expected to be completed at the end of August. In spite of this, the new information acquired as a result of dialogue with the inspection team was evaluated and taken into consideration by the Group for the purposes of drafting the Half-Yearly Financial Report. We cannot rule out that, following the audit of the Supervisory Body, additional new information may come to light, not known at the date of drafting of this report, to be considered for the purposes of assessing the credit portfolio.

In particular, the following were analysed and reviewed as part of the estimate of accounting LGD, i) the treatment of massive disposals of non-performing loans and ii) the treatment of multiple defaults.

As regards the treatment of massive disposals of non-performing loans, the Group's LGD accounting models were constructed fully consistently with the regulatory models. More specifically, until now, massive disposals, for the purposes of estimating the accounting LGD, have been treated as follows:

1) positions subject to the so-called LGD Waiver - in accordance with the ECB's decision on models for calculating capital requirements, positions under Valentine disposal and, partially, Morgana and Merlino disposals, are excluded from the LGD estimate;
2) positions in the scope of application of art. 500 of the CRR (Capital Requirements Regulation)- in the estimate of the LGD no “loss from disposal” has been considered in relation to all those disposals or other transactions (spin-offs) for which the internal recovery process has not been completed and that have taken place as part of a NPE Strategy in the September 2018 - June 2022 period targeted at significantly reducing the NPE ratio; the "disposal loss" is instead replaced with the best estimate of the recoveries that the bank could obtain by retaining control of the positions (so-called incomplete work-out);
3) positions subject to other disposals - the value of the disposal is used in the LGD estimate.

Albeit in the absence of a specific guideline, at least at the date of drafting of this Half-yearly Financial Report, it has been deemed appropriate to review the approach applied up until now to incorporate the effect of a higher number of disposals in the estimate of the LGD parameter, with a view to providing a better estimate of expected loss, considering that the Group's NPE Strategy, approved on last 22 June, presents a "revolving" programme of disposals of roughly EUR 300 mln per year (also net of the extraordinary disposal planned in 2022). To this end, by way of methodological evolution, the losses realised by "ordinary" disposals over the last few years were included in the data-set of the LGD estimate, in place of the incomplete work-out treatment set forth in the regulatory models. Therefore, so-called "extraordinary" transactions are excluded, i.e. those relating to positions subject to LGD Waiver (Valentine transaction and partially Morgana and Merlino, excluded from the estimate) and the Hydra_M spin-off (which is treated on the basis of a work-out at the net book value, since it is considered as a reorganization transaction not a “real” operating).. The extraordinary nature of said transactions is related to their exceptional size and is proven by the specific decisions made by the Authorities; for said reasons, they cannot be considered representative of the transactions that the Group will carry out in the future, given it has now reached a natural NPE ratio level. The inclusion of "ordinary" disposals in the LGD represents a fine-tuning of the estimate methodologies: in fact, thanks to said initiative, on NPE portfolios subject to statistical evaluation, the impacts of the expected disposals set out in the NPE Strategy (2023-2026) are replaced by the application of the LGD inclusive of the "ordinary" disposals; said LGD is, moreover, extended to performing exposures.

In carrying out the aforementioned modification, the length of the timeseries underlying the estimate of the accounting LGD was also reviewed. In fact, we have moved from the current 10-year series to a time series of 20 years. The use of a 10-year series would have produced estimates not representative of the actual recovery processes expected by the Group and, in particular, would not have adequately represented the impact of future disposals on internal recovery processes. The use of a 20-year series instead means that the weight of positions subject to disposal included in the LGD is in line with the weight of the disposals expected in the future as part of the NPE *Strategy* approved recently. The change made therefore meets the need of adjusting the historical balances to make them more consistent with the prospects and, therefore, with expected loss.

With reference to the topic of multiple defaults (i.e. positions defaulted, cured, then defaulted again in a short space of time), it is important to remember that the regulations make provision for asymmetric treatment of this phenomenon for regulatory purposes, to ensure conservative risk parameters. In fact, in the PD estimate, multiple defaults are all considered as "genuine defaults", in order to ensure a higher estimate of the PD, while in the LGD estimate, they are considered a “single default”, in order to contain the effects of the recovery rate of defaulted positions. Up until today, unlike the regulatory models, the accounting models have not incorporated said asymmetry in line with the “unbiased” qualification of expected loss underlying the accounting regulations. In spite of this, the Group decided to "align", from this perspective, the accounting estimates with the regulatory ones, with the goal of greater coherence of the accounting LGD with the recoveries observed.

Overall, therefore, the changes made to the statistical models for accounting purposes described above resulted in greater net adjustments on the cost of credit in the half-year of approximately EUR 9 mln.

The other indications acquired as part of the inspection in some cases highlight areas of improvement of the models, but with an insignificant impact on loan adjustments. In particular, note should be taken of (i) the use of scenarios in determining EAD and PD parameters and ii) the specific treatment of *bullet* products with respect to instalment-based ones.

Finally, with reference to the perimeter of the positions subject to analytical verification, it should be noted that the observations reported by the inspection *team* have been analysed and substantially incorporated into the assessments behind these condensed half-yearly financial statements.

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During the first half of 2022 in terms of IFRS 9 measurements, the Bank has maintained a prudent approach to 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 and updated 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 in credit assessments the specific impacts of COVID-19 and the Russian conflict in Ukraine and the potential emerging economic and financial risks. Overall, the management overlays used for valuations as at 30 June 2022, also taking into account the scenarios updated in April, resulted in additional adjustments on the cost of credit for approximately EUR 105.4 mln (approximately EUR 99 mln as at 31 December 2021) and higher exposures classified in stage 2 for approximately EUR 721 mln (EUR 1.3 bn as at 31 December 2021).

The overlays as at 30 June 2022 are represented by four main categories:

1) use of asymmetric macroeconomic scenarios - in view of the uncertainty of the economic context and gradual deterioration in progress, the ECL calculation approach was maintained, in line with what was done in December 2021, which involves the use of the most likely scenario (baseline) and two alternatives, both worse (extremely severe and severe but plausible), all three with the same weighting and therefore

combined based on a simple average, in place of the traditional approach which calls for the use of a baseline scenario, a better one and a worse one, weighted on the basis of the reference percentiles. The conservatism of this choice can be estimated at roughly EUR 46.2 mln;

2) basic macro-economic scenario - The determination of staging and ECL still takes as a reference, as a baseline, the scenario of Prometeia released in October 2021, neutralising the positive economic impact of approximately Eur 32 mln that would have resulted from the use of latest available scenarios dated April 2022;
3) floor on PDs of positions subject to moratoria - For all those positions subject to COVID-19 moratoria and that have still not resumed payments for at least one year (therefore the COVID-19 moratoria for which the expiry date of the moratoria was after 30 June 2021), a floor is maintained at the PD value as of 31 December 2020. This choice determines greater adjustments for approximately EUR 12.8 mln;
4) sectors heavily impacted by the trend in the prices of energy and raw materials - On exposures to companies operating in sectors which may be hit hard by the availability/prices of energy and raw materials, greater value adjustments of around EUR 15 mln were carried out.

The total amount of the overlays as at 30 June 2022 increased by approximately EUR 6 million compared to the figure of 31 December 2021. The increase is mainly due by the higher level of conservatism estimated on the failure to update the macroeconomic scenario equal to EUR 32 mln and higher value adjustments on the so-called energy-intensive sectors amounting to EUR 15 mln, partially offset by the following two decreases:

1) CERVED sectoral scenario - As at 31 December 2021, the Bank used the scenario produced by CERVED in July 2021 (period characterised by a pandemic context still in progress) and the November 2021 update was not acknowledged, characterised by a recovering context. The update of April 2022 also anticipates an overall improvement in the PDs, apart from a few sectors impacted by the crisis triggered by the Russian war in Ukraine. Since CERVED has also provided a negative scenario in addition to the baseline, the scenario has been updated which, although it anticipates a worsening of the PDs, is in any case less negative than that prevailing in the pandemic phase, therefore also taking into account the exposure of the Bank to the various sectors. Therefore, at the reference date of this half-yearly financial report, the conservatism level of approximately EUR 31 million referred to this element is no longer in existence;
2) resumption in payments on COVID moratoria - As stated in the previous section, the floor on PDs is only maintained for those positions with expiry of the moratoria after 30 June 2021. For all positions that, by contrast, have resumed payments before said date, and for which the regular resumption in payments has been observed for more than one year, the floor is removed. This change resulted in a reduction in overlays of approximately EUR 11 mln compared to the figure for December 2021;

$$$$

The determination of expected credit losses involves significant elements of judgment, with particular reference to the model used to measure losses and the related risk parameters, to the triggers deemed to express significant credit deterioration and the selection of macroeconomic scenarios. In particular, the inclusion of *forward-looking* factors is a particularly complex exercise, as it requires macroeconomic forecasts to be formulated, scenarios and associated probabilities of occurrence to be selected, and a model to be defined capable of expressing the relationship between the aforementioned macroeconomic factors and the default rates of the exposures subject to valuation.

In order to assess how forward looking factors may influence expected losses, it is considered reasonable to carry out a sensitivity analysis in the context of different scenarios based on forecasts consistent with the evolution of the various macroeconomic factors. The innumerable interrelations between the individual macroeconomic factors are such as to render a sensitivity analysis of expected losses based on the individual macroeconomic factor of little significance.

The table below shows the sensitivity for the main credit portfolio of the Bank consisting of cash loans to customers belonging to the corporate and retail segments, net of the loans classified in the portfolio of non-current assets and disposal groups. The analysis shows, for each stage of risk on gross exposures, on the adjustments and on the coverage ratio in the cases where a weight equal to 100% of the baseline, severe but plausible and worst scenarios, respectively, is used instead of the scenario defined as weighted - i.e. based on weightings (33.3%) that the Bank has attributed to each scenario - used by the Bank for estimating the stages of risk and value adjustments as at 30 June 2022.

The weighted scenario used for the accounting valuations as at 30 June 2022 is positioned, in terms of adversity, between severe but plausible and extreme worst. In particular, for non-impaired exposures:

- the sensitivity of the portfolio to the extreme worst scenario would see (i) a sliding of counterparties into stage 2, whose exposure would undergo an increase equal to EUR 313 mln euros (+3.2%), with a consequent increase in the ECL estimated around 12.7% (around EUR 37 mln), and a greater average coverage of around 27 bps, (ii) a slight reduction of counterparties in stage 1, whose exposure would suffer a decrease of EUR 313 mln (-0.6%), an increase in the ECL of around 9.1% (around EUR 5.0 mln) and an essentially unchanged average coverage;
- the sensitivity of the portfolio to the severe but plausible scenario would see (i) a decrease in counterparties in stage 2, whose exposure would decline by approximately EUR 234 mln (-2.4%) with a consequent decrease in the estimated ECL of around 6.1% (roughly EUR 17.8 mln) with a reduction in the average coverage of 11 bps, (ii) an increase both in terms of exposures equal to around EUR 234 mln (+0.4%) and in relative ECL of approximately EUR 3.0 mln (5.5%) for stage 1 and an unchanged average coverage;
- vice versa, the sensitivity analysis of the portfolio to the baseline scenario would see (i) a more marked reduction in the stock of positions in stage 2 equal to EUR 650 mln (reduction of 6.7%) with a potential economic benefit on ECL down by 10.3% (around EUR 29.7 mln), and consequent decrease in the coverage ratio of around 11 bps (basis points); (ii) an increase in counterparties in stage 1, whose exposure would increase by EUR 650 mln (increase of 1.2%), an increase in ECL of approximately 3.8% (approximately EUR 2.0 mln euro) and an essentially unchanged average coverage.

The sensitivity analysis of the adjustments of impaired exposures would see an increase in the extreme worst scenario of approximately EUR 13.7 mln (+ 1.0%) and a decline of roughly EUR 1.3 mln (-0.1%) and EUR 12.4 mln (-0.9%) in the severe but plausible and baseline scenarios, respectively.

However, it is not possible to rule out that a further deterioration in the credit situation of debtors, also as a consequence of the possible negative effects on the economy directly and indirectly related to the Russian war in Ukraine, could lead to the recognition of further losses, even significant ones, compared to those considered as at 30 June 2022.

		Scenario (Delta in EUR/Mln)		
	Weighting	Extreme Worst	Severe but Plausible	Baseline
STAGE 1 Gross exposure	**51,037.30**	**(312.74)**	**233.83**	**650.18**
of which CORPORATE	23,681.75	(255.82)	207.88	553.05
of whch RETAIL	27,355.55	(56.92)	25.95	97.14
STAGE 1 Value adjustments	**54.29**	**4.97**	**2.96**	**2.09**
of which CORPORATE	36.08	2.55	1.76	1.63
of whch RETAIL	18.20	2.42	1.21	0.47
STAGE 1 coverage ratio (%)	**0.11%**	**0.01%**	**0.01%**	**0.00%**
of which CORPORATE	0.15%	0.01%	0.01%	0.00%
of whch RETAIL	0.07%	0.01%	0.00%	0.00%
STAGE 2 Gross exposure	**9,700.92**	**312.74**	**(233.83)**	**(650.18)**
of which CORPORATE	7,302.54	255.82	(207.88)	(553.05)
of whch RETAIL	2,398.38	56.92	(25.95)	(97.14)
STAGE 2 Value adjustments	**288.95**	**36.72**	**(17.76)**	**(29.72)**
of which CORPORATE	223.67	31.44	(13.01)	(25.10)
of whch RETAIL	65.28	5.28	(4.75)	(4.62)
STAGE 2 coverage ratio (%)	**2.98%**	**0.27%**	**-0.11%**	**-0.11%**
of which CORPORATE	3.06%	0.31%	-0.09%	-0.12%
of whch RETAIL	2.72%	0.15%	-0.17%	-0.09%
STAGE 3 Gross exposure	**2,824.46**	**-**	**-**	**-**
of which CORPORATE	1,991.15	-	-	-
of whch RETAIL	833.30	-	-	-
STAGE 3 Value adjustments	**1,408.90**	**13.73**	**(1.30)**	**(12.43)**
of which CORPORATE	1,101.09	7.91	(0.65)	(7.26)
of whch RETAIL	307.81	5.82	(0.65)	(5.17)
STAGE 3 coverage ratio (%)	**49.88%**	**0.49%**	**-0.05%**	**-0.44%**
of which CORPORATE	55.30%	0.40%	-0.03%	-0.36%
of whch RETAIL	36.94%	0.70%	-0.08%	-0.62%
TOTAL ADJUSTMENTS	**1,752.14**	**55.42**	**(16.10)**	**(40.06)**
of which CORPORATE	1,360.84	41.90	(11.90)	(30.73)
of whch RETAIL	391.29	13.52	(4.20)	(9.33)

Impairment test of equity investments in subsidiaries and associated companies

In compliance with IAS 36, at the end of every reporting period, the Bank verifies, for controlling interests, interests in associates or jointly controlled entities, that there is no objective evidence to suggest that the book value of these assets is not fully recoverable.

The methodology adopted by the Bank involves using specific triggers, or key operational indicators which are compared with specific benchmarks (for more details on the indicators used by the Bank , please refer to part A of the Notes to the 2021 Financial Statements, section “Use of estimates and assumptions - Methods for calculating impairment on equity investments”); if this comparison provides an indication of trends not aligned with expectations, the value of the asset to which they refer may have suffered from impairment and, therefore, in that case the recoverable amount is estimated. Specifically, this value is determined pursuant to IAS 36 as the higher value of its fair value, net of costs to sell, and the value in use, equal to the present value of future cash flows that the company expects from the continuous use of the asset and its disposal at the end of its useful life. If the recoverable amount of an asset is lower than its book value, the asset in question is written down.

The monitoring of the main *impairment indicators,* carried out by the Bank at 30 June 2022, highlighted elements that indicate potential impairment of the investee companies Banca Widiba, MP Banque, MP Fiduciaria, Aiace Reoco, Enea Reoco, AXA-MPS Assicurazioni Danni and AXA Life Insurance; for all equity *assets*, with the exception of Aiace Reoco and Enea Reoco, the comparison between the recoverable value of the investee companies and the corresponding book value did not show the need to make value adjustments, therefore the book value was confirmed. On the other hand, as regards the equity investments in Aiace Reoco and Enea Reoco, the overall write-down recorded is equal to EUR 0.04 million.

Property valuation

The Bank adopts the revaluation model for the measurement of the value of property assets for business use pursuant to IAS 16 and of the fair value for investment properties pursuant to IAS 40, for valuation subsequent to the initial recognition. The revaluation method requires that the assets for business use, whose fair value can be reliably measured, are recognised at a revalued value, equal to their fair value at the date of the revaluation of value, net of depreciation and any losses for accumulated impairment. For properties held for investment purposes, the Group has chosen the fair value measurement method, according to which, after initial recognition, all investment properties are measured at fair value.

The *fair value* of the properties, whether they are for business use or investment properties, is determined using the appropriate appraisals prepared by qualified independent companies operating in the specific sector able to provide property valuations based on the *RICS Valuation* standard, which guarantee that the *fair value* is determined in line with the indications of IFRS 13 and that the appraisers meet the professional, ethical and independence requirements in keeping with the provisions of international and European *standards*.

The Bank has decided to bring forward the valuation of all property assets with respect to the *standard* frequency. Therefore, at 30 June 2022, the entire property portfolio owned by the Bank was subjected to evaluation, consisting of 1,071 owned assets of which 673 properties for operating use (IAS 16), 4 properties held for sale in the ordinary course of business or for development and resale (IAS 2), 246 investment properties (IAS 40), 142 properties with mixed classification and 6 properties held for sale (IFRS5).

The valuation methodologies applied by the appraiser are aligned with international IVS (International Valuation Standards) practices and with the provisions of the Red Book of the Royal Institute of Chartered Surveyors (RICS) and remained unchanged with respect to the previous valuations of property assets, which took place on 31 December 2021 and 31 March 2021. To learn more about the valuation methods as well as the valuation approach adopted by the Bank, please refer to paragraph A.4 - Information on fair value contained in the Accounting Policies of Part A of the 2021 Financial Statements.

The appraisals were drawn up in full mode for 177 of the properties included in the perimeter (i.e. for 16.5% of the total number) and on the basis of analysis in desktop mode for the remaining properties (i.e. for 83.5% of the total number). The market value of the portfolio was estimated as a total of EUR 1,944.2 mln which resulted in an overall write-down of the property assets for EUR 29.4 mln, of which EUR 21.1 mln euros referring to properties classified as IAS 16, EUR 7.8 mln relating to properties classified as IAS 40 and EUR 0.5 mln for properties classified as IAS 2. The overall write-down was recognised as a balancing entry:

- item 230 of the income statement - "Net gains (losses) on property, plant and equipment and intangible assets measured at fair value" for a total of EUR 9.4 mln gross of the related taxation;
- item 110 of the balance sheet - "Valuation reserve" for a total of EUR 20.0 mln gross of the related taxation.

Estimation and assumptions on recoverability of deferred tax assets

In compliance with the provisions of IAS 12 and the communication of ESMA of 15 July 2019, the initial recognition of the DTAs and their subsequent inclusion in the financial statements require a judgement on the likelihood of recovering the amounts recognised. This valuation was carried out using the same methodological approach used for the 2021 financial statements, except for the forecast results for 2022, which was updated in consequence of the performance of the first half.

Lastly, it should be noted that the new 2022-2026 Business Plan, approved by the Bank's Board of Directors on 22 June 2022, was not used at this juncture, pending the conclusion of the ECB authorisation process and the completion of the capital strengthening transaction. For more information, please refer to par. 10.7 "Other information" in the Notes to the financial statements - Part B of the Bank's 2021 Financial Statements.

Rights of use in lease agreements

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

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

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

As at 30 June 2022, the Bank performed the following checks:

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

At the reference date of these Condensed Consolidated Half-Yearly Financial Statements, owing to the absence of further indicators of impairment, no critical factors emerged as concerns the stability of the recoverable amount of right of use assets.

Rent concessions

As of 30 June 2022, the Bank applies the exemption provided for by the IASB document "Covid-19-Related Rent Concessions" to the assessment of a concession obtained in 2021 as a lessee in a lease,, which was extended to the first half of 2022 without other substantial changes to additional terms or conditions being introduced. The expedient, applied from the 2020 financial year, is not a significant case for the Bank.

Going concern

The Condensed Half-Yearly Financial Statements as at 30 June 2022 were prepared based on a going concern assumption.

The assessment of the Bank'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. With regard to this, it is estimated that a prospective capital shortfall could emerge with respect to overall capital requirements within the evaluation timespan. With regard to liquidity, the position remains strong due to the significant measures implemented by the ECB.

As at 30 June 2022, as in previous quarters, no shortfall of capital occurred against overall capital requirements. At the end of the 12-month time horizon from the reporting date, or namely 30 June 2023, assuming the scheduled capital reduction due to the IFRS 9 phase-in and the full implementation of inflation effects on RWAs linked to the alignment of internal credit risk models with EBA Guidelines, a shortfall of EUR 500 mln could emerge on the Tier 1 capital aggregate. On the other hand, on 31 December 2022, i.e. before the *IFRS9 phase-in* effect, the shortfall could be approximately EUR 50 mln.

The projected capital position is estimated assuming confirmation of the current business/operating model, excluding the capital strengthening transaction and the related initiatives (e.g. staff exits).

In order to address the potential capital shortfall, which also emerged in the adverse scenario of the EBA 2021 stress tests, a EUR 2.5 bn capital strengthening transaction through a share capital increase has been planned and will be offered with pre-emption rights to shareholders, at market conditions; this transaction is the basis of the 2022-2026 Business Plan approved by the Board of Directors on 22 June.

The need for capital strengthening is significant and thus determines a potential uncertainty on the use of the going concern assumption. This uncertainty is mitigated by the full support that the controlling shareholder has repeatedly provided and again confirmed within the context of this transaction, as better described below.

The transaction, in the form of a capital increase, will be presented to the Shareholders' Meeting called for 15 September. The Shareholders' Meeting can only be held following the successful completion of the authorisation process currently underway with the ECB. As regard DG Comp's assessments, on 2 August, MEF informed that the Authority approved the revision of the "Commitments" that had been undertaken by the Italian Republic in order to enable the precautionary recapitalisation of the Bank in 2017, in compliance with EU and Italian regulations and that the revised Commitments were consistent with the 2022-2026 Business Plan targets.

Regarding the execution of the transaction, as already mentioned, the MEF confirmed its readiness to "*support the capital strengthening measures the Bank will undertake in the framework of the 2022-2026 Business Plan (…), for its relevant share at market conditions, and in accordance with the requirements that may be established by the Supervisory and Control Authorities*". In addition, the Bank has signed a *pre-underwriting* agreement for the Capital Increase concerning the commitment - subject to conditions in line with market practice for similar transactions, including, the institutional investors' positive *feedback* on the proposed capital increase transaction and agreement on its final terms and conditions – to enter into an *underwriting agreement* for the newly-issued ordinary shares that remain unsubscribed at the end of unsubscribed rights offering pursuant to art. 2441, paragraph 3, of the Italian Civil Code.

The Bank is continuing to provide all the necessary clarifications requested by the ECB as part of the relevant preliminary activity, and it is believed that the ECB will conclude the approval processes in the coming weeks, and, in any case, before 15 September, the date on which the Shareholders' Meeting is scheduled.

In the context outlined, it cannot be excluded that, in principle, unforeseeable circumstances and elements may occur that could affect the authorisation process as well as the Bank's capital strengthening process; moreover, even in the presence of these authorisations, there is no guarantee that there are the market conditions that can allow the effectiveness start and the fully subscription of the capital increase. Said context, therefore, in principle, throws up significant uncertainties.

However, taking into account the discussions held with the Authorities so far and the MEF support, it is believed that the potential capital *shortfall* can be overcome with the execution of the proposed capital strengthening transaction, subject to completion of the authorisation process described above.

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, having considered the significant uncertainty with regard to the execution of the recapitalisation of the Bank, which may give rise to significant doubts on said entity's ability to continue to operate as a going concern, believe that, taking into account the state of actions taken, these assessments as a whole support 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 these condensed half-yearly financial statements.

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 Bank'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 -1.8 mln, referring to past business combinations, which was reclassified in a special item.
- The item "**Net fees and commissions**" shows the balance of items 40 "Fee and commission income" and 50 "Fee and commission expense".
- Item "**Dividends, similar income and gains (losses) on investments**" incorporates item 70 "Dividends and similar income".
- The item "Net profit (loss) from trading, the 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 "Gains/(losses) on disposal/repurchase", net of the contribution of loans to customers (EUR +1.5 mln), posted to the reclassified item "Cost of customer credit", and 110 "Net profit (loss) from financial assets and liabilities measured at fair value through profit or loss", net of contributions from loans to customers (EUR +5.4 mln) and securities deriving from sale/securitisation transactions of non-performing loans[17] (EUR -1.2 mln) posted to the reclassified item "Cost of customer credit".
- Item "**Net profit from hedging**" includes financial statement item 90 "Net profit from hedging".
- Item "**Other operating income (expense)**" includes the balance of item 200 "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 99.6 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 10.8 mln). The item was also cleared of the amount relating to the recoveries of DTA fees collected by subsidiaries, reclassified to the item "DTA fee" (EUR 4.6 mln).
- The Item "**Personnel expenses**" includes the balance of item 160a "Personnel expenses" from which an amount of EUR -2.4 mln has been excluded, reclassified under "Restructuring/one-off costs".
- The item "**Other administrative expenses**" includes the balance of financial statement item 160b "Other administrative expenses", reduced by the following cost items:
  - expenses, amounting to EUR 69.5 mln, resulting from the EU Deposit Guarantee Schemes Directive (hereinafter "DGSD") and Bank Recovery Resolution Directive (hereinafter "BRRD") for the resolution of bank crises, posted under the reclassified item "Risks and charges associated with SRF, DGS and similar schemes";
  - DTA fee, convertible into tax credit, for an amount of EUR 31.4 mln posted to the reclassified item "DTA fee";
  - charges of EUR 0.6 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 99.6 mln) posted under item 200 "Other operating expenses/income".
- Item "**Net value adjustments to property, plant and equipment and intangible assets**" includes the values of items 180 "Net value adjustments to (recoveries on) property, plant and equipment" and 190 "Net value adjustments to (recoveries on) intangible assets" and was cleared of the negative contribution (EUR -0.4 mln) referring to the Purchase Price Allocation (PPA), which was recognised in a specific item, while it incorporates the component of rental income (EUR 10.8 mln) that was recorded in the financial statements under item 200 "Other operating expenses/income".

[17] 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 "**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 +1.5 mln), 110b "Net profit (loss) on financial assets and liabilities mandatorily measured at fair value through profit or loss" (EUR +5.4 mln), 130a "Net impairment (losses)/reversals for credit risk on financial assets measured at amortised cost" (EUR -196.1 mln), 140 "Gains/(losses) on contractual changes without cancellations" (EUR 1.1 mln) and 170a "Net provisions for risks and charges - commitments and guarantees given" (EUR -6.2 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 mandatorily measured at fair value through profit or loss" (EUR -1.2 mln).
- The item "**Net impairment losses on securities and bank loans**" includes the portion relating to securities (EUR -0.6 mln) and loans to banks (EUR +2.1 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" (nil amount at 30 June 2022).
- Item "**Other net provisions for risks and charges**" includes the balance of financial statement item 170 "Net provisions for risks and charges", reduced by component relative to loans to customers of item 170a "Net provisions for risks and charges - commitments and guarantees given" (EUR -6.2 mln), which was included in the specific item "Cost of customer credit".
- The item "**Other gains (losses) on investments**" includes the balance of financial statement item 220 "Gains (losses) on investments".
- Item "**Restructuring/One-off costs**" includes the following amounts:
  - charges amounting to EUR 2.4 mln, recognised in the financial statements under item 160a "Personnel expenses";
  - charges of EUR 0.6 mln, relating to project initiatives, also aimed at complying with the commitments undertaken with DG Comp, accounted for in the financial statements under item 160b "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 69.5 mln, posted in the financial statements under item 160b "Other administrative expenses".
- Item "**DTA fee**" includes the expenses related to the fees paid on DTAs that can be converted into tax credit as set forth in art. 11 of Decree-Law no. 59 of 3 May 2016, converted into Law no. 119, 30 June 2016, totalling EUR 26.8 mln and recognised in the financial statements under item 160b "Other administrative expenses" (EUR 31.4 mln), net of the amount recovered from subsidiaries recorded under "Other operating income/expenses" (EUR 4.6 mln).
- Item "**Net gains (losses) on property, plant and equipment and intangible assets measured at fair value**" includes the balance of financial statement item 230 "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 250 "Gains (losses) on disposal of investments".
- Item "**Tax expense (recovery)**" includes the balance of item 270 "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 0.7 mln.

The overall negative effects of the Purchase Price Allocation (PPA) were reclassified to a specific item, excluding them from affected income statement items (in particular "Net interest income" for EUR -1.8 mln and "Net value adjustments to property, plant and equipment and intangible assets" for EUR -0.4 mln, net of a theoretical tax burden of EUR +0.7 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”;
- the asset item “**Loans to banks**” includes the portion relating to loans to banks of financial statement items 40 “Financial assets measured at amortised cost”, item 20 “Financial assets measured at fair value through profit or loss” and item 110 “Non-current assets held for sale and disposal groups”;
- 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”, 40 “Financial assets measured at amortised cost” and 110 “Non-current assets held for sale and disposal groups”.
- 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 110 “Non-current assets held for sale and disposal groups”.
- 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 related to investments in item 110 “Non-current assets held for sale and disposal groups”.
- Asset item “**Property, plant and equipment and intangible assets**” includes item 80 “Property, plant and equipment”, item 90 “Intangible assets” and the amounts related to property, plant and equipment and intangible assets in item 110 “Non-current assets held for sale and disposal groups”
- Asset item “**Other assets**”, includes item 60 “Change in value of macro-hedged financial assets”, item 120 “Other assets”, and the amounts in item 110 “Non-current assets held for sale and disposal groups” 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”** includes item 110 “Valuation reserves”, item 120 “Redeemable shares”, item 140 “Reserves”, item 160 “Share capital”, item 170 “Treasury shares” and item 180 "Profit (loss) for the period”.

Reclassified income statement

Reclassified Income Statement				
MONTE DEI PASCHI DI SIENA BANK	30 06 2022	30 06 2021	Change	
			Abs.	%
Net interest income	532.9	477.4	55.5	11.6%
Net fee and commission income	693.2	711.8	(18.6)	-2.6%
Income from banking activities	**1,226.1**	**1,189.2**	**36.9**	**3.1%**
Dividends, similar income and gains (losses) on investments	120.1	47.6	72.5	n.s.
Net profit (loss) from trading, the fair value measurement of assets/liabilities and Net gains (losses) on disposals/repurchases	84.5	155.4	(70.9)	-45.6%
Net profit (loss) from hedging	7.6	1.6	6.0	n.s.
Other operating income (expenses)	24.9	(5.0)	30.0	n.s.
Total Revenues	**1,463.2**	**1,388.7**	**74.5**	**5.4%**
Administrative expenses:	(948.2)	(955.8)	7.6	-0.8%
a) personnel expenses	(656.7)	(662.7)	6.0	-0.9%
b) other administrative expenses	(291.6)	(293.1)	1.6	-0.5%
Net value adjustments to property, plant and equipment and intangible assets	(34.9)	(39.8)	4.9	-12.3%
Operating expenses	**(983.1)**	**(995.6)**	**12.5**	**-1.3%**
Pre-Provision Operating Profit	**480.1**	**393.2**	**87.0**	**22.1%**
Cost of customer credit	**(195.5)**	**(156.1)**	**(39.4)**	**25.2%**
Net impairment (losses)/reversals on securities and loans to banks	**1.5**	**(0.4)**	**1.9**	**n.s.**
Net operating income	**286.2**	**236.7**	**49.5**	**20.9%**
Net provisions for risks and charges	(79.4)	(52.9)	(26.5)	50.1%
Other gains (losses) on equity investments	0.7	(3.1)	3.8	n.s.
Restructuring costs / One-off costs	(3.0)	(3.5)	0.4	-12.5%
Risks and charges associated to the SRF, DGS and similar schemes	(69.5)	(71.4)	1.9	-2.7%
DTA Fee	(26.8)	(27.1)	0.2	-0.9%
Net gains (losses) on property, plant and equipment and intangible assets measured at fair value	(9.4)	(26.0)	16.6	-63.8%
Gains (losses) on disposal of investments	0.3	11.0	(10.7)	-97.3%
Profit (Loss) for the period before tax	**99.0**	**63.7**	**35.2**	**55.3%**
Tax (expense)/recovery on income from continuing operations	(0.5)	67.4	(67.9)	n.s.
Profit (Loss) after tax	**98.5**	**131.1**	**(32.6)**	**-24.9%**
Profit (loss) for the period before PPA	**98.5**	**131.1**	**(32.6)**	**-24.9%**
PPA (Purchase Price Allocation)	(1.5)	(1.8)	0.3	-17.2%
Net profit (loss) for the period	**97.0**	**129.3**	**(32.3)**	**-25.0%**

Revenue trends

As at 30 June 2022, the Bank realised total Revenues of EUR 1,463 mln, up 5.4% compared to the same period of the previous year.

This trend is mainly attributable to the growth of the interest margin (EUR +56 million) and other operating income / expenses (EUR +30 million). Net fee and commission income, on the other hand, fell (EUR -19 million).

Net Interest Income amounted to **EUR 533 mln** as at 30 June 2022, up 11.6% compared to the same period of 2021. This growth was driven primarily by (i) 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; (ii) the positive effects of access to TLTRO III auctions, (iii) the lower cost incurred for the liquidity deposited at central banks, following the reduction in the relative volumes, and (iv) the lower cost of market funding, which benefitted from the maturity of some securities. It should be noted that the positive effects linked to access to the TLTRO III auctions relating to the first half of 2022 amounted to EUR 145 mln (EUR 128 mln in the first half of 2021 and the cost of liquidity deposited at central banks totalled EUR 48 mln (EUR 52 mln in the first half of 2021).

Items	30 06 2022	30 06 2021	Chg. Y/Y	
			Abs.	%
Loans to customers measured at amortised cost	546.2	519.9	26.3	5.1%
Loans to Banks measured at amortised cost	(0.8)	(4.9)	4.0	-82.7%
Loans to Central banks	97.3	76.2	21.2	27.8%
Government securities and other non-bank issuers at amortised cost	52.5	60.4	(7.9)	-13.1%
Securiries issued	(159.2)	(172.0)	12.8	-7.4%
Hedging derivatives	(31.8)	(28.9)	(2.9)	10.0%
Trading portfolios	1.3	2.8	(1.5)	-53.6%
Portfolios measured at fair value	2.1	1.5	0.6	40.0%
Financial assets measured at fair value through other comprehensive income	18.8	20.2	(1.4)	-6.9%
Other financial assets and liabilities	6.5	2.2	4.3	n.m.
Net interest income	**532.9**	**477.4**	**55.5**	**11.6%**
of which: interest income on impaired financial assets	*21.3*	*20.6*	*0.7*	*3.4%*

Net fee and commission income as at 30 June 2022, totalling EUR **693 mln, declined** compared to the same period of the previous year (-2.6%). The decrease is attributable to the higher market volatility, which led to lower income from asset management (-8.2%), mainly due to lower commissions on product placement. Income on protection and the securities service also fell, while *continuing* commissions increased. Fees and commissions from traditional banking services had recovered compared to the same period of the previous year (EUR +11 mln).

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Services / Values	30 06 2022	30 06 2021	Y / Y variation	
			abs.	%
Asset management commissions	**317.5**	**346.0**	**28,5**	**-8.2%**
Product placement	108.8	135.0	(26.3)	-19.4%
Continuing products	171.0	165.2	5.8	3.5%
Securities service	16.0	19.3	(3.2)	-16.9%
Protection	21.7	26.5	(4.8)	-18.0%
Commissions from traditional banking services	**403.3**	**392.1**	**11.2**	**2.9%**
Credit fees	160.5	164.9	(4.4)	-2.6%
Foreign service	31.4	24.7	6.7	27.3%
Commissions from services	211.4	202.5	8.9	4.4%
Other fee and commission income	**(27.7)**	**(26.3)**	**(1.6)**	**5.0%**
Net fee and commission income	**693.2**	**711.8**	**(18.8)**	**-2.6%**

Dividends, similar income and gains (losses) on equity investments amounted to *EUR 120 mln*, up EUR 73 mln compared to 30 June 2020, mainly due to the higher income collected in insurance equity investment in AXA associates.

Net profit (loss) from trading, *fair value* measurement of assets/liabilities and gains on disposal/repurchase at 30 June 2022 amounted to EUR 84 mln, a decrease compared to the values recorded in the same period of the previous year (EUR 155 mln) mainly due to lower gains on disposal of securities. The analysis of the main aggregates shows the following:

- **Net profit from *trading activities* equal to EUR +6 million,** a decrease of EUR 9 million compared to 30 June 2021 by means of the reduction in value of derivatives hedging *fair value option bond liabilities. Said reduction in value is offset by the benefit generated by the reduction in value of the corresponding hedged bond liabilities and recorded under the item "Net result of other assets / liabilities measured at* fair value as a balancing entry in the income statement".
- **Net result of other assets / liabilities measured at *fair value* in the income statement equal to EUR 34 million,** up compared to the previous year (equal to EUR +13 million) thanks to the capital gains recorded in particular on *UCITs* and the benefit generated by the reduction in the value of the bond liabilities which, as mentioned above, offsets the reduction in value recorded by the corresponding hedging derivatives and recognised in the item Net *trading income.*
- **Positive results from disposal / repurchase** (excluding customer loans at amortised cost) **of EUR 44 mln**, with a decrease of EUR 83 mln attributable to lower income on the sale of securities.

Items	30 06 2022	30 06 2021	Chg. Y/Y	
			Abs.	%
Financial assets held for trading	(0.2)	-	(0.2)	n.m.
Financial liabilities held for trading	-	-	-	n.m.
Exchange rate effects	4.8	5.8	(1.0)	-17.2%
Derivatives	1.4	8.7	(7.3)	-83.9%
Trading results	**6.0**	**14.5**	**(8.5)**	**-58.6%**
Net profit (loss) from other financial assets and liabilities measured at fair value through profit or loss	34.1	13.1	21.0	n.m.
Disposal / repurchase (excluding loans to customers measured at amortised cost)	44.4	127.8	(83.4)	-65.3%
Net profit (loss) from trading, the fair value measurement of assets/liabilities and Net gains (losses) on disposals/ repurchases	**84.5**	**155.4**	**(70.9)**	**-45.6%**

The following items are also included in Revenues:

- **Net profit (loss) from hedging** positive for **EUR +8 mln,** up compared to 30 June 2021 (EUR +2 mln);
- **Other operating income/expenses** for a positive EUR 25 mln improved compared to the result recorded in the first half of 2021 (EUR -5mln).

Operating expenses

At 30 June 2022, **Operating Expenses** amounted to EUR **983 million**, down by 1.3% compared to 30 June 2021. A closer look at the individual aggregates reveals the following:

- **Administrative expenses** came to **EUR 948 mln**, down by approximately EUR 8 mln from the same period of the previous year. A breakdown of the aggregate shows:
  - **Personnel expenses**, which amounted to **EUR 657 million**, decreased by 0.9% compared to 30 June 2021, benefiting from the decline in the workforce.
  - **Other administrative expenses** were equal to EUR 292 mln, down slightly compared with the same period of the previous year (0.5%).

- **Net value adjustments to property, plant and equipment and intangible assets** totalled EUR 35 mln as at 30 June 2022, a decrease of -12.3% compared to the same period of the previous year.

Type of transaction	30 06 2022	30 06 2021	Chg Y/Y	
			Abs.	%
Wages and salaries	(494.2)	(502.1)	7.9	-1.6%
Social-welfare charges	(134.9)	(136.9)	2.0	-1.5%
Other personnel expenses	(27.6)	(23.7)	(3.9)	16.4%
Personnel expenses	**(656.7)**	**(662.7)**	**6.0**	**-0.9%**
Taxes	(101.0)	(102.1)	1.1	-1.1%
Furnishing, real estate and security expenses	(35.5)	(35.2)	(0.3)	0.9%
General operating expenses	(85.5)	(87.6)	2.1	-2.4%
Information technology expenses	(8.5)	(7.5)	(1.0)	13.3%
Legal and professional expenses	(33.7)	(29.7)	(4.0)	13.5%
Indirect personnel costs	(2.2)	(2.2)	-	0.0%
Insurance	(9.6)	(23.4)	13.8	-59.0%
Advertising, sponsorship and promotions	(0.4)	(0.7)	0.3	-42.9%
Other	(114.8)	(116.9)	2.2	-1.8%
Expenses recovery	99.6	112.2	(12.6)	-11.2%
Other administrative expenses	**(291.6)**	**(293.1)**	**1.6**	**-0.5%**
Property, plant and equipment	(34.8)	(39.7)	4.9	-12.3%
Intangible assets	(0.1)	(0.1)	(0.0)	0.0%
Net value adjustments to property, plant and equipment and intangible assets	**(34.9)**	**(39.8)**	**4.9**	**-12.3%**
Operating expenses	**(983.1)**	**(995.6)**	**12.5**	**-1.3%**

As a result of these trends, the Bank's Gross Operating Income totalled EUR 480 mln (EUR 393 mln as at 30 June 2021).

Cost of customer credit

At 30 June 2022, the Bank recognised a **Cost of Customer Credit** equal to **EUR -195 mln**, an increase compared to the EUR 156 mln recorded in the same period of the previous year, mainly due to the adjustments related to the sale of impaired loans and, therefore, the use of sales scenarios in the estimation models.

As at 30 June 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 61 bps (36 bps as at 31 December 2021).

Items	30 06 2022	30 06 2021	Chg. Y/Y	
			Abs.	%
Loans to customers measured at amortised cost	(197.3)	(153.5)	(43.8)	28.5%
Modification gains/(losses)	1.1	(5.2)	6.3	n.m.
Gains/(losses) on disposal/repurchase of loans to customers measured at amortised cost	1.5	(0.2)	1.7	n.m.
Net change of Loans to customers mandatorily measured at fair value	5.4	(4.9)	10.3	n.m.
Net provisions for risks and charges on commitments and guarantees issued	(6.2)	7.7	(13.9)	n.m.
Cost of customer credit	**(195.5)**	**(156.1)**	**(39.4)**	**25.2%**

The Bank's **Net Operating Income** as at 30 June 2022 was positive and approximately equal to EUR 286 mln, against a positive value of EUR 237 mln reported in the same period of the previous year.

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

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

- **Net provisions for risks and charges** equal to **EUR -79 million** worsened compared to same period of the previous year (amounting to EUR -53 mln), mainly due to provisions for legal risk. The aggregate also include reversals of provisions due to the increase in discounting effect as a results of the interest rate dynamics recorded in the firs half of the year, and reversals of provisions due to the improvements in the risk profile of some liabilities.
- **Other Gains (losses) on equity investments** amounted to around EUR +1 mln, against a loss of EUR 3 mln as at 30 June 2021.
- **Restructuring charges /** ***One-off*** **charges,** equal to **EUR -3 mln**, essentially stable compared to the same period of the previous year.
- **Risks and charges associated with SRF, DGS and similar schemes**, amounting to **EUR -70 mln**, comprised of the contribution due from the Bank to the Single Resolution Fund (SRF), accounted for in the first quarter of 2022, compared to the balance of EUR -71 mln recorded in the same period of the previous year.
- **DTA fee**, amounting to **EUR -27 mln**. This amount, determined according to the criteria set forth in Decree-Law 59/2016, converted into Law no. 119 of 30 June 2016, represents the fee as at 30 June 2022 on DTA (*Deferred Tax Assets*) that can be converted into a tax credit, after the shares recovered from the subsidiaries (EUR -31 mln and EUR 5 mln, respectively).
- **Net gains (losses) on property, plant and equipment and intangible assets measured at fair value** equal to **EUR -9.4 mln** at 30 June 2022, entirely recorded in the second quarter of 2022. As at 30 June 2021, the aggregate was negative for EUR 26 mln.
- **Gains on disposal of investments,** essentially zero**.** At 30 June 2021, the aggregate was positive for EUR 11 mln following the sale of the properties.

Due to the trends highlighted above, the Bank's Profit before tax for the period was equal to EUR 99 mln, compared to a profit of EUR 64 mln recorded as at 30 June 2021.

Tax expense (recovery) on income from continuing operations provided a negative contribution of EUR 1 mln (EUR +67 mln as at 30 June 2021).

It should be noted that, in the valuation of the DTAs, the estimate of taxable income for future years was determined on the basis of the income projections used for the 2021 Financial Statements, with the exception of the expected result for 2022 which was updated as a result of the performance of the first half. The income projections used in the new 2022-2026 Business Plan, approved by the Board of Directors on 22 June, were not considered also in this phase, until the ECB authorisation process is finalised, and the capital increase is completed.

Considering the net effects of the PPA (EUR -1.5 mln), **Net Profit (loss) for the period** was equal to EUR 97.0 mln, against a profit of EUR 129 mln in the first half of 2021.

Reclassified balance sheet

The following table shows the reclassified balance sheet as at 30 June 2022 compared with the balances resulting from the financial statements as at 31 December 2021.

Reclassified Balance Sheet				
Assets	30 06 2022	31 12 2021	Chg	
			abs.	%
Cash and cash equivalents	2,674.4	3,020.5	(346.1)	-11.5%
Loans to central banks	17,273.4	20,454.8	(3,181.4)	-15.6%
Loans to banks	18,977.9	17,985.0	992.9	5.5%
Loans to customers	64,381.0	63,442.4	938.6	1.5%
Securities assets	14,080.0	15,187.0	(1,107.0)	-7.3%
Derivatives	1,415.5	616.4	799.1	n.m.
Equity investments	2,492.9	2,494.3	(1.4)	-0.1%
Property, plant and equipment/Intangible assets	2,320.1	2,378.2	(58.1)	-2.4%
Tax assets	1,202.1	1,204.4	(2.3)	-0.2%
Other assets	1,544.2	2,164.4	(620.2)	-28.7%
Total assets	**126,361.5**	**128,947.4**	**(2,585.9)**	**-2.0%**

Liabilities	30 06 2022	31 12 2021	Chg	
			abs.	%
Direct funding	78,550.4	81,041.5	(2,491.1)	*-3.1%*
a) Due to customers	69,235.1	70,758.9	(1,523.8)	-2.2%
b) Securities issued	9,315.3	10,282.6	(967.3)	*-9.4%*
Due to central banks	28,947.4	29,092.8	(145.4)	-0.5%
Due to banks	6,548.7	7,624.3	(1,075.6)	-14.1%
Derivatives	1,005.5	1,775.6	(770.1)	*-43.4%*
Provisions for specific use	1,753.1	1,737.1	16.0	0.9%
a) Provision for staff severance indemnities	137.4	153.8	(16.4)	-10.7%
b) Provision related to guarantees and other commitments given	145.6	141.2	4.4	3.1%
c) Pension and other post-retirement benefit obligations	22.2	26.8	(4.6)	-17.2%
d) Other provisions	1,447.9	1,415.3	32.6	2.3%
Other liabilities	4,544.9	2,649.5	1,895.4	71.5%
Net equity	5,011.6	5,026.6	(15.0)	-0.3%
a) Valuation reserves	57.4	168.4	(111.0)	-65.9%
d) Reserves	(4,337.9)	(4,487.8)	149.9	-3.3%
f) Share capital	9,195.0	9,195.0	-	-
h) Net profit (loss) for the period	97.0	151.0	(54.0)	-35.8%
Total Liabilities and Shareholders' Equity	**126,361.5**	**128,947.4**	**(2,585.9)**	**-2.0%**

Customer funding

As at 30 June 2022, the Bank's **Total Funding** volumes amounted to **EUR 166.3 bn**, with a decrease in volumes of EUR 13.1 bn compared to 31 December 2021, linked to the decrease in Direct Funding (EUR -2.5 bn) as well as Indirect Funding (EUR -10.6 bn).

Background

Following the outbreak of the conflict between Russia and Ukraine, there was an increase in the uncertainty linked to the worsening of the geopolitical and inflationary context; consequently, the deceleration trend of bank deposits held by the private sector, recorded between the end of 2021 and the beginning of the current year, stopped and in the first five months of 2022 deposits continued to grow steadily, with a trend close to 4-5% yoy (+ 4.6% yoy in May). In particular, for the production sector (non-financial companies and income-generating households), after the outbreak of the conflict the growth of deposits was accelerated (+ 8.1% yoy in May compared to + 4.3% in February), while for consumer households, deposits continued along the growth path already outlined, reaching almost EUR 1,180 bn in May (+ 1.3% compared to the year-end figure). With reference to types, trends in current account payables of resident customers are positive, while the deposits redeemable at notice were essentially stable; on the other hand, time deposits continued to fall and in May were marked by a decline of roughly -20% in the first two months of the year compared to the same period of 2021.
In the first five months of the year, bonds continued to contract while funding with the Eurosystem remained stable, in the absence of new auctions and with redemptions of the TLTROIIIs that will begin at the end of 2022.

In May, the interest rate on deposits of non-financial companies and households stood at around 0.31%, substantially stable compared to the figure at the beginning of the year: the rate on current accounts remained close to a minimum (0.02%) while that on deposits with a fixed term falls further to around 0.90%; the rise in the rate on redeemable at notice continues, reaching approximately 1.46% in May (+9 bps since last December). As regards bonds, the rate on balances was down slightly to approx. 1.72% from 1.76% at the end of 2021.

On managed savings, the overall balance of net deposits in the first five months of the year recorded a value of EUR +7.6 bn: after a positive first quarter (+10.9 bn), albeit decelerating compared to the last quarter in 2021, in the months of April and May, net inflows were negative (-3.3 bn), also following the greater uncertainty caused by the outbreak of the conflict in Ukraine. In particular, in the first five months of the year, the funds recorded a positive net balance of approx. 15.7 bn, while in portfolio management there are significant outflows of approx. -8 bn net (concentrated on institutional management, with net inflows of -12.6 bn, while retail management recorded a positive balance of +4.6 bn). At the category level, savers have focused their choices on equity funds (+14 bn) and balanced (+7 bn) funds in the face of substantial disinvestments on bond funds, with net inflows in this sector of approx. -11.2 bn. Total assets under management at the end of May amounted to EUR 2,394 bn compared to EUR 2,594 in December 2021, recording a decline of -7.7% also due to the decline in the markets. For the life insurance market, the first five months of the year saw a -14% drop in volumes of new business (equal to 40.2 mln, excluding PIPs) compared to the same period of the previous year: traditional products recorded a -20%, hybrid solutions a -2% (with a significant slowdown starting from March) and also the component with the highest financial content (the classic units) was affected by the consequences of the conflict in Ukraine and the uncertainty of the markets, recording a -25% decline compared to the same period of 2021. With reference to the channels for the placement of life insurance products, in the first five months of the year the financial advisors channel brokered a turnover that was -23% lower than in the same period of the previous year, while the banking and the agency channels fell by -11% and -12% yoy, respectively.

Customer Funding				
			Chg 31/12	
	30 06 2022	31 12 2021	Abs.	%
Direct funding	78,550.4	81,041.5	(2,491.1)	-3.1%
Indirect funding	87,748.9	98,388.0	(10,639.1)	-10.8%
Total funding	**166,299.3**	**179,429.5**	**(13,130.2)**	**-7.3%**

Direct Funding volumes were equal to EUR 78.6 bn, down by EUR 2.5 bn compared to the end of December 2021, with a decline in all technical forms. In particular, there was a decrease in current accounts (EUR -0.4 bn), time deposits (EUR -0.5 bn), Other forms of funding (EUR -0.6 bn) and bonds (EUR -1.0 bn), mainly due to the maturity of a covered bond.

The Bank's market share[18] on Direct Funding was 3.33% (figure updated in April 2022), up slightly compared to December 2021 (3.29%).

Direct funding				
Type of transaction	30 06 2022	31 12 2021	Change 31.12	
			Abs.	%
Current accounts	62,089.2	62,537.0	(447.8)	-0.7%
Time deposits	4,995.4	5,499.9	(504.5)	-9.2%
Bonds	9,315.2	10,282.6	(967.4)	-9.4%
Other types of direct funding	2,150.6	2,722.0	(571.4)	-21.0%
Total	**78,550.4**	**81,041.5**	**(2,491.1)**	**-3.1%**

Indirect Funding came to **EUR 87.8 bn**, a decrease of EUR 10.6 bn compared to 31 December 2021, due to the reduction in both the Assets under Management (EUR -5.7 bn) and Assets under Custody (EUR -5.0 bn) components, impacted by a negative market effect.

Indirect Funding				
	30 06 2022	31 12 2021	Change 31/12	
			Abs.	%
Assets under management	53,882.9	59,555.0	(5,672.1)	-9.5%
Funds	*23,068.8*	*26,155.0*	*(3,086.2)*	*-11.8%*
Wealth management	*4,773.9*	*5,318.0*	*(544.1)*	*-10.2%*
Bancassurance	*26,040.2*	*28,082.0*	*(2,041.8)*	*-7.3%*
Assets under custody	33,865.9	38,833.0	(4,967.1)	-12.8%
Government securities	*11,956.8*	*13,099.0*	*(1,142.2)*	*-8.7%*
Others	*21,909.1*	*25,734.0*	*(3,824.9)*	*-14.9%*
Total funding	**87,748.9**	**98,388.0**	**(10,639.1)**	**-10.8%**

[18] 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 30 June 2022, the Bank's **Loans to Customers** stood **at EUR 64.4 bn**, an increase of EUR 0.9 bn compared to 31 December 2021 mainly due to the growth of other loans (EUR +1.1 bn) and current accounts (EUR +0.4 bn). On the other hand, mortgages (EUR -0.4 bn) and non-performing loans (EUR -0.2 bn) were down slightly.

The market share[19] of the Bank stood at 3.63% (last available figure from April 2022), up 18 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 of more than +3.1% on a yearly basis in May, accelerating from the approx. +2.1% of last December. The increase in loans to non-financial companies, more contained in the first quarter of the year, showed a + 2.3% on a yearly basis in May. The abundant cash and cash equivalents accumulated during the pandemic years continue to affect business demand; the recourse to sources of financing that are alternative to the banking circuit is beginning to feel the effects of the tensions linked to the conflict. The liquidity position of the companies remains good, with the needs linked to the economic consequences of the war satisfied also by means of loans guaranteed by the state; the new measures to support access to credit launched by the government entail the possibility of requesting them until the end of 2022, in line with the new temporary aid framework defined at European level.

The expansion of household lending was confirmed as more lively, growing by more than 4% yoy in May. The context of high uncertainty and the higher cost of living led to a worsening of the confidence of households, which marginally decreased their spending, directing it to a greater extent towards consumption linked to the real estate market and restructuring; this demand, accompanied by a significant accumulation of savings, supported credit to households in particular for house purchases.

With regard to interest rates on the volumes of loans, there has been a slight recovery, more marked with regard to the stock of loans to non-financial companies (1.67% in May; +5 bps since December 2021) compared to households (2.65% in May, +1 bp since December). On new business transactions, the average rate rises by approx. 2 bps from the values marked at the end of 2021, reaching 1.2% in May. The rate on loans for the purchase of homes is progressively increasing on new household transactions, which stood at 1.92% in May (approximately +52 bps compared to December), reflecting the increase in the cost of fixed-rate mortgages and that on consumer credit, which exceeds 6.73%.

In the first five months of the year, the stock of bad loans in bank balance sheets to residents in Italy decreased by approximately 1.83 bn compared to the levels of last December, due to sales transactions which, at sector level, mainly concerned bad loans to businesses, especially those in the service and construction sectors. In terms of yearly trends, in May the reduction in bad loans to residents exceeded -16%: when including bad loans sold and derecognised, analogous to the loan adjustment methodology applied in the European Central Bank System (ECBS), the trend is on the rise instead (+2.5%).

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

Loans to customers				
Type of transaction	30 06 2022	31 12 2021	Change 31.12	
			Abs.	%
Current accounts	3,134.4	2,720.3	414.1	15.2%
Mortgages	50,321.4	50,744.2	(422.8)	-0.8%
Other forms of lending	9,462.7	8,361.6	1,101.1	13.2%
Non performing loans	1,462.5	1,616.3	(153.8)	-9.5%
Total	**64,381.0**	**63,442.4**	**938.6**	**1.5%**
Stage 1	*53,472.0*	*52,008.3*	*1,463.7*	*2.8%*
Stage 2	*9,263.8*	*9,692.6*	*(428.8)*	*-4.4%*
Stage 3	*1,460.3*	*1,605.1*	*(144.8)*	*-9.0%*
Purchased or originated credit impaired financial assets	*9.3*	*10.3*	*(1.0)*	*-9.7%*
Performing loans measured at fair value	*173.8*	*114.8*	*59.0*	*51.4%*
Non-performing loans measured at fair value	*1.8*	*11.0*	*(9.2)*	*-83.6%*

Loans to customers measured at amortised cost		Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired financial assets	**Total**
30 06 2022	Gross exposure	53,528.2	9,567.3	2,879.6	9.6	**65,984.7**
	Adjustments	56.2	303.5	1,419.3	0.3	**1,779.3**
	Net exposure	53,472.0	9,263.8	1,460.3	9.3	**64,205.4**
	Coverage ratio	*0.1%*	*3.2%*	*49.3%*	*3.1%*	***2.7%***
	% on Loans to customers measured at amortised cost	*83.3%*	*14.4%*	*2.3%*	*0.0%*	***100.0%***

Loans to customers measured at amortised cost		Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired financial assets	**Total**
31 12 2021	Gross exposure	52,068.5	9,976.9	2,883.1	19.0	**64,947.5**
	Adjustments	60.2	284.3	1,278.0	8.7	**1,631.2**
	Net exposure	52,008.3	9,692.6	1,605.1	10.3	**63,316.3**
	Coverage ratio	*0.1%*	*2.8%*	*44.3%*	*45.8%*	***2.5%***
	% on Loans to customers measured at amortised cost	*82.1%*	*15.3%*	*2.5%*	*0.0%*	***100.0%***

The gross exposure of loans classified as stage 1 was equal to EUR 53.5 bn, an increase compared to 31 December 2021 (EUR 52.1 bn).

Positions classified in stage 2, the gross exposure of which amounted to EUR 9.6 bn, were down slightly compared to EUR 10.0 bn as at 31 December 2021.

Compared to 31 December 2021, there is an increase in stage 1 that corresponds to a simultaneous decrease in stage 2 mainly due to the improvement in the creditworthiness of some counterparties subject to the moratorium during the pandemic period. Stage 3 slightly increased due to the rising *default* flows observed in June on a limited number of counterparties with significant exposure.

Non-performing exposures of loans to customers

The Bank's **total non-performing loans to customers** as at 30 June 2022 amounted to **EUR 2.9 bn** in terms of gross exposure, essentially in line with 31 December 2021 (EUR 2.9 bn). In particular,

- The gross exposure in terms of bad loans, amounting to EUR 1.2 bn, was essentially stable compared to 31 December 2021 (EUR 1.1 bn);
- the gross Unlikely to pay exposure, amounting to EUR 1.7 bn, was down slightly compared to 31 December 2021 (EUR 1.8 bn).
- the gross exposure of non-performing past due loans, equal to EUR 30.7 mln, is substantially stable compared to the EUR 30.1 mln of 31 December 2021.

As at 30 June 2022, the Bank's **net exposure in terms of non-performing loans to customers** was equal to **EUR 1.5 bn**, down slightly compared to 31 December 2021 (EUR 1.6 bn).

Loans to customers		Bad loans	Unlikely to pay	Non-performing Past due Loans	**Total Non-performing loans to customers**	Perfoming loams	**Total**
30 06 2022	Gross exposure	1,197.3	1,661.8	30.7	**2,889.8**	63,278.3	**66,168.1**
	Adjustments	799.9	620.3	7.1	**1,427.3**	359.8	**1,787.1**
	Net exposure	397.4	1,041.5	23.6	**1,462.5**	62,918.5	**64,381.0**
	Coverage ratio	*66.8%*	*37.3%*	*23.1%*	***49.4%***	*0.6%*	***2.7%***
	% on Loans to customers	*0.6%*	*1.6%*	*0.0%*	***2.3%***	*97.7%*	***100.0%***
31 12 2021	Gross exposure	1,112.2	1,786.1	30.1	**2,928.4**	62,169.4	**65,097.8**
	Adjustments	672.2	631.5	7.0	**1,310.7**	344.7	**1,655.4**
	Net exposure	440.0	1,154.6	23.1	**1,617.7**	61,824.7	**63,442.4**
	Coverage ratio	*60.4%*	*35.4%*	*23.3%*	***44.8%***	*0.6%*	***2.5%***
	% on Loans to customers	*0.7%*	*1.8%*	*0.0%*	***2.5%***	*97.5%*	***100.0%***

As at 30 June 2022, the **coverage ratio for non-performing loans** stood at 49.4%, up compared to 31 December 2021 (44.8%) as a result of the increase in the coverage ratio of bad loans (from 60.4% to 66.8%) and unlikely-to-pay positions (from 35.4% to 37.3%). The hedging percentage of non-performing past due loans was stable.

Other financial assets/liabilities

As at 30 June 2022 the Bank's **securities assets** amounted to **EUR 14.1 bn**, down compared to 31 December 2021 (EUR -1.1 bn) in relation to the decrease in the fair value component with an impact on overall profitability and of the amortized cost component.

Note that the market value of the securities in Loans to customers at amortised cost is EUR 7,395.2 mln (with implicit capital losses of around EUR 499.2 mln) and the market value of the securities in Loans to banks at amortised cost is EUR 913.2 mln (with implicit capital losses of roughly EUR 212.1 mln).

As at 30 June 2022, the **Net position in derivatives, a positive EUR 410 mln**, posted an improvement compared to 31 December 2021 (equal to EUR -1.2 bn).

Items	30 06 2022	31 12 2021	Chg. 31.12	
			Abs.	%
Securities assets	14,080.0	15,187.0	(1,107.0)	-7.3%
Financial assets held for trading	*0.2*	*0.3*	*(0.1)*	*-33.3%*
Financial assets mandatorily measured at fair value	*242.6*	*243.0*	*(0.4)*	*-0.2%*
Financial assets measured at fair value through other comprehensive income	*4,817.5*	*5,313.0*	*(495.5)*	*-9.3%*
Financial assets held for sale	*0.0*	*0.0*	*0.0*	*n.m.*
Loans to customers measured at amortised cost	*7,894.4*	*8,413.8*	*(519.4)*	*-6.2%*
Loans to banks measured at amortised cost	*1,125.3*	*1,216.9*	*(91.6)*	*-7.5%*
On-balance-sheet financial liabilities held for trading	0.0	0.0	0.0	n.m.
Net positions in Derivatives	409.9	(1,159.2)	1,569.1	n.m.
Other financial assets and liabilities	**14,489.9**	**14,027.8**	**462.1**	**3.3%**

Items	30 06 2022		31 12 2021	
	Securities assets	On-balance-sheet financial liabilities held for trading	Securities assets	On-balance-sheet financial liabilities held for trading
Debt securities	13,670.2	-	14,776.7	-
Equity instruments and Units of UCITS	409.9	-	410.3	-
Loans	-	-	-	(0.1)
Total	**14,080.1**	**-**	**15,187.0**	**(0.1)**

Interbank position

As at 30 June 2022, the **net interbank position** of the Bank stood at **EUR 0.8 bn** of net funding, against EUR 1.7 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.

Interbank balances				
			Change 31.12	
	30/06/22	31/12/21	Abs.	%
Loans to banks	18,977.9	17,985.0	992.9	5.5%
Deposits from banks	6,548.7	7,624.3	(1,075.6)	-14.1%
Net position with banks	**12,429.2**	**10,360.7**	**2,068.5**	**20.0%**
Loans to central banks	17,273.4	20,454.8	(3,181.4)	-15.6%
Deposits from central banks	28,947.4	29,092.8	(145.4)	-0.5%
Net position with central banks	**(11,674.0)**	**(8,638.0)**	**(3,036.0)**	**35.1%**
Net interbank position	**755.2**	**1,722.7**	**(967.5)**	**-56.2%**

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 30 June 2022 the nominal value of the total tax credits purchased amounted to EUR 460.5 mln, attributable for EUR 342.7 mln to purchases made in 2021 and for EUR 98.6 mln in 2022. Taking into account the receivables offset so far, totalling EUR 62.3 mln, the residual nominal amount as at 30 June 2022 came to EUR 398.2 mln. The corresponding carrying amount, recognised in the balance sheet item "120. "Other assets" at amortised cost, which takes into account the acquisition price and the net amounts accrued as at 30 June 2022, was EUR 356.3 mln.

It should also be noted that the Bank, as at 30 June 2022, received requests for the sale of these receivables for a total amount of approximately EUR 4.5 bn, currently under review/processing.

The total amount of receivables purchased, taking into account the transfer requests in progress, is in line with the estimate of the total tax capacity or the tax/contribution payments that the Bank plans to make and that are available for offsetting with the tax credits from "Building Bonuses".

Shareholders’ equity

As at 30 June 2022 the **Bank's shareholders' equity** amounted to approximately **EUR 5.0 bn,** substantially stable compared to 31 December 2021.

Reclassified Balance Sheet				
Equity	30 06 2022	31/12/21	Chg 31/12	
			Abs.	%
Net Equity	5,011.6	5,026.6	181.0	0.4%
a) Valuation reserves	57.4	168.4	(111.0)	-65.9%
d) Reserves	(4,337.9)	(4,487.8)	149.9	-3.3%
f) Share capital	9,195.0	9,195.0	-	n.m.
g) Treasury shares (-)	-	-	-	n.m.
h) Net profit (loss) for the period	97.0	151.0	(54.0)	-35.8%
Shareholders’ equity	**5,011.6**	**5,026.6**	**(15.0)**	**-0.3%**

Information on Equity items under art. 2427 par. 7 bis of the Italian Civil Code

		Note	30 06 2022	Under tax suspension	Available for use	Amounts used in the last 5 years to cover losses
	Equity instruments measured at fair value through other comprehensive income		(12.1)			
	Financial assets (other than equity instruments) measured at fair value through other comprehensive income		(75.2)			
	Cash flow Hedges	(1)	25.7			
110 Valuation reserves	Exchange differences	(1)	5.0			
	Actuarial gains (losses) on defined benefit plans		(46.2)			
	Valuation reserve of own credit risk	(1)	17.1			
	Valuation reserve on property, plant and equipment	(1)	143.0			
	Valuation reserves		**57.4**			
130 Equity Instruments	**Equity instruments**		**-**			
	- Merger surplus reserve		130.6		ABC	
	- MPSCS spin-off minus reserve		(26.3)			
	- Adjustment AMCO spin-off reserve		196.2		ABC	
	- Other reserves (recirculation of reserves from valuation/FTA, aucap costs and other)		(290.3)			
140 Reserve	- Profit (loss) carried forward		(4,348.0)			
	Loss for 2020	(2)	*(1,882.7)*			
	Loss for 2019		*(1,174.5)*			
	Loss for 2018		*(111.9)*			
	Loss for 2017		*(200.4)*			
	Reserves from FTA IFRS 9 and IFRS 15		*(978.4)*			
	Reserve		**(4,337.9)**			
150 Share premium reserve	**Share premium reserve**					
160. Share capital	**Share capital**		**9,195.0**			**5,364.2**
170. Treasury shares	**Treasury shares**					
180. Profit (Loss) for the period	**Profit (Loss) for the period**		**97.0**			
Total shareholders' equity			**5,011.6**			**5,364.2**

Key:

A) For capital increase
B) To cover loses
C) For distribution to shareholder

Notes:

1) The reserve is unavailable pursuant to art. 6 of Italian Legislative Decree no. 38/2005;

2) The loss recorded in 2020 is subject to the special suspension regime envisaged by art. 6 of the Liquidity Decree-Law, which has postponed to the fifth subsequent year the deadline to adopt, in case of significant losses, the capital reduction and

recapitalisation measures required by art. 2446 and 2447 of the Italian Civil Code as well as the effectiveness of the corresponding winding-up proceedings.

As at 30 June 2022, the Bank must reconstitute the reserve under art. 6 par. 1 letter a) of Italian Legislative Decree no. 38/2005 for an amount of EUR 16.6 mln.
Finally, please note that due to the loss recorded as at 31 December 2020 of EUR 1.9 bn, the Bank is now in the situation envisaged in art. 2446 of the Italian Civil Code. The Board of Directors of the Parent Company on 4 August resolved to call the Extraordinary Shareholders' Meeting for 15 September next, called, among other things, to resolve on the measures to strengthen the Parent Company's capital by means of a share capital increase for an amount of EUR 2.5 bn and on the decisions referred to in article 2446, paragraph 2 of the Civil Code, relating to the reduction of the share capital.

Capital adequacy

Regulatory capital and statutory requirements

Pursuant to art. 92 of the CRR, banks must comply with the following requirements regarding Own Funds:

(i) CET1 (Common Equity Tier 1 Ratio) of at least 4.5% of the total amount of the risk exposure;
(ii) Tier 1 Ratio of at least 6% of the total amount of the risk exposure;
(iii) Total Capital Ratio of at least 8% of the total amount of the risk exposure; and
(iv) a leverage ratio of 3%;

In addition to the aforementioned regulatory minimum requirements, banks must meet the Combined Capital Reserve Requirement, envisaged by CRD IV, which is equal to the requirement relating to the sum of the following reserves ("buffer"), where applicable:

- the Capital Conservation Buffer, equal to 2.5% starting from 1 January 2019;
- the bank's specific Countercyclical Capital Buffer to be applied in periods of excessive credit growth,
- the capital reserve for Global Systemically Important Institutions (G-SII), which does not include the MPS Group;
- the capital reserve for Other systemically important institutions (**O-SII**), including the MPS Group which, starting from 1 January 2022, is required to comply the O-SII Buffer equal to 0.25% having also been identified for 2022 by the Bank of Italy as an institution with national systemic importance authorized in Italy;
- the systemic risk buffer.

At individual level, the Capital Conservation Buffer equal to 2.5% and the Countercyclical Capital Buffer[20] equal to 0.001% are applied to the Bank.

As at 30 June 2022, accordingly, the Bank must meet the following requirements at individual level:

• CET1 Ratio of 7.00%;

• Tier1 Ratio of 8.50%;

• Total Capital Ratio of 10.50%.

Regarding the Supervisory Review and Evaluation Process (SREP), with the submission on 2 February 2022 of the 2021 SREP Decision, the ECB asked the Parent Company to maintain, effective from 1 March 2022, a consolidated Total SREP Capital Requirement (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.

Accordingly, the Group must meet the following requirements at the consolidated level as at 30 June 2022:

• CET1 Ratio of 8.80%;

• Tier 1 Ratio of 10.81%;

• Total Capital Ratio of 13.50%.

[20] Calculated considering the exposure as at 30 June 2022 in the various countries in which the Bank operates and the requirements established by the competent national authorities.

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[21].

As at 30 June 2022, the Bank's capital on an individual transitional basis was as shown in the following table:

Categories / Values	30 06 2022	31 12 2021	Chg. 31 12 2021	
			Abs.	%
OWN FUNDS				
Common Equity Tier 1 (CET1)	4,923.8	5,286.4	(362.6)	-6.86%
Tier 1 (T1)	4,923.8	5,286.4	(362.6)	-6.86%
Tier 2 (T2)	1,770.5	1,726.1	44.4	2.57%
Total capital (TC)	6,694.3	7,012.5	(318.2)	-4.54%
RISK-WEIGHTED ASSETS				
Credit and Counterparty Risk	27,794.8	27,378.3	416.5	1.52%
Credit valuation adjustment risk	176.1	206.4	(30.3)	-14.68%
Market risks	65.1	71.7	(6.6)	-9.21%
Operational risk	9,958.6	9,856.9	101.7	1.03%
Total risk-weighted assets	**37,994.6**	**37,513.3**	**481.3**	**1.28%**
CAPITAL RATIOS				
CET1 capital ratio	**12.96%**	**14.09%**	**-1.13%**	
Tier1 capital ratio	**12.96%**	**14.09%**	**-1.13%**	
Total capital ratio	**17.62%**	**18.69%**	**-1.07%**	

Compared to 31 December 2021, CET1 decreased by a total of EUR -363 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 -110 mln, due in particular to the decline in valuation reserves of debt securities;
- increase in deductions related to prudential filters, DTAs and the insufficient cover for the non-performing loans (EUR -25 mln), in addition to the increase in non-deductible deductions relating to significant financial investments and DTAs (EUR -23 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 -254 mln, attributable to the transition of the filter from 50% to 25%;
- increase of EUR +40 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, attributable to the decrease in the balance of the Reserve despite 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 +12 mln).

Tier 2 rose by EUR +44 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 -318 mln.

RWAs increased (EUR +481 mln), mainly due to the credit and counterparty risk component. In particular, there is an increase of EUR +416 mln in the AIRB credit risk area and EUR 92 mln on the standard. Other risks were

[21] Calculated considering the exposure as at 30 June 2022 in the various countries in which MPS Group operates and the requirements established by the competent national authorities.

basically stable with respect to December 2021: CVA risk (EUR -30 mln), market risks (EUR -7 mln) and operational risk (EUR +102 mln).

As at 30 June 2022, the Bank had a leverage ratio of 4.37% above the regulatory minimum of 3% on a transitional basis.

MREL Capacity

Pursuant to Article 45 of Directive 2014/59/EU, as amended, banks must at all times respect a minimum requirement for own funds and eligible liabilities (MREL) in order to ensure that, in the event of application of the bail-in, they have sufficient liabilities to absorb losses and to ensure compliance with the Tier 1 Capital requirement envisaged for authorisation to carry out banking activities, as well as to generate sufficient trust in the market.

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 Bank will need to respect, on a consolidated basis, an MREL of 23.32% in terms of TREA, 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 Bank has no MREL requirements to be fulfilled on an individual basis.

Starting from 1 January 2022, during the transition period, the Bank needs 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) is added, and 6.22% in terms of LRE (intermediate MREL requirement). In addition, there are subordinated MREL requirements ("MREL subordination requirement"), 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.

At 30 June 2022 the Bank, on a consolidated basis, had a temporary breach attributable to the postponement of the execution of the capital strengthening transaction to 2022 and to the absence of eligible MREL issue during 2021.

As a result of the above-mentioned breach:

- the Bank 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 and, therefore, as of that date, the Bank and its subsidiaries have suspended this operation;
- the Bank was prohibited by Single Resolution Board Decision of 2 May 2022:
    - i) to distribute CET1 (dividends);
    - ii) to pay coupons on AT1 instruments;
    - iii) to assume 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 "M-MDA" (or the maximum distributable amount in relation to the MREL) limit.

This breach will be remedied with the execution of the capital increase set forth in the 2022-2026 Business Plan. In this regard, please note that the Group's funding strategies aim, inter alia, to guarantee - as concerns public bond issue plans - 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 pending completion of the 2022-2026 Business Plan authorisation processes, currently underway with ECB.

Disclosure on Fair Value

Qualitative information

Financial assets and liabilities measured at fair value on a recurring basis:

The methodologies used to calculate fair values have not changed compared to 2021 and therefore reference should be made, for a comprehensive reading, to the information provided in section A.4 "Disclosure on Fair Value" of the Explanatory Notes at 31 December 2021.

Asset and liabilities measured at fair value	30 06 2022				31 12 2021			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
1. Financial assets measured at fair value through profit or loss of which:	0.2	741.6	369.3	1,111.1	0.3	690.4	290.0	980.7
a) Financiale asset held for trading	0.1	692.9	-	693.0	0.1	611.7	-	611.8
c) Other financial assets mandatorily measured at fair value	0.1	48.7	369.3	418.1	0.2	78.7	290.0	368.9
2. Financial assets measured at fair value through other comprehensive income	4,046.8	545.9	224.8	4,817.5	4,503.3	582.9	226.8	5,313.0
3. Hedging derivatives	-	722.7	-	722.7	-	4.8	-	4.8
4. Property, plant and equipment	-	-	1,854.4	1,854.4	-	-	1,896.0	1,896.0
Total assets	**4,047.0**	**2,010.2**	**2,448.5**	**8,505.7**	**4,503.6**	**1,278.1**	**2,412.8**	**8,194.5**
1. Financial liabilities held for trading	-	633.8	-	633.8	-	517.0	-	517.0
2. Financial liabilities designated at fair value	-	129.3	-	129.3	-	145.3	-	145.3
3. Hedging derivatives	-	371.8	-	371.8	-	1,258.6	-	1,258.6
Total liabilities	**-**	**1,134.9**	**-**	**1,134.9**	**-**	**1,920.9**	**-**	**1,920.9**

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

Compared to the classification as at 31 December 2021, as at 30 June 2022 there was a deterioration in the fair value of some financial assets, particularly bonds for more than EUR 4 mln, from level 1 to level 2. This change in level was essentially due to worsening of the liquidity conditions of the securities (measured in terms of bid-ask spread of the listed price), leading to the level transfer, in accordance with the Group's policy on the valuation of financial instruments.

Compared to the classification as at 31 December 2021, as at 30 June 2022 no financial instrument owned by the Bank was reclassified from level 1 to level 2 of the *fair value level.*

As for OTC derivatives, in compliance with IFRS 13, the Bank calculates adjustments to values, obtained through valuation models using risk-free interest rates, to take account of the creditworthiness of the individual counterparty. This risk measure, known as Credit Value Adjustment (CVA), is estimated for all positions in OTC derivatives with non-collateralized institutional and commercial counterparties and with counterparties having a Credit Support Annex (CSA) not in line with market standards. The methodology is based on the calculation of expected operational loss linked to counterparty rating and estimated on a position's duration. The exposure includes future credit variations represented by add-ons.

Market-consistent probability measurements are employed in the calculation of CVAs in order to gauge market expectations resulting from CDS, also taking into consideration the historical information available within the Bank. As at 30 June 2022 the change for the correction of CVA had a negative value of approx. EUR 2.7 mln.

The Group calculates the value adjustment of OTC derivatives in a mirror image fashion and on the same perimeter to take into account its creditworthiness, Debit Value Adjustment (DVA). At 30 June 2022, the DVA was positive and equal to a total of EUR 24.3 mln.

Annual changes in financial assets measured at fair value on a recurring basis (level 3)

30 06 2022

	Financial assets measured at fair value through profit or loss		Financial assets measured at fair value through other comprehensive income	Property, plant and equipment
	Total	of whichi: c) Other financial assets mandatorily measured at fair value		
1. Opening balances	**290.0**	**290.0**	**226.8**	**1,896.0**
2. Increases	**103.1**	**103.1**	**0.1**	**10.0**
2.1 Purchase	-	-	-	-
2.2 Profits charged to:	15.0	15.0	-	7.2
2.2.1 Income statement	15.0	15.0	-	7.2
- of which capital gains	15.0	15.0	-	7.2
2.2.2 Equity	-	-	-	-
2.3 Transfers from other levels	31.7	31.7	-	-
2.4 Other increases	56.4	56.4	0.1	2.8
3. Decreases	**24.0**	**24.0**	**2.2**	**51.7**
3.1 Sales	-	-	0.3	1.0
3.2 Repayments	10.8	10.8	-	-
3.3 Losses charged to:	11.7	11.7	1.9	36.1
3.3.1 Income statement	11.7	11.7	-	16.0
- of which capital losses	11.7	11.7	-	16.0
3.3.2 Equity	-	-	1.9	20.0
3.4 Transfers to other levels	-	-	-	-
3.5 Other decreases	1.5	1.5	-	14.6
4. Closing balance	**369.1**	**369.1**	**224.7**	**1,854.3**

The most significant amounts reported in the column "Other financial assets mandatorily measured at fair value"

- "2.3 Transfers from other levels": the amount of EUR 31.7 mln refers entirely to the mezzanine tranche of the securitization of a portfolio of bad loans of the Bank that is downgraded from level 2 to level 3 as part of the fair value hierarchy envisaged by IFRS 13;
- "2.4 Other increases": the amount of EUR 56.4 mln refers for EUR 54.3 mln to positions that during the year were reclassified from the loan portfolio at amortised cost to the portfolio of other assets measured at fair value as per mandatory requirements due to substantial changes not consistent with the SPPI test, as well as new disbursements.

For property, plant and equipment, the other decreases equal to EUR 14.6 mln mainly refer to the depreciation relating to properties classified as IAS 16.

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

The table in question has not been completed as the Bank has no financial liabilities measured at *fair value* on a recurring basis both for the reference period and for the year 2021.

Information on "day one profit/loss"

The Bank did not recognise "day one profits/losses" on financial instruments pursuant to B.5.1.2A of IFRS 9; therefore, no disclosure is provided pursuant to paragraph 28 of IFRS 7 and other related IAS/IFRS paragraphs.

Fair value levels 2 and 3: measurement techniques and inputs used

The following tables show, respectively, for Level 2 and 3 financial instruments, the accounting portfolio, a summary of the types of instruments in use at the Bank, and evidence of the related valuation techniques and the inputs used.

Items	Fair value Level 2 30 06 2022							Type	Valuation technique(s)	Inputs used
	Financial assets held for trading	Other Financial assets mandatorily measured at fair value	Financial assets measured at fair value through other comprehensive income	Hedging deivatives	Financial liabilities held for trading	Financial liabilities designated at fair value	Hedging deivatives			
Debt securities	-	-	516.5	X	-	129.3	X	Bonds	Discounted Cash Flow	Interest rate curve, CDS curve, Basi(yield), Inflation Curves
								Structured bonds	Discounted Cash Flow	Interest rate curve, CDS curve, Basi(yield), Inflation Curves + inputs necessary to measure optional component
								Bonds/Notes	Market price	Market price
Equity instruments	0.1	-	29.4	X	X	X	X	Share/Equity Instruments	Market price	Market price, recent transactions, appraisals, manager reports
								Equity Instruments	Discount cash flow	Share price, beta sector, free risk rate
								Equity Instruments	Net asset adjusted	Carring Amount Asset/Liabilities
Units of UCITS	-	48.7	X	X	X	X	X	Funds/PE	Nav Investor report	Management report, technical data sheet of assets held in portfolio
Financial Derivatives	690.9	X	X	722.7	631.9	X	371.8	IR/Asset/Currency Swaps	Discounted Cash Flow	Interest rate curve, CDS Curve, Basi(yield), Inflation Curve, Foreign exchange rates and correlation
								Equity swaps	Discounted Cash Flow	Share price, Interest rate curve, Foreing exchange rates
								Forex Singlename Plain	Option Pricing Model	Interest rate curve, Foreing exchange rates, Forex volatility
								Forex Singlename Exotic	Option Pricing Model	Interest rate curve, Foreing exchange rates, Forex volatility (Surface)
								Equity Singlename Plain	Option Pricing Model	Interest rate curve, share price, foreign exchange rates, Equity volatility
								Equity Singlename Exotic	Option Pricing Model	Interest rate curve, share price, foreign exchange rates, Equity volatility (Surface), Model imputs
								Equity Multiname Plain	Option Pricing Model	Interest rate curve, share price, foreign exchange rates, Equity volatility, Quanto correlation, Equity/Equity correlation
								Equity Multiname Exotic	Option Pricing Model	Interest rate curve, share price, foreign exchange rates, Equity volatility (surface), Model inputs, Quanto correlation, Equity/Equity correlatio
								Plain Rate	Option Pricing Model	Interest rate curve, inflation curves,bond prices,foreign exchange rates, Rate volatility, rate correlations
								Spot-Forward	Market price*	Market price, Swap Point
Credit Derivatives	1.9	X	X	-	1.9	X	-	Default swaps	Discounted Cash Flow	CDS curves, Interest rate curve
Total assets	692.9	48.7	545.9	722.7	X	X	X			
Total liabilities	X	X	X	X	633.8	129.3	371.8			

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

Items	Fair value 30 06 2022			Type	Valuation techinque(s)	Unobservable inputs	Range (weighted average)
	Other Finacial assets mandatorily measured at fair value	Financial assets measured at fair value through other comprehensive income	Financial liabilities held for trading				
Debt securities	87.1	-	-	Junior Tranche NPL Securitization	Discounted Cash Flow	Discount rate	10,10%-17,12%
				Notes	Credit Model	Fair value asset	0-23,1 €/mln
Equity instruments	0.9	224.8	X	Equity instruments	External Pricing	Cet1 target, Cost of Equity, Growth rate	12,1%; 10,9%; 1,8%
				Equity investments	Discounted Cash Flow	Liquidity base/Equity/Growth rate	20%/8%/0.4
				Equity investemts	Cost/Net equity	Fair value asset	0-12,4 €/mln
Loans	175.5	-	-	Loans	Discounted Cash Flow	NPE SPREAD	1.92% - 2.13%
				Loans	Discounted Cash Flow	LGD	0.17% - 65.37%
				Loans	Discounted Cash Flow	PD	0.09% - 31.63%
				Loans	Discounted Cash Flow	PE SPREAD	0.04% - 1.50%
Units of UCITS	105.8	X	X	Closed-end Fund	External pricing	Fair value asset	9 €/mln
				Real estate closed-end Fund	External pricing	Fair value asset	0,3 €/mln
				Alternative Investments Fund	Discounted Cash Flow	Discount rate	7,81%-10,91%
Total Assets	369.3	224.8	X				
Total liabilities	X	X	-				

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

The column "Other financial assets mandatorily measured at fair value" in the category "Debt securities" measured with the Discounted Cash Flow method includes EUR 30.6 mln referring to the notes of the "Norma" multioriginator securitisation, measured with the Discounted Cash Flow method. The change in the discount rate (+/-1%) and forecasted distributions (+/-10%) would result in the following range of values: EUR 26.8 – 33.8 mln.

Finally, the same category includes EUR 27.3 mln referring to some equity instruments acquired by the Bank under credit restructuring agreements for which the sensitivity analysis was not carried out as the unit value of the individual exposures is below the minimum materiality threshold established by the Bank.

The "Other financial assets mandatorily measured at fair value" column also includes loans (EUR 175.5 mln) that are mandatorily measured at fair value. The unobservable parameters are Probability of Default (PD), Loss Given Default (LGD) and the different spreads for performing and non-performing assets. The change in these parameters, by 10%, 5%, 1%, and 1%, respectively, would have an impact on fair value of approximately EUR -9.1 mln.

The majority of the UCITS units refers, for EUR 96.5 mln, to units of funds received in exchange for the sale of non-performing loans (Back2bonis, IDEA CCR I, II and Nuova Finanza, Efesto, Clessidra). The change in the discount rate (+/-1%) and forecasted distributions (+/-10%) would result in the following range of values: EUR 84.5 – 109.2 mln. The category of units of UCITS also contains the total of contributions, made from June 2016, to the Italia Recovery Fund (formerly Atlante due) for a book value of EUR 8.9 mln. The position is valued based on the latest available NAV.

The "Financial assets measured at fair value through other comprehensive income" accounting portfolio includes the shareholding in Bank of Italy (EUR 187.5 mln), measured using the Discounted Cash Flow method. The shareholding was measured with the methodology identified by the Committee of Experts in the document "Revaluation of shareholdings in the Bank of Italy". This document not only details the valuation techniques adopted to reach the end result, but identified the following entity-specific parameters: the market beta, equity risk premium, and the cash flow base. The valuation of that equity investment is also confirmed in market transactions carried out in recent years by certain banks. The range of possible values that can be assigned to these parameters cause the following changes in value: roughly EUR -14 mln for every 100 bps increase in the equity risk premium, roughly EUR -24 mln for every 10 pp increase in the market beta, and roughly EUR -21 mln for every 10 pp increase in the cash flow base.

This category also includes equity securities representing all investments designated at fair value that could not be measured according to a market-based model. These positions amount to approximately EUR 37.3 mln.

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

Financial asset/liabilities not measured at fair value or measured at fair value on a non -recurring basis	30 06 2022		31 12 2021	
	Book value	Total Fair value	Book value	Total Fair value
1. Financial assets measured at amortised cost	109,261.9	108,022.8	111,382.9	115,077.2
3. Non-current assets held for sale and disposal groups	279.6	65.0	72.3	68.2
Total Assets	**109,541.5**	**108,087.8**	**111,455.2**	**115,145.4**
1. Financial liabilities measured at amortised costs	113,917.2	113,295.5	117,613.2	117,651.6
Total Liabilities	**113,917.2**	**113,295.5**	**117,613.2**	**117,651.6**

With reference to financial assets measured at amortised cost, it should be noted that the gap between fair value and book value as at 30 June 2022, lower than at 31 December 2021, is mainly due to the trend in market interest rates.

With reference to par. 93 letter (i) of IFRS 13, the Bank does not hold any non-financial assets measured at fair value whose current use does not represent its best possible use.

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

Disclosure on risks

Risk Governance

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

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

For 2022, in March, the Banks' Board of Directors approved the "Group Risk Appetite Statement 2022" (RAS 2022) for the Montepaschi Group and its breakdown by Legal Entity/Business Unit. Subsequently in June, following the approval of the 2022-2026 Business Plan, the Board updated the New 2022 RAS in July.

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

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

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

The Montepaschi Group is one of the Italian banks subject to the ECB's Single Supervisory Mechanism. In the first half of 2022, the Group has continued to actively support interaction with the ECB-Bank of Italy Joint Supervisory Team (JST).

For additional information, see the Consolidated Report on Operations as at 31 December 2021, available in the Investor Relations section on the website www.mps.it.

Internal Capital

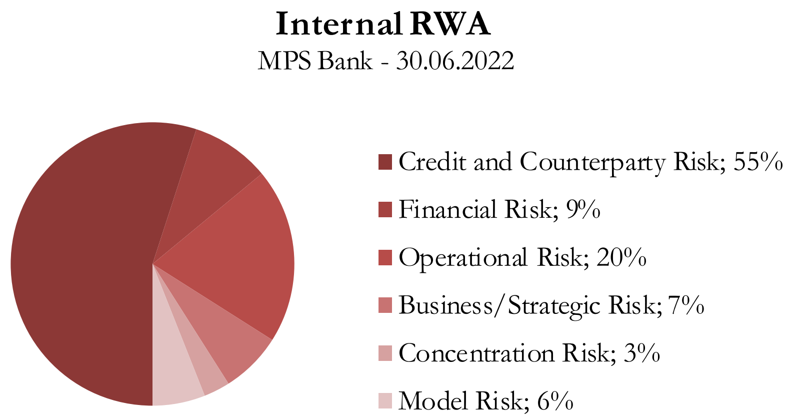
Risk assessment models

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

With regard to the methods used to measure Internal Capital, compared to what is noted in the Explanatory Notes to the 2021 Consolidated Financial Statements, there are no significant methodological changes to report. The approach used to quantify the risks-to-capital, to which the Group is exposed, is the one referred to in the literature as Pillar 1 Plus. This approach envisages that the Pillar 1 requirements for Credit and Counterparty Risk (which already include those relating to Issuer Risk on the Banking Book, Equity Investment Risk and Real Estate Risk) and Operational Risk, be increased by the requirements from internal models relating to Market Risks, both Trading Book and Banking Book, Banking Book Interest Rate Risk (Financial Risks), Concentration Risk, Business/Strategic Risk and Model Risk.

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

Risk exposure



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

Main risks and uncertainties

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

The most significant risks and uncertainties, at the date of this half-yearly report, 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.

At the moment, it cannot be excluded that unforeseeable circumstances and elements may emerge that could affect the authorisation process (the one of ECB is still ongoing) and also the process of capital strengthening of the Parent Company; moreover, even in the presence of the authorisation by the Authority, there is no guarantee that the capital increase can be started and fully subscribed.

Credit risk

Lending activity represents the Bank's core business and the main risk component, representing approximately 50% of the Bank'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 Bank's customers to meet their obligations and hence cause a significant deterioration in the credit quality of the Bank, with possible negative effects on activities and the financial situation of the Bank.

In this context, in 2022 the Bank 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.

Operational risk

Exposure to operational risk is confirmed as highly significant. Particularly significant issue with prospects not yet fully outlined include disputes, mediation's requests and out-of-court claims pending in relation to the share capital increases for the period 2008-2015, as well as the burden sharing carried out in 2017 at the time of the precautionary recapitalisation.

Other important components for the purposes of exposure to operational risk are cyber security risk and IT risk, also due to the extension of the use of web collaboration and smart working tools. However, it is believed that these potential risks can be mitigated in light of the numerous initiatives adopted, such as the strengthening of the access authentication system.

Business and strategic risk

The context connected to the COVID-19 pandemic and the ongoing conflict in Ukraine, with the related repercussions on the international and domestic economic cycle, inevitably impacted the *business* dynamics of the Bank in the course of 2021 and in the first half of 2022. A war whose resolution does not appear on the horizon and which contributes to maintaining high tensions on the prices of energy goods, feeds the risk of economic and market dynamics still characterized by high degrees of uncertainty; moreover, despite the absence of a state of emergency and despite the high vaccination coverage, the recent spread of new variants of COVID-19 raises uncertainties on the methods of coexisting with the virus.

From a strategic point of view, on 22 June 2022, the Bank's Board of Directors approved the 2022-2026 Business Plan: "A Clear and Simple Commercial Bank" (see paragraph "2022-2026 Business Plan" to which reference is made for the details).

The implementation of the Business Plan is based on the completion of the capital increase of EUR 2.5 bn to be submitted for the approval of an Extraordinary Shareholders' Meeting called on 15 September 2022. The Bank's Business Plan is also based on the support previously expressed by the Ministry of Economy and Finance, the controlling shareholder, in compliance with national and European regulations, to support the capital initiatives that the Bank will undertake to strengthen capital in the part of the Plan, for the share of its competence, at market conditions and in compliance with the provisions that may be established by the supervisory and control Authorities. In particular, the objectives and fundamentals of the Plan take into account the forthcoming review of the commitments between the Italian Republic and the European Commission relating to the Bank.

Finally, the 2022-2026 Business Plan is based on general and hypothetical assumptions of realization of a set of future events and actions to be taken by the directors, subject to risks and uncertainties characterizing the current macroeconomic scenario, relating to future events and actions of the directors that will not necessarily occur and events and actions on which the directors and *management* cannot influence or affect only in part.

Funding risk and liquidity risk

In general, during the first half of 2022, the Bank's liquidity profile remained at very strong levels.

With regard to *funding risk*, the sustainability of the funding profile (understood as the ability to finance banking activities with stable resources) remains high, as evidenced by the levels of medium / long-term liquidity indicators.

With reference to short-term liquidity risk, after having experienced, in the past, phases of stress on liquidity, the Bank has maintained short-term liquidity indicators at very high levels in recent years.

Due to its specific nature, despite the demonstrated capital strength, liquidity risk generally continues to be high as "fast-moving", sudden systematic or idiosyncratic crises may develop, with immediate and strong repercussions on both customer behaviour and market access.

Other risks

Risks linked to regulatory stress-test exercises

As part of its prudential supervisory activities, the ECB in cooperation with EBA and other relevant Supervisory Authorities, periodically conducts stress-test on supervised banks, in order to verify the resilience of the banks against baseline and stressed macroeconomic scenarios. The impact of these exercises depends by the assessment methodologies, by the stress scenarios and by the outcome of quality assurance activities used as reference by the Supervisory Authority. The EBA has announced that the next EU-wide stress-test will be conducted in 2023 and, on 21 July 2022 has published EU-wide its draft methodology, models and guidelines for 2023 stress test models.

The Bank is subjected to the exercise and is therefore exposed to the uncertainties deriving from the results of the exercise, consisting in the possibility of incurring in a potential worsening of the capital requirements to be met, if the results show a particular vulnerability of the Group to the stress scenarios envisaged by the aforementioned Supervisory Authorities.

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 the first half of 2022, as at 30 June 2022 the Bank 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 "MREL capacity" above.

Risks associated with audits by Supervisory Authorities

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

Reputational risk

The reputational profile of the Bank continues to highlight certain weaknesses linked to media exposure. The main factors are linked to the outcome of some pending proceedings on past events, on which there are still rulings in favour of the Bank, and the closure of some disputes of particular relevance, and to the outcome of the ongoing discussions to authorise the Italian State to stay in the capital of the Bank. It cannot be excluded that, despite the mitigation measures implemented, the Bank may in the future suffer pressure on its risk situation in relation to the results of the process for the authorization of the 2022-2026 Strategic Plan, currently ongoing at the ECB.

Risk linked to representations and warranties given in the sales of non-performing loans

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

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

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

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

In any event, the damage subject to compensation can never exceed the price paid for the acquisition of the defective loan plus any expenses incurred and an interest component at a rate set forth in the contract and in any case at overall level a maximum amount (cap) is established beyond which the Transferors are not required to provide any compensation even in the presence of confirmed violations. The cap is generically determined as a percentage of the price paid for a specific portfolio; in particular, for the sale to Siena NPL, already mentioned, it was equal to 28%. The R&W released expired on 31 July 2021. However, there is still a risk in that, at the date of drafting this half-yearly financial report, there is a significant divergence between the counterparty's claims and the results of a reasonableness analysis performed by the Bank.

With regard to the disposal of UTP loans, it should be noted that the representations and warranties issued to the various transferees involved in the various transactions carried out by the Bank over the last few years, expire, at the latest, in May 2023.

Lastly, it should be noted that, as part of the spin-off transaction known as "Hydra M", which became effective on 1 December 2020, the Bank issued representations and warranties in favour of AMCO, whose violation can be asserted by the beneficiary company no later than 30 November 2022 and envisage a cap of approximately 10% of the total assets of the demerged complex net of the related assets.

Risks associated with securitisations

The Bank has a series of exposures to securitisation transactions and, therefore, with respect to the trend of collections and recoveries of the underlying portfolios. In relation to these exposures, the Bank is subject to the risk, in terms of effective return and possibility of recovery of the investment made, that the flows deriving from securitised assets are lower than those expected over the life of the transactions. In this regard, it cannot be excluded that the consequences of the economic crisis caused by the COVID 19 pandemic and the Russian war in Ukraine may have negative impacts on the securitisation exposures held by the Bank, due to delays or reductions in expected collections from assets. securitized.

Risks related to outsourcing certain services

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

Risks related to the economic-political context

The Bank'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, the evolution of the Covid-19 contagion), as it is the country in which the Bank operates almost exclusively.

Inflation persistently at all-time highs, fuelled by global supply chain disruptions and rising commodity prices, which are also 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), is pushing the Monetary Authorities to adopt restrictive monetary policies that impact the expansionary cycle, causing it to slow down and fuelling the risk of recession. The invasion of Ukrainian territory by the Russian armed forces, in addition to Ukrainian opposition, 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 and increasing international political instability[22], with evident repercussions in terms of the economic cycle. The expulsion of several Russian banks from the Swift circuit[23], the freezing of the assets of the Russian Central Bank and the "selective default" on Moscow's foreign debt, 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 cuts imposed by the Kremlin on Russian energy supplies contribute towards maintaining high price pressures, especially on natural gas, with Europe and Italy still dependant on Russian supplies despite the use of alternative suppliers. 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 acute political tensions that led to the fall of the Draghi government 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

Significant profiles of uncertainty remain in the economic context in which the Bank operates. Economic activity remains exposed to possible resurgence of the pandemic, caused by the spread of variants of the latest period. Even if the damages are visible at the level of the entire national economic system, some sectors have been more affected, others less, still others have even achieved significant increases in profits (think of the medical-pharmaceutical sector for COVID-19). The possible continuation of the pandemic, as well as the evolution of virus variants, could have a further negative impact on the Italian economic, social and financial position and therefore, as a result, on the Bank's credit quality, capitalisation and profitability.

[22] The defeat of Premier Macron in the French legislative elections, the resignation of British Prime Minister Johnson, the assassination of former Japanese Prime Minister Shinzo Abe and in Italy the fall of the Draghi government

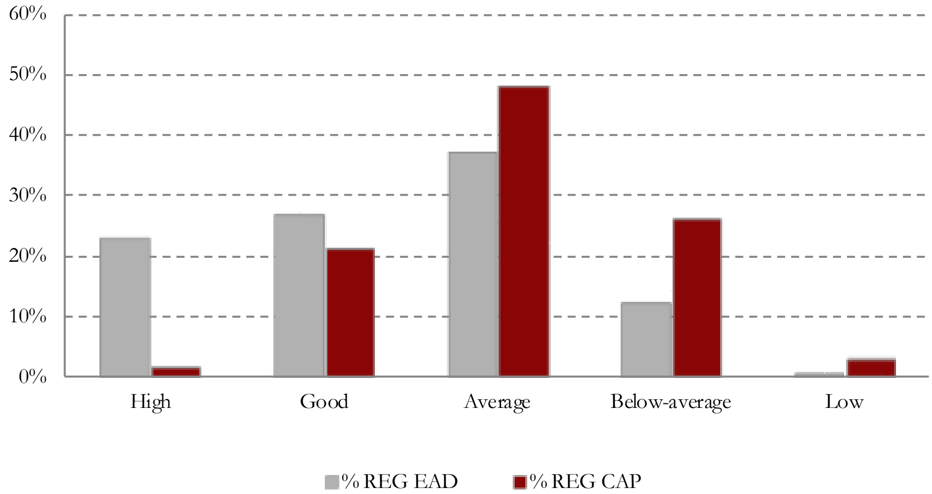
[23] The Society for Worldwide Interbank Financial Telecommunication is a secure messaging system that guarantees very rapid transactions with very high security standards, which in fact settles the vast majority of international financial transactions.

Credit risks

The chart below provides a credit quality breakdown of the Banca MPS portfolio as at 30 June 2022 by exposure to risk and Regulatory Capital. It can be seen that about 50% (54% as at 31 December 2021) of risk exposure relates to high- and good-quality customers (positions in financial assets are excluded). It should be noted that the ranking below also includes exposure to banks, government agencies and non-regulated financial and banking institutions, which are not included in the AIRB approaches. As borrowers, these entities are nevertheless subject to a credit standing assessment using official ratings, if any, or appropriate benchmark values that have been determined internally.

Performing loan book

MPS Bank - Quality as at 30 06 2022



Risk assessment model

Credit risk is analysed in-house for management purposes using the Credit Portfolio Model, which was developed internally by the Bank and produces detailed outputs in the form of traditional risk measures such as Expected Loss, Unexpected Loss, both management and regulatory. Several inputs are considered: probability of default (PD), obtained through validated and non-validated models, LGD rates (management and regulatory), number and types of guarantees supporting the individual credit facilities, regulatory and management CCF on the basis of which the regulatory and management EAD are estimated respectively.

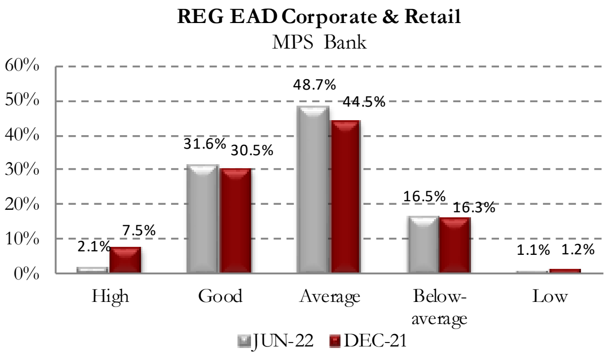
The Group is currently authorised to use the Advanced Internal Rating Based (AIRB) models to determine capital requirements against credit risk on the portfolios of "exposures to businesses" and "retail exposures" of the Bank, MPS Capital Services and MPS Leasing & Factoring, and is awaiting validation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

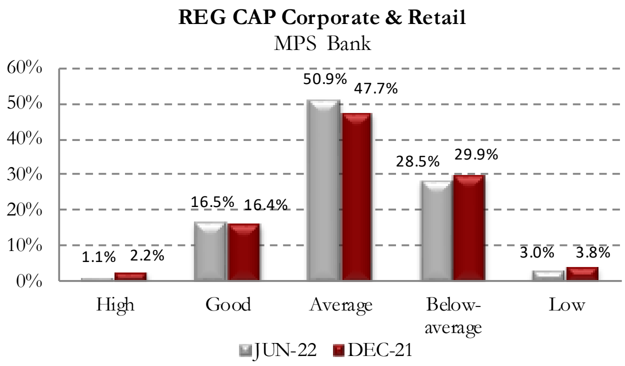
The Group has used PD, LGD and EAD parameters, estimated for regulatory purposes to calculate Risk Weighted Assets, also for other operational and internal management purposes. These provide the basis of calculation for different systems of measurement and monitoring, and specifically for the:

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

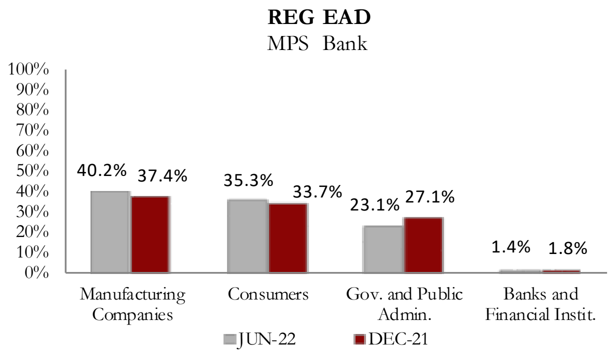
Risk exposure

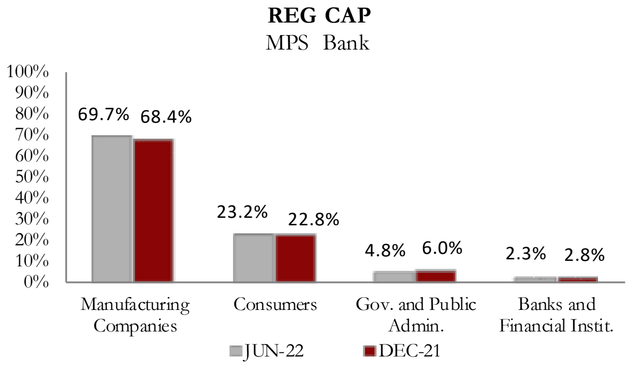
The charts below provide a credit quality breakdown of the Banca MPS portfolio as at 30 June 2022 compared to the end of 2021 for Regulatory Exposure at Default (REG EAD) and Regulatory Capital (REG CAP) of the performing Corporate and Retail portfolios.





The charts below show the distribution of the Banca MPS' REG EAD and REG CAP by type of customer as at 30 June 2022 compared to the end of 2021.





Counterparty risk

Risk assessment model

With regard to Counterparty Risk measurement methods, there are no significant changes to report compared to 2021:

- As envisaged by the regulatory provisions, in measuring exposure to counterparty risk the Group used the new regulatory approach defined in CRR2 as "standardised approach for counterparty risk" (SA CCR) to calculate Exposure at Default (EAD) for derivative transactions and LST (Long Settlement Transactions), effective from 30 June 2021, and the comprehensive approach specified in CCR to calculate the EAD for SFTs (Securities Financing Transactions). For management purposes, the MPS Group maintains the market value model for calculating the EAD for the Derivatives and LST sectors and the comprehensive approach for the SFT sector.
- The counterparty risk measurement perimeter comprises all Group banks and subsidiaries, with regard to positions held in the Supervisory Banking Book and Trading Book.
- The capital requirement for Credit Value Adjustment (CVA) along with the insolvency requirement covers unforeseen losses recorded in the OTC Derivatives segment following a change in counterparty creditworthiness, excluding central counterparties and non-financial counterparties below the EMIR clearing threshold. The Group calculates the CVA requirement using the standardised method envisaged by the Basel/CRD IV regulatory framework. For the calculation of this requirement, the regulatory update of the method for calculating the EAD value is taken into account as indicated in the first point of this paragraph.

Exposure to sovereign debt risk

We provide below a breakdown of the Bank's exposure to sovereign debt risk in government bonds, loans and credit derivatives as at 30 June 2022.

The exposure is broken down by accounting categories.

COUNTRY	DEBT SECURITIES					LOANS	CREDIT DERIVATIVES
	Financial assets measured at fair value through profit or loss		Financial assets measured at fair value through other comprehensive income		Financial assets measured at amortised cost	Financial assets measured at amortised cost	Financial assets held for trading
	Nominal	Fair value=book value	Nominal	Fair value=book value	Book value	Book value	Nominal
Argentine	0.1	-	-	-	-	-	-
France	-	-	-	-	11.2	-	-
Italy	-	-	4,175.9	4,040.6	5,291.8	1,581.2	-
Portugal	-	-	-	-	3.1	-	-
Spain	-	-	-	-	1,218.1	-	-
Total 30 06 2022	**0.1**	**-**	**4,175.9**	**4,040.6**	**6,524.2**	**1,581.2**	**-**
Total 31 12 2021	**0.1**	**-**	**4,450.9**	**4,494.0**	**6,889.4**	**1,634.7**	**-**

As at 31 June 2022, the residual duration of the exposure to the most significant component of sovereign debt (Italian debt securities) was 7.12 years.

Market risks

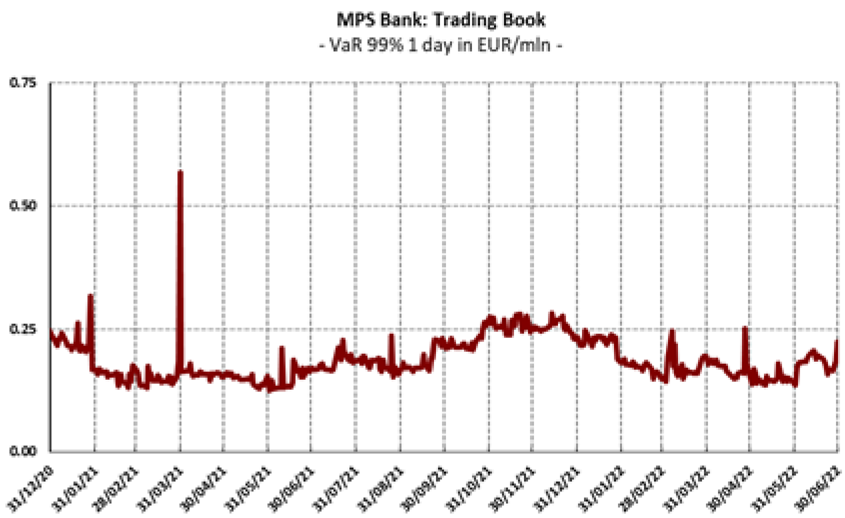
Market risk remains a significant risk to which the Bank is exposed, given the potential volatility of the underlying market variables, in a context of uncertainty characterized by the conflict in Ukraine and the consequent energy crisis, with rising inflation, restrictive monetary policies and *spread* tensions due to the government crisis. A particular reference is attributable to the *sovereign* exposures of the Banking Book, even if the trend of recent years has shown a contraction in the exposures in the portfolio. Among the points of attention, we highlight the exposure and concentration in Italian government bonds in terms of issuer risk, for positions mainly classified in *AC* (*Amortizing Cost*) and the relative vulnerability of the portfolio in the face of unfavourable changes in market conditions, in particular on the *Italian credit spread,* for securities in FVOCI (*Fair Value through Other Comprehensive Income*). The assessment considered the prospective effects in relation to the capital requirements relating to the trading portfolio, for the entry into force in the next few years of the new method for calculating capital requirements on market risks (*Fundamental Review of the Trading Book*).

Risk metrics, in the current market context, are negligibly affected by the impacts deriving from the Covid-19 pandemic.

During the second quarter of the year, the general market context characterized by the increase in rates continued, with new tensions in the sector of credit spreads on Italian government bonds. In this context, as a condition of greater capital stability, the Group's decision to apply the temporary prudential filter for the period 2020-2022 to positions in FVOCI[24]is maintained.

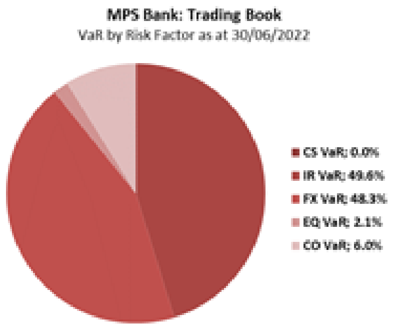
Following the adoption of this treatment, the change in the FVOCI Reserve on government securities of EU States calculated with respect to the level at the end of 2019 is mitigated with the application of the phase-in percentages established by the regulation (100% for 2020, 70% for 2021 and 40% for 2022), resulting in greater stabilisation of the impacts on capital linked to variability in market parameters for the Parent Company’s FVOCI portfolio sensitive to Italy credit spread risk and interest rate trends.

In relation to the Regulatory Trading Book (RTB), the VaR diversified between risk factors and portfolios of the Bank was, at the end of the first half of 2022, in line with the average for the year.
In the half-year, the VaR remained low, with exposure mainly related to the activities of the Group Treasury and to the exposure in interest rate derivatives with customers, brokered with the subsidiary MPS Capital Services.



The increase in VaR recorded at the end of March 2021 is due to a temporary misalignment in the hedging of the exposure in interest rate derivatives originating from business with customers.

[24] 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 49.6% of the Parent Company's PNV Gross VaR, while the FX factor accounts for 48.3%. This is followed by CO for 9.8% and EQ for 2.1% (CS VaR of non-material impact).

MPS Bank

VaR RTB 99% 1 day in EUR/mln

	VaR	Data
End of period	0.22	30/06/2022
Minimum	0.14	11/05/2022
Maximum	0.25	27/04/2022
Average	0.18	

In the first six months of 2022, the Bank's VaR in the Regulatory Trading Book ranged between a low of EUR 0.14 mln recorded on 11 May 2022 and a high of EUR 0.25 mln on 27 April 2022 with an average value registered of EUR 0.18 mln. The Regulatory Trading Book VaR as at 30 June 2022 was equal to EUR 0.22 mln.

VaR model backtesting

Due to the limited risk exposure of the Regulatory Trading Book of Banca MPS in 2022, the results of the backtesting of the internal model for market risks are not reported as they are not significant.

Liquidity risk

Risk assessment model

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

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

Management of the Group's Structural Liquidity is intended to ensure the structural financial balance by maturity buckets over a time horizon of more than one year, both at Group and individual company level. Maintenance of an adequate dynamic ratio between medium/long-term assets and liabilities is aimed at preventing current and prospective short-term funding sources from being under pressure. The benchmark metrics are gap ratios which measure both the ratio between deposits and loans over more-than-1-year and the ratio between deposits and retail loans (regardless of their maturities or for maturities exceeding 3 years), in addition to the regulatory measurement of the Net Stable Funding Ratio (NSFR) in accordance with the CRR2, starting June 2021. The Group also defined and formalised the asset encumbrance management and monitoring framework with the goal of analysing:

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

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

Risk exposure

As part of the liquidity risk governance and management system adopted by the Group, according to which the Bank centralizes the responsibility for the governance and management of liquidity risk, both in the short and medium-long term, the Bank requested and obtained from the 'Supervisory Authorities - pursuant to art. 8, paragraphs 1 and 2, of the CRR - the waiver of the application on an individual basis of the liquidity requirements referred to in Part VI of the CRR in favour of the Bank, in order to subject it to supervision as a component of the single liquidity sub-group together with other banks controlled by it and authorized in Italy (the "Liquidity Sub-group").

The information already presented in the Consolidated Financial Statements is therefore reported: as at 30 June 2022, the Montepaschi Group was adequate in terms of both Operating Liquidity, with an LCR equal to 179.9%, and Structural Liquidity, with an NSFR equal to 137.0%. It should also be noted that the ratio of 1-month balance to the Group's consolidated assets is equal to 18.1%.

Operational risks

Risk assessment model

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

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

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

Risk exposure

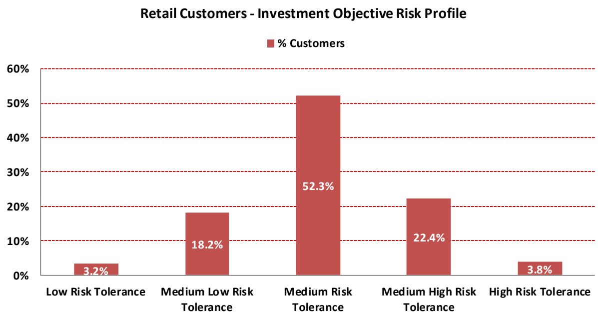
As at 30 June 2022, the number of operational risk events observed in the first half of the year was essentially unchanged compared to those observed in 2021 while the losses were slightly higher. The Regulatory Requirement was essentially stable compared to December 2021.

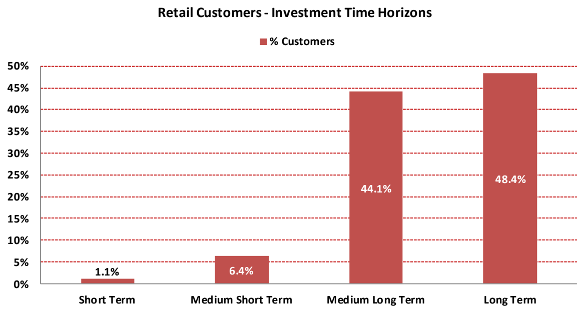
Financial risks of investment services

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

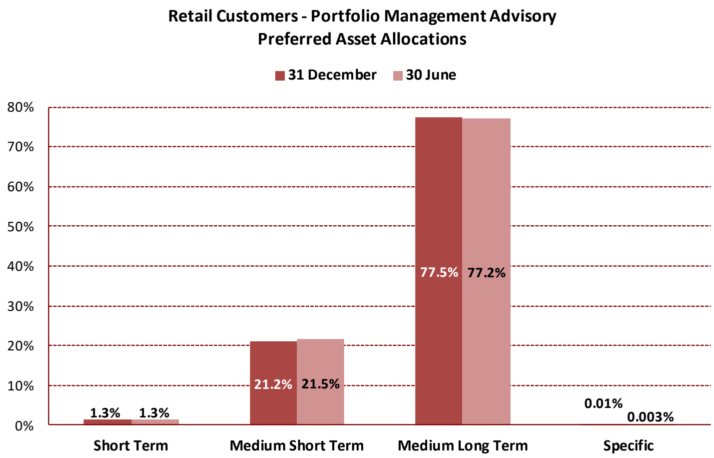
MPS Bank has revised the methods of customer profiling and the rules for determining the indicators underlying a customer's risk profile, adopting a new MiFID questionnaire introduced on 2 January 2018.

The graphs below show the distribution as at 30 June 2022 of the Investment Objective and Time Horizon indicators issued by Retail customers of the bank who have fully completed the MiFID questionnaire and who hold positions in investment products.





At the end of June 2022, the portfolios held by Retail customers on the basis of formalised "advanced" advisory proposals to obtain optimum asset allocation were mainly distributed into the recommended, long-term, asset allocation macro-classes.



Main types of legal, employment and tax risks

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

Legal disputes and out-of-court claims

The risks associated or connected with legal disputes – i.e. disputes brought before judicial authorities and arbitrators – are carefully reviewed by the Bank.
In case of disputes and out-of-court claims for which the disbursement of financial resources to perform the underlying legal obligation is believed to be "probable" and the relevant amount can be reliably estimated, allocations are made to the Provisions for risks and charges using analytical or statistical criteria.
The following were pending as at 30 June 2022:

- legal disputes with a total amount claimed, where quantified, of EUR 4.0 bn. In particular:
    - approx. EUR 2.2 bn in claims regarding disputes for which there is a "probable" risk of losing the case, for which provisions of EUR 0.9 bn have been allocated;
    - approximately EUR 0.4 bn in claims attributable to disputes for which there is a "potential" risk of losing the case;
    - approximately EUR 1.4 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 1.8 bn[25], almost exclusively pertaining to disputes classified with a "likely" risk of losing the case.

It should be noted that in July and in the first days of August, no. 72 out-of-court claims and 28 mediation claims were received through a Law firms and a consultancy firm, for a total relief sought per capital settlement, net of any repeated request, of EUR 32.2 mln and EUR 853.3 mln respectively. It should also be noted that on 3 August, a writ of summons was received for a total amount of EUR 741 mln, which repeats the arguments of certain out-of-court claims notified to the Parent Company in previous years for an amount of EUR 522 mln. The write summons is related to the financial information shared in the period 2008-2011.

Note that the Bank has exercised the possibility granted by IAS 37 of not providing detailed disclosures on the provisions allocated in the financial statement if such information may seriously jeopardise its position in legal disputes and in potential settlement agreements.

The main information of the most significant cases, by macro-category or individually, is provided below.

Disputes regarding compound interest, interest rates and conditions

Following the change in orientation by the Supreme Court of Cassation (*Corte di Cassazione*) on the legitimacy of the practice of capitalising on a quarterly basis the interest payable accrued on current accounts, as of 1999 there has been a progressive increase in claims for the return of interest expense resulting from quarterly compound interest. In these lawsuits, the plaintiffs also contest the legitimacy of the interest rate and the methods to determine the commissions applied to the accounts. In this regard, the interpretation introduced since 2010 by the Supreme Court on usury - according to which overdraft fees (*Commissioni di Massimo Scoperto*), even before Italian Law no. 2/2009 was enforced, should have been calculated on the basis of the effective global rate (*Tasso Effettivo Globale - TEG*), contrary to Bank of Italy guidelines - is frequently the pretext for the actions brought by customers. The plaintiffs most often claim irregularities in current account balances; however, claims concerning compound interest are also increasingly frequent: these cases are based on the alleged illegitimacy of the so-called "French-style amortisation" in mortgage loans, and violation of Italian Law no. 108/1996 on usury in term loans. Aware that the jurisprudential interpretation is often disadvantageous (although not univocal), at least with respect to certain issues, the Bank is committed to maximising the arguments in its defence - which do exist, particularly concerning the statute of limitations - identifiable in the regulatory and interpretative framework. The provisions for risks recognised for this type of dispute amounted to EUR 118.4 mln (total relief sought of EUR 288.0 mln), compared to EUR 122.4 mln as at 31 December 2021 (against a relief sought of EUR 291.3 mln).

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

Dispute regarding bankruptcy rescindments

The reform implemented from 2005 has reduced and limited the scope of bankruptcy rescindments, particularly those relating to current account remittances. For those that can still be filed, or already pending at the effective date of the reform, the Bank is giving maximum emphasis to all the arguments available in defence. For this type of dispute, as at 30 June 2022, provisions for risks had been made equal to EUR 16.0 mln (total claims equal to EUR 115.8 mln), compared to EUR 17.4 mln recognised as at 31 December 2021 (against claims equal to EUR 113.4 mln).

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

The considerable defensive efforts made in this type of lawsuit resulted over the years in the emergence of some favourable jurisprudential orientations, at least with respect to certain specific cases, which are allowing balanced risk control. It should be noted that starting from 2015, several unfavourable rulings were issued by the Supreme Court – with its latest order no. 6252 published on 14 March 2018 by the Civil Cassation Section 1^ - pursuant to which "the financial product called 4You does not entail an interest worthy of protection, under the regulatory framework, as it does not comply with the general principles set forth in articles 38 and 47 Italian Const.", due to the evident synallagmatic unbalance. Following these judgements, it is considered established that the judicial decisions are likely to be unfavourable with regard to the Bank's reasons. For this type of dispute, provisions for risks of EUR 6.1 mln were allocated (against a total claim amount of EUR 19.8 mln), compared to EUR 6.6 mln recognised as at 31 December 2021 (against a claim of EUR 20.1 mln).

Dispute with purchasers of subordinated bonds issued by the Bank

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

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

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

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

The focus of the opposing claims is concentrated on the alleged lack of disclosure and/or in any case violations of specific regulations on financial intermediation.

The total relief sought in these disputes as at 30 June 2022 was EUR 36.5 mln (EUR 32.8 mln as at 31 December 2021), whilst allocated provisions totalled EUR 16.0 mln (an increase of EUR 0.7 mln compared to 31 December 2021).

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

The Bank is exposed to civil action, to the consequences of decisions arising from criminal proceedings (29634/14 and 955/16), and to out-of-court claims with regard to the financial information disclosed during the 2008-2015 period.

As at 30 June 2022, the total relief sought for this type of dispute was equal to approx. EUR 2.8 bn, divided as follows (data in EUR mln):

Type	30/06/22	31/12/21
Civil dispute*	769	738
Filed civil claim cp 29634/14**	111	125
Filed civil claim cp 955/16	158	158
Out-of-court claims ***	1,765	713
Total relief sought	**2,803**	**1,734**

(*) The increase in the claim is due to the flow of new disputes, however not particularly relevant per claim except the Folco Finanziaria case with a claim of approximately EUR 5.4 mln.
(**) 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 claim with respect to the previous quarter is due for the most part to claims concerning the 2014-2015 capital increases received during the quarter from a number of individuals through a law firm and a consultancy firm..

It should be noted that in July and in the first days of August, no. 72 out-of-court claims and 28 disputes were received for a total relief sought per capital settlement, net of any repeated claims, requests of EUR 32.2 mln and EUR 853.3 mln respectively. It should also be noted that on 3 August, a writ of summons was received for a total amount of EUR 741 mln, which repeats the arguments of certain out-of-court claims notified to the Bank in previous years for an amount of EUR 522 mln. Considering the above, the relief soughton Civil dispute would amount to EUR 1,5 bn, while out-of-court claims would total Eur 2.1 bn.

The main relevant disputes are outlined below.

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

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

Upon lifting the reservation, the Judge - considering that these preliminary questions should be decided together with the merit - granted the preliminary terms pursuant to art. 183, paragraph six of the Italian Code of Civil Procedure and adjourned the hearing for discussion of the preliminary requests to 2 July 2019. At that hearing, the Bank requested and obtained a deadline of 8 July to object to the demands submitted by an intervener (intervention, the proposition of which was learned by the Bank at the hearing), after the parties discussed and illustrated their respective preliminary briefs and the relative petitions. At the end of the discussion, the Judge reserved the right to decide on the preliminary evidence. By order of 24 July 2019, the Investigating Judge (Giudice Istruttore, G.I.) rejected the request for a court-appointed expert witness submitted by Alken, deeming that the case was ready for a decision considering the subjective characteristics of the plaintiff (professional investor) and the operations of Alken on the BPMS shares (with acquisitions which extended also "after October 2014, after 16 December and after 13 May 2016", as reported in the order of 24 July 2019). At the hearing of 7 July 2020, the Judge rejected Alken's request to refer the case to the preliminary investigation and admitted the new documents produced by Alken (reserving all assessment of their relevance to the Panel). With ruling issued on 7 July 2021, the Court of Milan rejected all requests made by the Funds, which were ordered to refund the legal costs of the Bank. The request of an intervener was partially accepted, in relation to which the Bank was ordered to pay the sum of approximately EUR 52 thousand (for principal and interest) jointly with Nomura and in part with Messrs Antonio Vigni and the lawyer Giuseppe Mussari. Both the Bank and Nomura and the Funds appealed against the ruling before the Milan Court of Appeal in which the aforementioned intervener also appeared with an incidental appeal against the Bank. On 13 July 2022, the first hearing was held in the three pending appeal proceedings, for which were ordered to be joined. The Court postponed the joined cases to the hearing of 5 July 2023 for the presentation of closing arguments.

York Funds and York Luxembourg vs. Banca Monte dei Paschi di Siena S.p.A.

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

The plaintiffs' claim is based on alleged losses incurred as part of its investment transactions in MPS totalling EUR 520.3 mln, carried out through the purchase of shares (investment of EUR 41.4 mln by York Luxembourg) and derivative instruments (investment of EUR 478.9 mln by York Funds). The plaintiffs' quantified their comprehensive losses at EUR 186.7 mln.

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

The first hearing, initially scheduled for 29 January 2020, was deferred to 4 February 2020. The Bank duly appeared before the court. The parties filed the preliminary briefs and, at the subsequent hearing, discussed the respective preliminary requests, on which the Judge reserved the right to provide for their admission. At the hearing on 15 July 2022, the Court of Milan: (i) declared the witness evidence requested by York, Nomura, Profumo and Viola to be inadmissible and (ii) referred to the panel - following the outcome of the decision regarding the causation - the assessment of the need to order the accounting court-appointed expert report requested by York. The case was postponed to 23 November 2023.

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

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

Criminal proceeding no. 29634/14

With reference to the criminal proceedings connected with the events related to the *structured term repo transactions* "Alexandria" and "Santorini" carried out by the Bank, respectively with Nomura, Deutsche Bank, it should be noted that the criminally relevant conduct ascribed to the persons under investigation for various reasons refer to the financial statements closed at 31 December 2009, 2010, 2011 and 2012 and to the balance sheets as at 31 March 2012, 30 June 2012 and 30 September 2012.

In March 2016 this proceeding was combined with the other legal action pending before the Court of Milan in relation to the investigations concerning the Santorini, FRESH 2008 and Chianti Classico transactions. By an order of 13 May 2016, the Preliminary Hearing Judge (In Italian *Giudice dell'Udienza Preliminare*, hereinafter, also "GUP") authorized the lodging and admissibility of the claims for compensation of the offended parties (for a total of 1,240) against the entities already involved in the proceedings as defendants pursuant to Legislative Decree 231/2001.

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

Following the plea bargain, the Bank's position was removed, limiting the consequences to a pecuniary administrative sanction of EUR 600 thousand and a confiscation of EUR 10 mln, without exposing itself to the risk of greater penalties.

During the proceedings, by order of 6 April 2017 the Court of Milan decided on the requests for the exclusion of civil parties submitted by the defence teams of the defendants and the civilly liable parties, excluding several civil parties. In addition, the claim of damages as a civil party by the Bank with respect to Giuseppe Mussari, Antonio Vigni, Daniele Pirondini and Gian Luca Baldassarri was also excluded on the assumption of its contributory liability with respect to the defendants.

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

The Fondazione MPS, which had not cited the Bank as civilly liable, made no direct request to it, but instead formulated demands against the natural person defendants and executives/former executives, as well as the representatives of Nomura. These claims, following the settlement concluded with the Bank, were waived in October 2021. The Bank of Italy which, like the MPS Foundation, did not summon the Bank as a civilly liable party, asked for the defendants to be sentenced to pay a sum to be settled on an equitable basis.

As regards CONSOB (the Italian Commission for listed companies and the stock exchange), which summoned the Bank as a civilly liable party, for nearly all damage items it requested a quantification on an equitable basis, except for that relating to supervisory costs quantified as a total of roughly EUR 749 thousand. The provisional amount is requested alternatively, to the extent of roughly EUR 298 thousand. At the hearings of 3 June 2019, the lawyer of Banca Monte dei Paschi di Siena discussed the civil liability. On 30 September 2019, the discussions of the foreign defendant entities pursuant to Italian Legislative Decree 231/01, Deutsche Bank and Nomura, were concluded. The trial continued on 31 October 2019 to incorporate possible new revocations of civil party actions, as well as on 8 November, when the final hearing was held.

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

The Bank, as civilly liable party (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, the Court having rejected the request to make an amount available on a provisional and immediately enforceable basis, pursuant to art. 539 of the Italian Code of Criminal Procedure.

The Bank filed an appeal before the Court of Appeal of Milan against the ruling of first instance, as the civilly liable party, jointly and severally liable with the defendants. The first hearing of the appeal judgment was held on 2 December 2021 where some civil parties revoked their appearance as a result of the transactions that took place with the Bank.

At the hearing of 3 February 2022 the appeal in the interest of the Bank was discussed. On 6 May 2022, the Court of Appeal of Milan, Second Criminal Division, acquitted all the defendants in the trial with a broad formula, highlighting that the "fact does not exist." At the date of this document, only the judgment's operative part is available. It will be necessary to carry out a careful examination of the reasons for the judgment as soon as they are made available in order to be able to verify all the implications relating to the acquittal verdict issued by the Court of Appeal.

Criminal proceeding no. 955/16

On 12 May 2017 the committal for trial of the representatives Alessandro Profumo, Fabrizio Viola and Paolo Salvadori was requested within new criminal proceedings before the Court of Milan, in which they were charged with false corporate disclosures (art. 2622 of the Italian Civil Code) in relation to the accounting of the "Santorini" and "Alexandria" transactions with reference to the Bank's financial statements, reports and other corporate communications from 31 December 2012 to 31 December 2014 and with reference to the half-yearly report as at 30 June 2015, as well as market manipulation (art. 185 of the Consolidated Law on Finance) in relation to the disclosures to the public concerning the approval of the financial statements and the balance sheets specified above.

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

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

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

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

Following the formalisation of the appearance before the court by the Bank, the Public Prosecutor requested the issue of a pronouncement of acquittal because there is no case to answer or because the act does not constitute an offence depending on the charge in question.

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

At the hearing of 17 July 2018, 2,243 civil parties joined the lawsuit. Some of these have formally requested the mention of the Bank as party with civil liability, while most of the defence attorneys only requested the extension of the lawsuit to their clients with regard to the Bank, as a party with civil liabilities already called in the lawsuit. Some civil parties brought a lawsuit against the Bank as liable pursuant to Italian Legislative Decree no. 231/2001.

The proceedings were declared open and the hearing was scheduled for 18 March 2019, with reservation of the decision on the request for an order of attachment against Mr Profumo and Mr Viola, submitted by a number of parties. The reserve was lifted with decision dated 3 December 2018, through which the Court rejected the request for an order of attachment against the aforementioned executives.

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

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

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

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

The Bank filed an appeal before the Court of Appeal of Milan against the ruling of first instance, as the civilly liable party, jointly and severally liable with the defendants, having administrative liability under Italian Legislative Decree 231/2001. The appeal proceeding are expected to start starting from the 4th quarter of 2022.

Banca Monte dei Paschi di Siena S.p.a. vs. Caputo + 25 others

On 4 December 2020, Giuseppe Caputo, with 25 other investors, sued the Bank before the Court of Milan to challenge the investments made by them by subscribing the share capital increases carried out by this, or through purchases on the electronic market between 2014 and 2015.

The plaintiffs claim that they have suffered serious damage as a result of the informational asymmetry created on the market by the Bank, and also argue the incorrect accounting of non-performing loans starting from the 2013 financial statements, referring to the ongoing criminal proceedings 33714/16 at the Court of Milan (referred to below); they also contest the unfair business practices put in place by the Bank, the investments in diamonds, a completely unreasonable business plan and non-compliant business organization.

On these grounds, making also reference to art. 185 of the Italian Criminal Code, they ask for full compensation for the damage suffered, equal to the entire amount paid for the purchase of MPS shares, with a final quantification of the relief sought approximately equal to EUR 25.8 mln. Following the appearance of the defendant and the first hearing, the parties filed the preliminary briefs and, at the subsequent hearing, discussed the preliminary requests formulated by the plaintiff, on which the Judge reserved the right to provide for their admission. Upon lifting the reservation, the Judge deemed it necessary to refer the case to the deliberating body in order to settle the dispute or to proceed with any expert investigations, therefore he postponed the case to the hearing on 4 November 2022 for the presentation of closing arguments.

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

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

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

The investigations continued in the form of an evidence gathering procedure for which the Preliminary Investigations Judge has appointed two experts who delivered their reports on 6 May 2021.

The Bank acknowledged of the content of the report and will follow the developments of the proceedings in question with the utmost attention, also to assess any effect on the civil disputes already pending, the subject matter of which is substantially overlapping with the facts described in the report.

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

At the hearing on 8 June 2021, the evidence gathering procedure ended and the Preliminary Investigations Judge sent the documents to the Public Prosecutor's Office, setting a 45-day indicative term for the Public Prosecutor to carry out any other investigations and make a decision. On 25 February 2022, the Judge for preliminary investigations, upon a request of the Public Prosecutor, ordered the extension of the terms of investigation until 31 May 2022. The order to close the preliminary investigation has not yet been issued

Out-of-court claims for the repayment of sums and/or compensation for damages by Shareholders and Investors of Banca Monte dei Paschi di Siena S.p.A. in relation to the financial information disclosed in the period 2008 - 2015

In relation to capital increases and the allegedly incorrect financial information contained in the prospectuses and/or in the financial statements and/or in the price sensitive information for the period 2008-2011, as at 30 June 2022 the Bank had received out-of-court claims for a total of EUR 574 mln in quantified claims, net of those converted into judicial initiatives.

For some of these out-of-court claims, on 3 Augustus 2022, a writ of summons was received for a total amount of EUR 741 mln, taking up the arguments generically raised within the out-of-court claims notified to the bank during 2017 for a total amount of EUR 522 mln. This claims was assessed for the purpose of the Condensed half-yearly financial statements. In fact, although it was notified after 30 June 2022, it provides evidence of situations existing at the reporting date of the Condensed half-yearly financial statements.

The writ of summons concerns purchase and sale transactions concluded by the counterparty during the first months of 2012 and for which, as reported below, the risk of losing the case will be reassessed in light of the analysis of the reasons, once available, of the acquittal for all defendants by the Court of Appeal of Milan.

In addition to these claims, there are also out-of-court claims covering not only the period 2014-2015, but also longer time periods, for a claim amount of approximately EUR 1,191 mln as at 30 June 2022, net of those converted into judicial initiatives.

These are largely generic claims, largely received from an advisory firm on behalf of institutional investors, in which the time references are not clarified (they complain losses that also refer to events that have never been subject of litigations) and which require a particular investigation with reference to both the causal link ad the entitlement to act. In particular these are investors who highlight that they have also made investments in the name and on behalf of third parties whose relations with the claimant are neither clarified nor documented.

Precisely in order to distinguish the weight and incidence of each alleged potential offense and the need for an accurate examination and correct weighting of each individual claim, the Bank has initiated a rigorous process of prior verification.

In fact, the information contained in these claims is particularly deficient and are characterised by:

a. for being totally generic or indefinite (i.e. such as not to allow *prima facie* a verification of the same nature and/or the actual content of the claim);
b. for the absence of evidence allowing the prior verification of possible deficiencies in the basic requirements for the formulation of claims for compensation (for example, in cases in which the complainant is not even able to demonstrate that they have made direct investments influenced by alleged misuse of information) to be ascertained in advance;
c. for not to make reference to adequate supporting documents that are abstractly suitable to support any claim;
d. for the absence of timely and reliable data which allow to place (and distinguish) the investments in time so as to be able to appreciate (and weigh) the unfounded profiles of the claim due to the absence of adequate demonstration of a causal link, also in light of the investment policy followed in practice by the investor.

The grand total amount claimed as at 30 June 2022 was therefore equal to EUR 1,765 mln.

It also should be noted that in July and in the first few days of August, up to the date of approval of the Consolidated Half-yearly Report, were received 72 out-of-court claims and 28 mediation claims for a total relief sought, per capital settlement, net of any repeated requests, of EUR 885.5 mln. The Bank, having assessed the contents of the consulting firm's action as potentially damaging, sent a formal letter of warnings to such firm, in view of the vagueness of contents of those missives, which as mentioned above, also included periods that were not the subject of any authority's investigations.

These claims were also assessed for the purpose of the Condensed Half-yearly financial statements, in accordance with IAS 10.

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Generally speaking, and in application of the provisions of international accounting standard IAS 37, with regard to legal disputes, the formation of civil plaintiffs in criminal proceedings 29634/14 and out-of-court claims relating to disputes regarding the period 2008-2011, the Bank has assessed the risk of losing as "likely" from the very beginning of the first lawsuits of this type and has therefore set aside provisions for risks and charges in the financial statements. The assessments made regarding the risk of losing the case reflect the decision of the Bank in March 2013 to initiate liability actions against the Chairman and General Manager at the time and the foreign banks involved, and they also take into account the positions taken on the subject - in addition to those of the Milan Public Prosecutor's Office - by the Supervisory Authorities, the relative decisions to appear before the Court as an aggrieved party and the sanctions imposed by them.

Also for disputes concerning the period 2012-2015, following the ruling of 15 October 2020 concerning the criminal proceedings 955/2016, the positions are assessed as being at risk of "likely" losing the case and therefore the Bank allocated provisions for risks and charges in the financial statements. Furthermore, for the civil proceedings relating to the 2012-2015 period, the risks associated with non-performing loans, indicated starting from the half-yearly report as at 30 June 2021 as having a "likely" risk of being lost.

In reference to the criminal proceedings 29634/14 and 955/2016, the first degree rulings of 8 November 2019 and 15 October 2020 did not lead to disbursements in favour of the parties who entered an appearance since the Court rejected their request for granting a provisional amount immediately enforceable pursuant to article 539 of the Italian Code of Criminal Procedure, referring the damage compensation in their favour in a separate civil proceeding to be initiated by the civil parties themselves.

In any event, a settlement was reached with 829 civil parties for a relief sought, where quantified, of around EUR 25.4 mln.

In the context of criminal proceedings 29634/14, the Milan Court of Appeal, with the ruling issued on 6 May 2022, acquitted all the defendants and revoked against the defendants and the Bank, which was civilly liable, the decisions relating to compensation for damages and reimbursement of court costs. The risk of losing this line of litigation will be reassessed in the light of the analysis of the reasons of the appeal judgment in criminal case 29634/14, once they are available.

Therefore, for civil and criminal disputes concerning the information disclosed solely in the period 2008-2015, the provisions for risks were determined in such a way as to take into account the amount invested by the counterparty in specific periods of time characterised by the disputed information alterations (net of any disinvestments made during these same periods). The damage subject to compensation was then determined on the basis of the "differential damage" criterion, which identifies the damage as the lowest price that the investor would have had to pay if he had had access to complete and correct information. For the purposes of this determination, econometric analysis techniques have been adopted - with the support of qualified experts - suitable to eliminate, among other things, the component inherent in the performance of the equity securities belonging to the banking sector during the reference period. More in detail, the total damage caused by each event potentially capable of generating information alterations was first quantified and then the amount abstractly attributable to the individual Plaintiff/Civil Party was calculated, taking into account the share of capital held from time to time. From a prudential standpoint, along with the differential damage, the different criterion of "full compensation" was also taken into account (of a minor importance in the prevailing law, including the one that is currently taking shape on this specific subject matter), and that is based on the argument that false or incomplete information may have a causal impact on the investment choices of the investors to such an extent that, in the presence of correct information, they would not have made the investment in question; in this case, the damage is therefore commensurate to the invested capital, net of the amounts recovered from the sale of shares by the Plaintiff/Civil Party.

With reference instead to the out-of-court claims relating to the period 2008-2011 and, from October 2020, also those concerning the period 2014-2015, in order to take into account the probability of their transformation into real disputes, the funds were determined by applying an experiential factor - in line with the Bank's policy in similar situations - to requests made by counterparties. In any case, the Bank has exercised the possibility granted by IAS 37 of not providing disclosures on the provisions allocated in the balance sheet if it believes that such information could seriously jeopardise its position in disputes and in potential settlement agreements.

Furthermore, on 30 June 2022, again with regard to civil lawsuits, settlement agreements were reached, involving the closure of 31 disputes against a total relief sought of around EUR 366 mln.

As for out-of-court claims, as at 30 June 2022, transactions for a *relief sought* of EUR 4 bn were finalized. In the first half of the year, settlement agreements were reached and finalized, with particular reference to the issue of the alleged information discrepancies, which led to the closure of an additional 21 claims against a total relief sought of approximately EUR 8.1 mln.

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Banca Monte dei Paschi di Siena S.p.A. vs. Fresh 2008 bondholders

Some holders of FRESH 2008 securities maturing in 2099, with writ of summons served on 19 December 2017, initiated proceedings against Banca MPS, the company Mitsubishi UFJ Investors Services & Banking Luxembourg SA (which replaced the issuing bank for the bond loan, Banca di New York Mellon Luxembourg), the British company JP Morgan Securities PLC and the American company JP Morgan Chase Bank NA (which entered into a swap agreement with the bond loan issuer) before the Court of Luxembourg to request confirmation of the inapplicability of the Burden Sharing Decree to the holders of FRESH 2008 securities and, as a result, to have it affirmed that such bonds cannot be forcibly converted into shares, as well as that such bonds will continue to remain valid and effective in compliance with the issue terms and conditions, in that they are governed by the laws of Luxembourg and, finally, and lastly, to ascertain that MPS has no rights, in the absence of the conversion of the FRESH 2008 securities, to obtain the payment of EUR 49.9 mln from JP Morgan in damages for holders of FRESH 2008 securities. The Court of Luxembourg with an order of 5 October 2021, notified to the Bank on 12 January 2022, rejected the requests of the Bank aimed at obtaining the suspension of the proceedings pending the decisions of the international justice bodies on the preliminary objections formulated by the Bank, while, on the other hand, it accepted the objection formulated by the same on the lack of jurisdiction of the Court appealed in relation to the request relating to the usufruct contract stipulated by the Bank with JP Morgan Securities PLC and JP Morgan Chase as part of the 2008 Aucap transaction. In relation to the aforementioned usufruct contract, the Court reserved its judgement pending the decision of the Italian Court, while it declared its jurisdiction in relation to the swap contract similarly stipulated by the Bank with the same counterparties in the context of the 2008 Aucap transaction.

For the sake of completeness, it should be noted that, following the initiation of the proceedings in question, on 19 April 2018 the Bank filed a lawsuit before the Court of Milan against JP Morgan Securities Ltd JP Morgan Chase Bank n.a. London Branch, as well as the representative of the Fresh 2008 securities holders and Mitsubishi Investors Services & Banking (Luxembourg) Sa to ascertain that the Italian Judge is the only one with jurisdiction and competence to decide about the usufruct contract and the company swap agreement signed by the Bank with the first two defendants in the context of the operation of the share capital increase in 2008. Consequently, the Bank asked:

i. to ascertain the ineffectiveness of the usufruct contract and the company swap agreement that provide for payment obligations in favour of JP Morgan Securities PLC and JP Morgan Chase Bank Na in accordance with the entry into force of Decree 237;
ii. to ascertain the ineffectiveness and/or termination and / or settlement of the usufruct contract or, in the alternative
iii. to ascertain the termination of the usufruct contract due to the capital deficiency event of 30 June 2017.

The first hearing was held on 18 December 2018 and the Investigating Judge, considering the prejudicial nature of the issue of jurisdiction raised by the defendants, in view of the fact that a dispute is pending before the Luxembourg Court involving the same relief sought and the same cause, granted the parties terms to reply only to the procedural objections and adjourned the hearing to 16 April 2019 for assessment of the disputed issue. At the next hearing on 2 July 2019, the decision in the case was deferred to a later date. With order dated 2 December 2019, the Court of Milan has ordered the suspension of the proceedings pending a decision by the afore-mentioned Luxembourg district court. Against this order, the Bank has filed a petition with the Supreme Court of Cassation. The court has rejected the petition of the Bank with ruling dated 31 March 2021. In light of the decision of the Luxembourg Court of 12 January 2022, the Bank is considering the need to resume the proceedings before the Milan Court.

In the event of an unfavourable outcome of the dispute, the principle of burden sharing cannot be applied and therefore the bondholders will retain the right to receive the coupon (equal to Euribor 3M + 425 bps on a notional amount of EUR 1 bn) provided that the Bank generates distributable profits and pays dividends. Since the Bank has not paid dividends since the date of the burden sharing, any unfavourable outcome of the dispute will only produce prospective effects and only in the event of dividend distribution.

Other disputes

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

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

At the hearing on 31 May 2018, the Judge reserved his decision on the challenges raised by the convened parties. On 5 June 2018, the Company declared bankruptcy. On 25 July 2018, upon lifting of the reservation made during the hearing of 31 May 2018, the case was adjourned to 31 October 2018, for the court-appointed expert to take the oath. In the meantime, the receivership of the Fatrotek S.r.l. bankruptcy again took up the case. The proceedings were adjourned first to the hearing on 4 December 2019 and then to the hearing on 13 February 2020, where a court-appointed expert investigation was ordered and an expert witness was appointed. At the hearing of 25 November 2020 an extension was granted to the court-appointed expert for the filing of the expert opinion and the case was postponed to 5 May 2021.

At this hearing, the Court set a deadline for the court-appointed expert to respond to the objections made by the plaintiff and at the same time scheduled the hearing for the closing arguments for 4 November 2021. At this hearing, the case was adjourned pending decision and legal terms were set for the filing final statements and answer briefs.

Banca Monte dei Paschi di Siena S.p.A. vs. Marcangeli Giunio S.r.l.

With a writ of summons, notified on 28 November 2019, the claimant Marcangeli Giunio S.r.l. asked the Court of Siena to assess, first and foremost, the contractual liability of the Bank for not issuing a loan of EUR 24.2 mln - necessary to the purchase of land and the construction of a shopping mall with spaces to be leased or sold – and subsequently the conviction of the Bank with order to pay compensation for damages and loss of profit in the amount of EUR 43.3 mln. As an alternative, in view of the facts specified in the writ of summons, a request is made for the Bank to be found pre-contractually liable for having interrupted the negotiations with the company without disbursing the agreed loan, and to be ordered to pay compensation in the same amount asked first and foremost.

With a judgement filed on 6 June 2022, the Court of Siena rejected the claim for compensation for damages by way of contractual and extra-contractual liability proposed by the plaintiff. The Court only upheld the restitution claim brought by the opposing party in respect of alleged unlawful interest applied in connection with the land advances, quantified at EUR 58,038.27, plus legal interest, and awarded costs.

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

By writ of summons notified on 15 July 2016 Riscossione Sicilia S.p.A. (today the Revenue Agency - Collection, which took over universally in all legal relationships of Riscossione Sicilia starting from 1 October 2021, pursuant to art. 76 of Law Decree no. 73/2021 converted with Law no. 106/2021) had summoned the Bank before the Court of Palermo, asking for it to be ordered to pay the total sum of EUR 106.8 mln.

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

In the preliminary phase of the proceedings, a court-appointed technical consultancy was carried out, the results of which were favourable to the Bank. In fact, the court appointed expert not only concluded that the Bank owes nothing to Riscossione Sicilia S.p.A., but also identified a receivable of the Bank of roughly EUR 2.8 mln, equal to the balance of the price for the sale of 60% of Serit Sicilia S.p.A. to Riscossione Sicilia S.p.A. by the Bank (dating back to September 2006), a sum that has to date been held in escrow by Riscossione Sicilia S.p.A. With judgement no. 2350/22, filed on 30 May 2022, the Court of Palermo, essentially adhering to the conclusions of the court-appointed expert, rejected Riscossione Sicilia's counterclaims and sentenced the latter to pay the Bank EUR 2.9 mln plus legal interest and court fees.

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On 17 July 2018, the Finance Department of the Sicily Region notified the Bank by means of an order of injunction pursuant to art. 2 of Italian Royal Decree no. 639/1910 and of repayment, pursuant to art. 823, paragraph 2 of the Italian Civil Code of the amount of around 68.6 mln, assigning the Bank the term of 30 days to make the payment with the warning that, on the back of the failure to do so, it will proceed with the forced recovery through entry of the action in the list of cases. The Sicily Region filed a petition for the summons of Riscossione Sicilia, resulting in the postponement of the first appearance hearing, which was held on 26 September 2019 and in which the Judge, upon acknowledging the statements provided by the parties, 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 Bank asked for the hearing closing arguments 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.

With ruling no. 3649/2021, published on 4 October 2021 and notified on 5 October 2021, the Court of Palermo rejected the Bank's opposition against the aforementioned order with simultaneous condemnation of the Bank to pay the litigation costs. The Bank lodged an appeal against this decision before the Palermo Court of Appeal. With an order filed on 11 February 2022, the Court of Appeal ordered the integration of the discussion against the Revenue Agency - Collection (ADER), as successor of Riscossione Sicilia spa, scheduling the new collective discussion hearing for 1 July 2022, in which the decision was postponed to the hearing of 22 November 2024 for closing arguments. 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.

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

The appeal concerns the challenging of the Order of injunction in the part in which, "alternatively, pursuant to art. 823, paragraph 2 of the Italian Civil Code, it orders Banca Monte dei Paschi di Siena (...) to return to the Sicily Region, within the same period of 30 days from receipt of the present, the amount of approx. EUR 68.6 mln plus interest at the rate established by special legislation for late payment in commercial transactions, as provided for in paragraph 4 of art. 1284 of the Italian Civil Code.

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

Banca Monte dei Paschi di Siena S.p.A. vs. Nuova Idea

With a writ of summons notified on 21 December 2021, Nuova Idea S.r.l. summoned the Bank before the Court of Caltanissetta in order to have it declare that it was obliged to compensate all the damages, financial and non-financial, suffered by the company as a consequence of the protest of a bill of EUR 2,947 domiciled at the Caltanissetta Branch, which according to the plaintiff's prospect would have been raised due to the Bank's exclusive negligence.

The plaintiff argues that the illegitimate protest constituted the only causal antecedent of a chain of events described in the writ of summons which resulted in the net reduction of its shareholdings in a Temporary Grouping of Companies awarded a service contract with ASL Napoli 1 Centro, consequently requesting, principally, that the Bank was ordered to pay in its favour the amount of EUR 57.3 mln by way of loss of earnings as well as an amount of EUR 2.8 mln by way of loss of profit, and thus a total of EUR 60.1 mln, in addition to compensation for damage to the corporate image and commercial reputation to be paid on an equitable basis.

The first appearance hearing, indicated in the summons as 29 April 2022, has been postponed to 4 May 2022. The Bank promptly appeared, stating the correctness of the behaviour taken when the protest was raised and the absence of any causal link between the Bank's actions and the alleged damage. At the hearing of 4 May 2022, the Judge withheld his decision on the requests and objections formulated by the parties and subsequently, lifting his reservation, granted the parties a deadline for filing the preliminary briefs, postponing the decision to the hearing of 29 March 2023

Banca Monte dei Paschi di Siena S.p.A. vs. Barbero Metalli S.p.A.

The proceedings, with relief sought equal to EUR 37.5 mln, were brought by Barbero Metalli 124 S.R.L. - transferee of the action pertaining to BARBERO METALLI S.P.A. (operating under bankruptcy laws) by virtue of designation pursuant to art. 1401 of the Italian Civil Code operated by Energetyca S.r.l., acting as assumptor in the composition in bankruptcy related to the same procedure - against the directors and auditors of the company, as well as the different credit institutions jointly and severally, for having contributed to the insolvency of the company through the illegal granting of credit. In particular, in regard to the Bank, the complaint concerns the connivance with the acts of maladministration of the directors for having advanced sums to the company from 2009 onwards (RI.BA.) without underlying invoices, fictitiously indicated on future issues for a total of approximately EUR 8.8 mln.

The plaintiff asks for the directors, auditors and banks to be found jointly and severally liable for approximately EUR 37.4 mln as additional loss incurred by the company, and in the alternative liable for EUR 22.9 mln, as the value of individual detrimental transactions carried out by the company and expressly listed in the summons.

Given the content of the claims, the share of the risk pertaining to the Bank, jointly and severally summoned with the other defendants to pay the entire amount requested in relief, has not been quantified.

Once the appearance of the parties ended and the mediation was unsuccessfully defined, the Judge ordered the postponement of the hearing to 21 December 2022.

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Employment law disputes

As at 30 June 2022 employment law disputes were pending for which the relief sought, where quantified, was equal to approximately EUR 90.5 mln. In particular:

- approx. EUR 52.3 mln in relief sought for which there is a "likely" risk of losing the case, for which provisions of about EUR 41.6 mln have been made;
- approx. EUR 19,5 mln as relief sought for disputes for which there is a "potential" risk of losing the case;
- approx. EUR 18,8 mln as relief sought for disputes for which there is a "remote" risk of losing the case.

We provide below the summary information on the most significant dispute pending at 30 June 2022.

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

After the sale of the business unit, 634 workers (then reduced to 243 due to waivers and settlements) summoned the Bank before the courts of Siena, Rome, Mantua and Lecce to request the continuation of the employment relationship with Banca MPS, subject to the sale agreement with Fruendo being declared ineffective.

As of today, first and/or second instance rulings have been unfavourable to the Bank in regard to all workers involved (these rulings have been or are about to be challenged before the competent courts - 46 workers concerned); for 197 workers, a final judgement was issued with the unfavourable ruling of the Supreme Court.

It should also be noted that in the case of a sale of a business unit considered to be unlawful, the Supreme Court with reference to the remuneration obligations of the transferor, has recently handed down a ruling that was not aligned with the case law confirmed over time by the Supreme Court itself: in fact, with its recent rulings, issued starting from July 2019, it was affirmed that, in the event that the transfer of the employment relationship, in the broader context of the transfer of business unit, is declared unlawful, the transferring employer, who does not reinstate the employees, is still liable to fulfil the remuneration obligations in addition to those fulfilled by the transferee employer, since the principle that the payment made by the latter would discharge the former is considered not applicable to the case in question.

Based on this change in case law ("double remuneration"), as of today 210 workers involved in the transfer of the business unit and recipient of the above rulings in their favour, have sued the Bank in order to request the remuneration allegedly due. These actions were appealed by the Parent Company before the Courts of Siena, Florence, Mantua and Rome, with hearings currently scheduled between August 2022 and October 2023.

For this group of disputes, 27 first instance rulings and 3 second instance rulings have been issued so far:

- 4 by the Court of Siena, partially unfavourable (with the Labour Court sentencing the Bank to pay only 5 months of the final total remuneration);
- 14 by the Court of Rome, unfavourable (with the Labour Court sentencing the Bank to pay all the wages claimed by the workers);
- 6 by the Court of Mantua, unfavourable (with the Labour Court sentencing the Bank to pay all the wages claimed by the workers);
- 3 by the Court of Rome, favourable (with the Labour Court upholding the objections of the Bank and rejecting the workers' appeal);
- 1 issued by the Court of Appeal of Florence which, by reforming the first partially unfavourable ruling of the Court of Siena, recognized the right of workers to receive all the wages claimed;
- 2 issued by the Court of Appeal of Brescia, which confirmed the unfavourable rulings made in the first instance by the Court of Mantua.

The partially unfavourable rulings issued by the Court of Siena, which partially accepted the request relating to the "double remuneration", ordering the Bank to pay only 5 months of the last overall salary due to the parties involved, also gave impetus at the start of negotiations for the settlement of disputes which, to date, have led to the completion of 240 transactions.

Please also note that the Court of Siena, Labour Section, with ruling of 25 January 2019, rejected the appeals of 52 Fruendo workers (later reduced to 32 following waivers/settlement) which sued the Bank before the Court to request the continuation of the employment relationship with the latter, upon declaration of the unlawful interposition of labour ("unlawful contract") as part of the services outsourced by the Bank to Fruendo.

This ruling was challenged by 16 workers before the Court of Appeal of Florence Labour Law Sect. which, on the other hand, ascertained the illegality of the contract, ordering the reinstatement of the parties concerned, which was started with effect from 1 March 2022.

45 workers of Fruendo have started additional legal actions to establish the unlawfulness of the contract:

a) 13 applicants brought action before the Court of Padua - Labour Law Sect.: next hearing 27 September 2022;
b) 32 workers brought action before of the Court of Siena - Labour Law Section. The status of the related rulings is summarised below:
    - for two groups of applicants (18 in total) who have introduced collective disputes, favourable rulings were issued at first instance by the Court of Siena Labour Law Sect., which were challenged before the Court of Appeal of Florence: next hearing 17 November 2022;
    - for another group of applicants (13 in total), the appeal was notified to the Bank on 29 June 2022 and the first appearance hearing is set for 21 December 2022;
    - for the only applicant who filed an individual claim, the Court set the next hearing on 5 June 2023.

Tax disputes

As at 30 June 2022 tax disputes were pending for which the total claim, where quantified, was equal to approximately EUR 75.9 mln. In particular:

- approx. EUR 10.8 mln in relief sought regarding disputes for which there is a "likely" risk of losing the case, for which provisions of about EUR 10.8 mln have been made;
- approx. EUR 28.2 mln as relief sought for disputes for which there is a "potential" risk of losing the case;
- approx. EUR 36.9 mln in claims regarding the remaining disputes, for which there is a "remote" risk of losing the case.

Risk linked to representations and warranties given in the sale and demerger of non-performing loans

In execution of the 2017-2021 Restructuring Plan, the Bank has launched an important destocking plan for non - performing loans with the aim of significantly reducing its NPE ratio. As part of these transactions, indemnities are envisaged to be paid to the transferee counterparties of non-performing loan portfolios if the representations and warranties (R&W) issued are not true. In this regard, note the securitisation transaction carried out by the Group in December 2017 in favour of Siena NPL which resulted in the cancellation of bad loans for a gross exposure of over EUR 22 bn, whose R&W expired on 31 July 2021. By that date, more than 10,000 claims had been received for a relief of approximately EUR 0.5 bn; of those analysed, a limited percentage was assessed as well-founded. Also of note is the "Hydra -M" demerger in 2020 concerning EUR 7.2 bn of gross non-performing loans whose R&W expires in November of the current year and some transactions involving the sale of portfolios of unlikely to pay loans, which took place between 2018 and 2020, with a maximum expiry May 2023. As at 30 June 2022, approx. 64 *claims* for EUR 21.7 mln have been received and analysed for "Hydra M". The risk provisions for this type of transaction, if the claims are not fully analysed and/or the expiry date has not yet matured, are also determined through the use of statistical techniques to take into account the overall expected risk.

Compensation for transactions in diamonds

In 2012, Banca Monte dei Paschi di Siena signed a cooperation agreement with Diamond Private Investment (DPI) to regulate the modalities for the reporting of the offer of diamonds by the company to the customers of Banca MPS. This activity generated total purchase volumes of EUR 344 mln, mainly in 2015 and 2016, with a significant drop already from 2017.

The Antitrust Authority (Autorità Garante della Concorrenza e del Mercato - AGCM) established the existence of behaviours in violation of the provisions relating to unfair trade practices on the part of DPI, imposing a sanction of EUR 2 mln.

This measure was challenged before the Lazio Regional Administrative Court which, with ruling of 14 November 2018, rejected the Bank's appeal. No appeal has been lodged against the judgement and it has therefore become final.

The compensation process, agreed by Board of Directors since January 2018, envisaged the payment to customers a consideration up of an amount equal to that originally paid to DPI for the purchase of stones, with the simultaneous transfer of the same to the Bank and completion of the transaction.

Once the necessary authorisations were obtained, the initial transactions with customers were completed in the second half of 2018.

Following the launch of the initiative for a customer compensation process by the Bank, AGCM, given also the importance of the measures adopted for the mitigation of the financial impact of the communication of the offer of diamonds to the customers, requested to be kept updated on the progress of this initiative. On 2 December 2020, AGCM announced that it had taken note of the information sent by the Bank in relation to the initiatives taken in compliance with its provision no. 26758/2017, without requiring further updates on the status of the compensation initiative.

On 19 February 2019, the Bank was served a preventive seizure order from the Judge's Office for the Preliminary Investigations of the Court of Milan in relation to this case. The decree was served to several individuals, two diamond-producing companies (Intermarket Diamond Business S.p.A. and Diamond Private Investment S.p.A.), as well as 5 banks, including the Bank, and resulted, for Banca MPS, in the preventive attachment of the profit from the crime of continued aggravated fraud, in the amount of EUR 35.5 mln. In addition, a preventive seizure order was served by equivalence pursuant to art. 53 of Italian Legislative Decree 231/2001, for EUR 0.2 mln for the crime of self-money laundering.

On 6 April 2021, the request for committal for trial by the Public Prosecutor's Office at the Court of Milan was issued against 110 subjects, including 5 Executives and 8 branch managers, in relation to the crimes of aggravated and continued fraud, as well as use of money (self-laundering) for the 5 Executives only The Bank is accused of the administrative offense pursuant to art. 5 and 25 - octies of Italian Legislative Decree 231/2001 in relation to the crime of self-laundering pursuant to art. 648 ter 1 of the Criminal Code.

At the hearing held on 20 December 2021, the preliminary issues were discussed and at the subsequent hearing held on 21 January 2022, the Judge of the preliminary hearing upheld the case for lack of venue jurisdiction raised by the parties, removing the proceedings from the jurisdiction of the Milan Court and arranging for the transmission of documents:

- to the Public Prosecutor's office of Rome, as regards alleged fraud of the request for committal for trial challenged against the representatives of DPI and BMPS (as well as for the alleged use and self-laundering concerning the defendants representing DPI);
- to the Public Prosecutor's office of Siena, as regards alleged self-laundering attributed to the executives of BMPS and the corresponding administrative offense, charged to the Bank in the request for committal for trial. On 8 June 2022, as part of this new proceeding on Siena, the Public Prosecutor issued the notice of conclusion of the preliminary investigations and contextual notice of indictment against 5 former executives already involved in the main proceedings on Milan, for the crime of self-laundering pursuant to articles 81, 110, and 648 ter 1 par. 1, 2 and 5 of the Criminal Code. The aforementioned notice

confirmed the charge to the Bank in relation to the administrative offense referred to in articles 5 par. 1 letter be 25-octies of Italian Legislative Decree no. 231/2001.

On 23 February 2022 and 10 March 2022, respectively, both the Court of Siena and the Court of Rome - Preliminary Investigations Judge's Office - ordered the validation of the preventive seizure order decree for EUR 0.2 mln, issued against Banca MPS for the administrative offense pursuant to art. 25 octies of Italian Legislative Decree 231/01 in relation to art. 648 ter 1 of the Criminal Code (self-laundering), and EUR 35.5 mln in relation to the crime of fraud.

On 16 June 2022, following a specific request filed by the Bank, the Rome Public Prosecutor's Office notified the release from attachment of the aforementioned sum of EUR 35.5 mln.

With reference to the "diamonds" affair, a further criminal proceeding was initiated before the Public Prosecutor's Office at the Court of Milan for the crimes of aggravated fraud, self-laundering and obstruction of regulators, in the context of which, on 28 September 2021, the Public Prosecutor made a request for committal for trial, against 7 former executives (including 5 of the main line of litigation) and the CEO and pro tempore General Manager of the Bank.

The preliminary hearing was set for 30 September 2022.

In these new proceedings, the Bank is not under investigation as party with administrative liability pursuant to Italian Legislative Decree 231/01.

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

As at 30 June 2022, 12,412 claims had been received for a total value of approx. EUR 316 mln; while the settlements carried out were equal to a total of EUR 315 mln (of which EUR 1.0 mln during the first half of 2022, covered for the total value net of the market value of the stones by the provision for risks and charges allocated in previous years) and represent 91.5% of the total volume of diamond offers reported by the Bank. Residual provisions for risks and charges recognised against the compensation initiative amounted to EUR 4.8 mln as at 30 June 2022.

As at 30 June 2022 the stones returned were recognised for a total value of EUR 75.2 mln.

Audits

As the Bank carries out banking activities and provides investment services, it is subject to comprehensive regulation and supervision, in particular by the ECB, Bank of Italy and CONSOB, each for the respective areas of responsibility. Below are the main activities carried out by the Supervisory Bodies, or with significant updates in the half-year with respect to what was published in the 2021 Financial Statements.

The new inspection activities of the semester are shown below:

Credit and counterparty risk audit (OSI 0198380)

During the first half of 2022 (starting from April 2022 with completion expected in August 2022) the On-Site Inspection "OSI-2022-ITMPS-0198380" was launched by the ECB, part of the campaign on Corporate & Large SME portfolios that intends to:

- identify and quantify any deterioration/cliff effects in specific portfolios at the level of individual borrowers and/or group of exposures;
- review specific parts of the collective provision model of IFRS 9 for the portfolios in question (SICR and LGD for collective provisions);
- identify shortcomings in the credit risk classification and provisioning processes, also leveraging the main results of the previous 2020 and 2021 credit risk campaigns.

In addition to the Bank, the subsidiaries MPS Capital Services, MPS Leasing & Factoring and Banca Widiba are also under inspection.

The main objective of the OSI is to obtain an in-depth knowledge of the processes within the Corporate and Large SME portfolio and to assess the adequacy of the related classification /provisioning processes. The focus is on:

- credit risk processes and procedures;
- policies/procedures relating to credit risk monitoring and supervisory expectations;
- company rating monitoring procedures;
- impact on staging and provisioning, including:
    - migration between IFRS 9 stages and assignment of PD / rating;
    - correct implementation of macroeconomic scenarios and credit risk parameters in IFRS9 models;
    - adequate measurement of the LGD parameter through the assessment of the underlying methodology described in the bank's internal policies;
    - forborne classification;
- adequate classification and provision of a sample of counterparties mainly belonging to the Corporate and Large SME portfolio selected with a risk-based approach (120 counterparties, 80 Corporate, 40 Large SMEs, for 3.2 mln in use as at 31 December 2021).

The reference date taken into consideration for the purposes of the above checks is 31 December 2021.

Audit on internal models - Internal Model Investigation (IMI-2022-ITMPS-0197502)

In February 2022, the ECB launched an on-site inspection for the approval of the authorization request (sent by BMPS to the ECB on 9 November 2021) to the material changes for the credit risk models. The material changes relate to the adaptation of the AIRB models (PD and LGD) to the new reference regulatory legislation (EBA/GL/*2017/16*), to the resolution of the findings that emerged in previous inspections (IMI 2939, TRIM 3917, IMI 4357, IMI 5258 and IMI 4857) and the roll-out of the EAD parameter. The audit activities were completed on 13 May 2022, the Parent Company is awaiting the related inspection *report*.

With regard to **climate and environmental risks**, on 13 January 2022, the ECB sent the outcome of the gap analysis conducted on the Bank on disclosure, highlighting some points of attention. On the basis of the points of attention indicated, a review of the implementation plans was carried out, and a specific project was developed aimed at addressing in particular the "expectations" relating to the Risk Management framework and that relating to disclosure. The project in question, called "ESG Risk Action", was formally launched on 29 June 2022.

On 18 March 2022 at the request of the ECB, at the opening of the upcoming Thematic Review, a new self-assessment was produced on all expectations on climate and environmental risks, aimed in particular at providing a state of progress of the planning already communicated and any of its revisions.

Consob Audit on Investment Services

On 3 May 2022, a Consob inspection on the Bank began, aimed at ascertaining the state of compliance with the new legislation resulting from the adoption of Directive 2014/65/EU (so-called MiFID II) with regard to the following profiles: (i) the procedural arrangement defined in terms of product governance; (ii) the procedures for assessing the adequacy of transactions carried out on behalf of customers.

With regard to the inspections mentioned in the 2021 Financial Statements, the following most important updates are noted:

- Audit on interest rate risk (OSI-2019-3834) In the first half of 2022, the Parent Company implemented the remedial actions according to a program that provides for full completion by the end of the year.
- Bank of Italy's audit on the Bank's banking transparency The inspection ended in January 2020 and, on 6 May 2021, the Bank of Italy imposed a pecuniary administrative sanction of EUR 2.9 mln on the Bank for certain shortcomings regarding transparency. A corrective action plan was activated, completed by 31 December 2020. During 2021, the Bank also carried out a follow-up plan with respect to the activities carried out during 2020, which ended on 31 July 2022, with specific activities remaining following the subsequent discussions with the Supervisory Authority.
- Audit on the liquidity allocation process and the internal transfer rate (OSI-2019-4356) In the first half of 2022, the Bank implemented the remedial actions according to a program that provides for full completion by the end of the year.
- Internal governance audit (OSI-2020-4834) In 2021 the ECB sent the final letter and the Parent Company, in 1Q'22, activated a specific action plan to mitigate the 4 points of concern highlighted (2 to Compliance and 2 to Internal Audit). The Action plan ended on 31 March, with the sending of a specific communication to the ECB, after passing to the Board of Directors.
- Thematic Review on climate and environmental risks. During the first quarter of 2022, the ECB launched a Thematic Review on climate and environmental risks, which continued in the second quarter of 2022.

Prospects and outlook on operations

The world economy is experiencing a phase of slowdown in growth, linked to the profound uncertainty about the outcome of the conflict between Russia and Ukraine, the record inflation in advanced economies, the growing political and geopolitical tensions and coexistence with the virus. Central banks are adopting restrictive policies that are reflected in the rise in government maturity curves and in the downward adjustments of equity prices. The EU Commission[26] estimates growth in the GDP of the Euro Area at 2.6% annually in 2022, but almost halving it, compared to previous estimates, in 2023 (bringing it to 1.4% annually).

The increase in energy prices exacerbated by dependence on Russian supplies, combined with the growing uncertainty about the outcome of the conflict in Ukraine entails a deterioration of the macroeconomic framework expected for Italy, to which is added the risk that the growing Italian political instability could impact on the correct implementation of the NRRP according to the defined time-table, with repercussions on the perception of the markets. According to the latest forecasts of the EU Commission, Italian GDP is expected to grow by 2.9% annually while expectations are lowered by 2023 with a growth of 0.9%.

As a result of the economic situation, at the moment there are no strong repercussions on the credit quality of Italian banks, even if, with the increase in rates and with the gradual return of support policies, a deterioration is expected starting from next year. The increase in uncertainty supports households' demand for bank deposits, which postpone the reallocation towards more profitable medium and long-term instruments to subsequent years. The deposits of companies, which use liquidity to finance a production cycle penalized by the increase in costs and the difficulties linked to the conflict, are reduced. Indirect deposits are affected by the reduction in the propensity to save and the negative performance of the financial markets, but a recovery is forecast with the expected recovery of disposable income, once inflationary pressures have been recomposed, and the overcoming of market tensions. The growth of credit to the economy, despite being affected by the effects of high inflation, is expected to continue: loans to households benefit from the boost deriving from real estate renovations and, in the medium term, from the expected recovery of disposable income; those to businesses benefit from the growth of investments. The net interest income of the banks benefits from the rise in interest rates, with the progressive improvement in the profitability of the sector which, in any case, in the medium term, is not expected to bridge the gap with the cost of capital, leaving room for further transformations towards greater efficiency and further diversification of revenues.

The greater uncertainty characterising the current economic context may also have effects on the Banks' performance over the coming months. In any event, the Bank 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. The net interest income will benefit from the recent rate hike and the contribution of the new consumer credit platform. For the second half of the current year, a reduction is expected in the contribution to the net interest income of the liabilities for TLTRO III (equal to EUR 145 mln as at 30 June 2022) following the expiry of the additional special period and the change in the rate of remuneration of these liabilities as a result of the increase in ECB rates. The effects of the Russia-Ukraine conflict are attenuating the growth outlooks of fees and commissions from asset management for this year: 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.

In the coming months, the Bank will be focused on carrying out the EUR 2.5 bn capital increase. The transaction, in the form of a capital increase will be submitted to the resolutions of the Shareholders' Meeting called for next 15 September. The Shareholders' Meeting may only be held following the successful completion of the authorization process currently underway at the ECB. As regard DG Comp's assessments, on 2 August, MEF informed that the Authority approved the revision of the "Commitments" that had been undertaken by the Italian Republic in order to enable the precautionary recapitalisation of the Bank in 2017, in compliance with EU and Italian regulations and that the revised commitments are consistent with the 2022-2026 Business Plan targets. Furthermore, the Bank's Board of Directors approved the signing of a pre-underwriting agreement for the capital increase concerning the commitment - subject to conditions in line with market practice for similar transactions, including, among other things, the positive feedback from institutional investors in relation to the proposed capital increase and the agreement on the final terms and conditions of the same - to sign an underwriting agreement, relating to the newly issued ordinary shares, which may have remained unexercised at the end of the offer of the

[26] European Economic Forecast, Summer 2022, July 2022

unexercised rights pursuant to art. 2441, paragraph 3, of the Italian Civil Code. The terms and conditions of the transaction (including the subscription price of the shares) will be determined, in agreement between the Bank and the *Joint Global Coordinators and Joint Bookrunners* (as defined below), close to the launch of the offer, taking into account, inter alia, market conditions and institutional investor feedback.

The next few months will also be characterized by the implementation process of the 2022-2026 Business Plan approved by the Board of Directors on 22 June 2022. In particular, in the fourth quarter of the year is planned (i) the deconsolidation of a portfolio of non-performing loans of the "Fantino" project- whose sale was finalised on 4 August 2022 – for a total gross exposure of EUR 0.8 bn as at 30 June 2022 and (ii) the finalisation of the merger by incorporation into the Bank of the subsidiary Consorzio Operativo Gruppo MPS.

In addition, following (i) the agreement reached on 4 August with the Trade Union related to the voluntary exits plan, thanks to an early-retirement scheme and the recourse to the sector's Solidarity Fund, and (ii) of the availability of capital resources as envisaged in the Plan, early-retirement incentive costs are expected for approximately EUR 0.8 bn, with a cost saving starting from 2023, of EUR 270 mln on annual basis.

The figures as at 30 June 2022 confirm the very robust liquidity position of the Bank, with indicator levels (LCR/NSFR) that are significantly higher than regulatory and operational limits. The expected institutional maturities for the second half of 2022 are mainly represented by EUR 0.5 bn of *unsecured* senior bond (already expired in July) and, in the last quarter of the year, by TLTRO III auctions for EUR 4 bn. 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 accordance with the 2022-2026 Business Plan.

As concerns capital requirements, in the absence of the capital strengthening transaction, 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 30 June 2023 a shortfall of approx. EUR 500 mln could emerge with respect to the overall capital requirements. On the other hand, as at 31 December 2022, i.e. before the IFRS9 phase-in effect, the shortfall could be around EUR 50 mln.

Related-party transactions

Compensation of key management personnel

Items/Amounts	Total 30 06 2022	Total 30 06 2021
Short-term benefits	2.8	3.5
Termination benefits	0.2	-
Total	**3.0**	**3.5**

In compliance with the instructions provided by accounting standard IAS 24 and in light of the current organisational structure, the Group has opted for the disclosure scope to include not only the Directors, Statutory Auditors, the General Manager and the Deputy General Managers, but also other Key Management Personnel.

The information regarding remuneration policies is contained in the 'Remuneration Report pursuant to art. 123 ter of the Consolidated Law on Finance', available on the Parent Company's internet site, which contains the following data:

- a detailed breakdown of compensation paid to the Administration and Control Bodies, General Managers and, in aggregate form, to Key Management Personnel;
- quantitative information on the remuneration of "Key employees";
- monetary incentive plans in favour of members of the Administration and Control Body, the General Managers, the Deputy General Managers and other Key Management Personnel;
- information on the equity investments of members of the Administration and Control Bodies, the General Managers and other Key Management Personnel.

In the first half of 2022, there were 2 terminations of employment contracts of key management personnel and in one case a severance payment was granted.

Related-party transactions

In compliance with the provisions of Consob Resolution no. 17221, 12 March 2010, last updated with the amendments made by Consob resolution no. 21624, 10 December 2020, which came into force on 1 July 2021, as well as art. 53 Consolidated Banking Law (TUB) and its implementing provisions (Bank of Italy Circular 285/2013, Part Three, Chapter 11 "Risk assets and conflicts of interest with respect to associated parties"), the "Committee for Related-party Transactions" was established, composed of between three and five independent directors, carrying out the functions envisaged by the Articles of Association and the current legislative and regulatory provisions on transactions with related and associated parties.

Following the entry into force of the aforementioned Consob resolution no. 21624 of 10 December 2020 (the "Consob Regulation"), the Board of Directors of the Bank in the meeting held on 6 July 2021, with the preliminary favourable opinions of the Committee for Transactions with Related Parties and the Board of Statutory Auditors, resolved to adopt a new updated version of the "Group Directive concerning Management of regulatory obligations on related parties, associated parties and obligations of bank representatives" (hereinafter the "Group Directive", accompanied by a "Group Regulation concerning Management of regulatory obligations on related parties, associated parties and obligations of bank representatives" (hereinafter the "Group Regulations"), which include all the obligations envisaged by the regulations applicable to the Bank from 1 July 2021. These internal provisions and procedures, regards related parties, have been revised to implement the new provisions of the Consob Regulation in force since 1 July 2021, which introduce, among other things, a new definition of a Consob related party and the need to define thresholds of small amounts, differentiated at least according to the nature of the counterparty. The Group Directive was most recently updated on 27 January 2022 for the purpose of implementing the additional obligations relating to loans granted to relevant parties pursuant to art. 88 of Directive 2013/36/EU.

The Group Directive defines the organisational model adopted by the MPS Group (principles and responsibilities) for the management process of the provisions applicable to related parties, associated parties and obligations of the bank representatives, and in particular, governs, at the MPS Group level, the principles and rules for the control of risks arising from situations of possible conflicts of interest with some subjects close to the decision making centres of the Bank.

Within the Group Directive, the following is also defined:

- the formulation of the responsibilities assigned within the MPS Group (tasks and responsibilities of the top management bodies and corporate functions of the Bank and Subsidiaries);
- the scope of the related parties, associated parties ("Group Scope") and other subjects in a potential conflict of interest;
- the criteria for the identification of transactions, level of relevance of the transactions;
- the decision-making procedures and exemption cases;
- the internal policies in the area of control.

For the purpose of the Group Directive, significance is attributed to the transactions carried out with the subjects operating within the Group Scope which involve the performance of risk activities, the transfer of resources, services and obligations, regardless of the requirement of a consideration.

With regard to the type of transactions, these are classified in detail in the aforementioned Group Regulation, as:

- "**most significant transactions**": transactions where at least one of the following relevance indicators, applicable according to the specific transaction, exceeds the 5% threshold (greater relevance threshold):
  - *countervalue significance indicator:* the ratio of the countervalue of the transaction to the total of the own funds resulting from the most recent published consolidated balance sheet;
  - *relevance index of the assets:* the ratio of the total assets of the entity to which the transaction refers, to the total assets of Banca MPS;
  - *relevance index of the liabilities:* the ratio of the total liabilities of the acquired entity to the total assets of BMPS;
- "**transactions of lesser significance**": transactions for an amount greater than a small amount and up to the threshold of greater significance; in the context of transactions of lesser significance, transactions in which the amount exceeds EUR 100.0 mln and up to the threshold of greater significance (significance index of the equivalent value) are considered to be of lesser significance as a "significant amount", or, in the case of acquisitions, mergers and demergers for an amount equal to or less than EUR 100.0 mln, the significance index of the assets and/or liabilities is equal to or greater than the ratio of EUR 100.0 mln and own funds at a consolidated level.
- "**transactions for a small amount**": transactions for an amount equal to or less than EUR 250.0 thousand, in the event that the counterparty is a legal person; transactions for an amount equal to or less than EUR 100.0 thousand, in the event that the counterparty is a natural person.

The provisions and procedures applicable to transactions with related parties, in the versions in force at the time, are published on the website www.gruppomps.it in the section "Corporate Governance - Transactions with related parties".

From 2016, the Bank's Board of Directors formally resolved to approve inclusion of the Ministry of Economy and Finance (MEF) and of the relevant directly and indirectly controlled companies within the scope of related parties on a discretionary basis pursuant to the provisions of the Group Directive, excluding the prudential regulation.

Following completion of the Bank's precautionary recapitalisation procedure, after which the MEF became the controlling shareholder from August 2017, the Bank received notification on 18 December 2017 from the Supervisory Authorities with regard to the methods for the resulting application of limits to risk assets laid out in prudential regulations, pursuant to art. 53 of the Consolidated Law on Banking (TUB) and its implementing provisions (Bank of Italy Circ. 263/06 Title V Section 5), through application to the Bank of the "silo" approach for calculation of the reference limits.

With reference to the MEF scope, the Bank has availed itself of the exemption provided by paragraph 25 of IAS 24 on the disclosure of transactions and balances of existing transactions with government-related entities. The main transactions carried out with the MEF and with its subsidiaries, in addition to financing transactions, include Italian government securities recorded in the portfolios "Financial assets measured at fair value through other comprehensive income" for a nominal amount of EUR 4,175.9 mln as well as "Financial assets measured at amortised cost" for a nominal amount of EUR 5,005.0 mln. Information is provided below regarding the most significant transactions, in terms of amount, carried out by the Bank with related parties in the first half of 2022.

MEF related-party transactions

On 4 January 2022, the Credit Committee resolved to authorize the ordinary review in favour of VALVITALIA S.p.A. with a reduction of the existing credit facilities for a total of EUR 25.0 mln in the following terms: (a) extension with reduction of the mixed concession from EUR 22.2 mln to EUR 21.0 mln usable: (i) for the issue of commercial guarantees both in Italy and abroad; (ii) for credit openings against documents, including those not representative of goods and the issue of Letters of Credit; (b) confirmation of the concession of EUR 3.0 mln that can be used for the purchase and sale of foreign currencies to hedge exchange rate risks; (c) extension with reduction of the concession from EUR 3.0 mln to EUR 1.0 mln that can be used as a multiple credit line by the subsidiary Valvitalia Suzhou Valves Co. Ltd at the Shanghai branch. The transaction falls within the scope of application of Consob Regulation no. 17221/2010 by virtue of the investment in the capital of the parent company Valvitalia Finanziaria S.p.A., of the Fondo Strategico Italiano Investimenti S.p.A., a company owned by CDP Equity S.p.A. of the CDP S.p.A. Group, in turn controlled by the MEF.

On 2 February 2022, the ordinary review of the credit facilities in favour of SO.GIN S.p.A. was authorized with confirmation of the credit lines in place for a total of EUR 19.9 mln, of which: (i) EUR 18.9 mln, which can be used in conjunction with the issuance of endorsement credits (including VAT and *imports*) and (ii) EUR 1.0 mln that can be used in conjunction with forward currency hedges, including flexible ones. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, since the MEF, controlling shareholder of the Bank, is the sole shareholder of SO.G.I.N. S.p.A.

On 4 February 2022, the Credit Committee authorized the ordinary revision of credit facilities in favour of the PSC S.p.A. Group for EUR 15.2 mln, with an increase in existing credit facilities for a total of approximately EUR 7.8 mln - as a re-proposal, same amount and method, of financing approved in May 2021 and not finalized - through the granting of a new loan of EUR 7.8 mln with a duration of 6 years, of which 2 of financial pre-amortization, aimed at supporting the financial needs of the capital in circulation and backed by an explicit, irrevocable first demand guarantee by SACE S.p.A. equal to 90%, in compliance with the provisions of Legislative Decree no. 23/2020 "Liquidity" (converted into Law no. 40/2020). The disbursement was subject to the acquisition of the consent to postpone the verification of the *covenants* calculated on the data contained in the 2021 Consolidated Financial Statements by the subscribers of the bond loans and the lending banks of the *syndicated* loan stipulated in 2020. Subsequently, on 30 June 2022, the change in the credit classification of the PSC S.p.A. GROUP was authorized, pending the definition of the terms of the plan presented by the Company to the Court of Lagonegro (PZ) for admission to the composition with creditors procedure pursuant to art. 161, paragraph 6, Bankruptcy Law. This significant transaction falls within the scope of application of Consob Regulation no. 17221/2010, since GRUPPO PSC S.p.A. is owned by Fincantieri S.p.A., in turn controlled by CDP S.p.A., the latter controlled by the MEF.

On 8 February 2022, the Credit Committee authorized the ordinary review of the credit facilities granted to FINCANTIERI S.p.A. with confirmation of the credit facilities in place for a total of EUR 25.2 mln, broken down as follows: (i) credit facility of EUR 25.0 mln usable on a mixed basis up to the entire amount for forward drawing operations, up to the maximum amount of EUR 10.0 mln as a current account overdraft facility and limited to EUR 2.1 mln to issue unsecured loans and (ii) credit facilities of EUR 0.2 mln to issue unsecured loans. The transaction falls within the scope of application of Consob Regulation no. 17221/2010 as the MEF, the controlling shareholder of the Bank, is the majority shareholder of CDP S.p.A. which in turn holds 100% of CDP Industria S.p.A., the majority shareholder of FINCANTIERI S.p.A.

On 16 February 2022, the ordinary review of credit facilities in favour of the FONDO ITALIANO DI CONSOLIDAMENTO E CRESCITA was authorized, with confirmation of the credit facility that can be used as a current account overdraft facility of EUR 25.0 mln or the lower of the amount of EUR 25.0 mln and 30% of subscriptions still to be called to investors. This transaction falls within the scope of application of Consob Regulation no. 17221/2010, since FONDO ITALIANO DI CONSOLIDAMENTO E CRESCITA is managed by Fondo Italiano d'Investimento SGR S.p.A., which is controlled by CDP S.p.A., which in turn is controlled by the MEF.

In February 2022, an operation for an amount of EUR 10.6 mln was formalized in favour of the Bank's customers, against the granting of a loan of EUR 15.0 mln, aimed at supporting a Group renewable energy investments and divided into two *tranches*, one of which is *unsecured* for EUR 1.7 mln and EUR 13.3 mln, backed by an 80% SACE guarantee, as part of the *"Green New Deal ",* pursuant to Legislative Decree no. 76/2020 (" *Capex Green* Financing") and in the terms of the SACE *GREEN* 2021 framework resolution, already commented on in Part H relating to the Bank's financial statements as at 31 December 2021. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, as SACE S.p.A. is a wholly-owned subsidiary of CDP S.p.A., in turn a subsidiary of the MEF.

On 8 March 2022, the ordinary revision of credit facilities, in favour of CONSIP S.p.A. with confirmation of the existing credit facility which can be used as a current account overdraft facility, for EUR 10.0 mln. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, since CONSIP S.p.A. is a wholly-owned subsidiary of the MEF.

On March 30, 2022, the Board of Directors, subject to the favourable opinion of the Committee for Transactions with Related Parties, resolved to authorize substantial contractual *amendments* to the BACK2BONIS FUND ("Fund" or "B2B", an Italian alternative investment fund of closed type reserved), and in particular the dissolution of the framework agreement establishing the Fund, as part of the multitarget / multioriginator transaction of which the Bank and its subsidiary MPS Capital Services S.p.A. became unlisted in 2019, as part of the credit transfer transaction called Project Cuvée - Wave 1. The value of the shares held by the MPS Group is approximately EUR 40.9 mln, of which EUR 20.6 mln of the Bank and EUR 20.3 mln of MPS Capital Services S.p.A. AMCO S.p.A. participates in the transaction; in addition to being a shareholder of the fund, it also holds a plurality of roles within the securitization transaction. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, since AMCO S.p.A. is a wholly-owned subsidiary of the MEF.

On 3 May 2022, the Credit Committee authorized the Bank's acceptance of the *waiver* request made by ENEL S.p.A., keeping unchanged the Bank's share, equal to EUR 90.0 mln, in the *Sustainability-linked syndicated* loan outstanding to favour of ENEL S.p.A.. Acceptance of the *waiver* was necessary to proceed with the increase, up to a maximum of EUR 3.0 bn, of the total amount of the *Sustainability-linked syndicated* loan signed in 2021 for an original EUR 10.0 bn, and for any changes and additions that may be necessary when defining and perfecting the contractual documentation. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, as ENEL S.p.A. is a direct subsidiary of the MEF.

On 5 May 2022, the Board of Directors, subject to the favourable opinion of the Committee for Transactions with Related Parties, resolved to renew the "SACE/2021 framework resolution" (expiring on 9 February 2022), already commented on in Part H on the Bank's financial statements at 31 December 2021, approving the new "SACE/2022 framework resolution", up to the maximum amount of EUR 350.0 mln (in force 6 May 2022 - 5 May 2023). The "SACE/2022 framework resolution", like the previous one, is aimed at completing homogeneous and sufficiently determined transactions, attributable to the acquisition by SACE S.p.A. of insurance policies, financial guarantees, according to standardized formats at the level of the Italian Banking Association ("ABI "), against credit lines for loans or endorsement credits granted to customers of the Bank or of the subsidiaries MPSCS and MPSL&F. Compared to the previous one, the "SACE/2022 framework resolution", in addition to reducing the ceiling amount from EUR 380.0 mln to EUR 350.0 mln, confirms the increase in the exemption threshold from EUR 30.0 mln to

EUR 70.0 mln limitedly to buyer's credit operations, as well as the inclusion among the transactions covered by the framework resolution also of the appendices to documentary credit policies and the appendices to buyer credit policies within the terms specified therein. Like its predecessor, also the "SACE/2022 framework resolution" includes a master risk participation agreement with SACE S.p.A., which provides for the option of sharing risks on certain transactions ("risk-sharing"), through the transfer to SACE S.p.A. of portions of the overall risk previously agreed. The non-significant transaction for a significant amount falls within the scope of application of Consob Regulation no. 17221/2020, as SACE S.p.A. is a wholly-owned subsidiary of CDP S.p.A., in which the MEF has a controlling interest.

On 17 June 2022, the following was authorized in favour of KEDRION S.p.A., as part of the ordinary review of credit facilities: (i) the renewal of the mixed credit facility of EUR 10.0 mln, and (ii) the granting of a new credit facility of EUR 5.0 mln, with a duration of 12 months, usable for term contracts with a maximum duration of 6 months. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, as KEDRION S.p.A. is an indirect MEF affiliate though CDP.

In the first half of 2022, the agreement with the health care fund assignee of coverage of the health plans of the staff of Bank and some banking companies of the MPS Group was renewed, which provides for a specific insurance policy contracted by the fund with POSTE ASSICURA S.p.A., for a value of EUR 20.6 mln, of which EUR 19.9 mln refer to the Bank. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, since POSTE ASSICURA S.p.A. is directly controlled by POSTE ITALIANE S.p.A., in turn controlled by the MEF.

In the first half of 2022, the postal services agreement with POSTE ITALIANE S.p.A. was renewed, for a total annual amount of EUR 12.3 mln, for the 2021/2022 period (including VAT), in execution of a framework agreement already commented in Part H on the Bank's financial statements as at 31 December 2021. The services provided are necessary to guarantee the regular delivery to customers of the mandatory paper communications provided for by Legislative Decree no. 385/1993 (Consolidated Law on Banking). The agreement is valid for one year with automatic renewal at the same terms and conditions for another year, unless cancelled before the expiration date. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, since the MEF has a controlling interest in POSTE ITALIANE S.p.A.

In the months of May and June 2022, transactions were concluded with SACE S.p.A., in favour of the Bank's customers, to issue 90% of Garanzia Italia, to guarantee unsecured medium and long-term credit lines for the respective maximum amounts guaranteed by SACE S.p.A. for EUR 19.5 mln and EUR 10.2 mln, respectively. The transactions were carried out as part of the COVID-19 emergency support initiatives following the Bank's adherence to the general conditions of "Garanzia Italia" of SACE S.p.A.. These transactions fall within the scope of application of Consob Regulation no. 17221/2010, since SACE S.p.A. is a wholly-owned subsidiary of CDP S.p.A., in turn controlled by the MEF.

During the first half of 2022, insurance policies were signed with SACE S.p.A. under the "SACE/2022 framework resolution" to cover 50% of the risk of non-payment relating to five documentary credit confirmation operations, concluded by its customers with a bank foreign for a total value of EUR 86.5 mln, in addition to a *risk-sharing* transaction, in favour of the same customers, guaranteed by SACE S.p.A. at 50%, for operations with a foreign bank for a value of EUR 10.1 mln. These transactions fall within the scope of application of Consob Regulation no. 17221/2010, since SACE S.p.A. is a wholly-owned subsidiary of CDP S.p.A., in turn controlled by the MEF.

Transactions with other related parties

On 20 April 2022, the *Chief Lending Officer* authorized in favour of AXA MPS ASSICURAZIONI VITA S.p.A. the ordinary review of the credit lines, with a reduction in credit lines from EUR 23.0 mln to EUR 22.0 mln, as follows: (i) credit line of EUR 20.0 mln, usable as a credit line on a current account; (ii) credit line of EUR 2.0 mln, usable for the issue of Italian unsecured loans of a financial and/or commercial nature, with a duration not exceeding 60 months. The transaction falls within the scope of application of Consob Regulation no. 17221/2010 as AXA MPS ASSICURAZIONI VITA S.p.A. is a direct associate of the Bank, which holds 50% of the share capital, while the remaining 50% of the share capital is held by AXA S.A., with which the Bank has established a joint venture.

On 8 June 2022 the renewal with decrease of the ceiling granted from EUR 170.0 mln to EUR 130.0 mln at MPS Group level was resolved in favour of FIDI TOSCANA S.p.A., which is relevant exclusively for internal purposes and equal to the total amount of the loans that can be taken out, including the transactions already in place and the flows expected for 2022. Furthermore, a new framework resolution concerning the operations of all the banks and companies of the MPS Group was also taken in favour of FIDI TOSCANA S.p.A., for the amount of EUR 15.0 mln, as the total maximum value of the guarantees to be issued by FIDI TOSCANA S.p.A. against loans to be finalised in the next 12 months. The transaction falls within the scope of application of CONSOB Regulation no. 17221/2010, as FIDI TOSCANA S.p.A. is subject to significant influence by the Bank, which holds a 27.46% interest of the share capital.

Transactions with associates

During the first half of 2022, the Bank completed transactions for the sale of credits and the issue of securities as part of the Covered Bond Issuance Programmes with the vehicle companies MPS COVERED BOND S.r.l. and MPS COVERED BOND 2 S.r.l. In particular, a sale was completed in favour of the vehicle company MPS COVERED BOND S.r.l. (as part of the First Covered Bond Programme) pursuant to the resolution of the Bank's Board of Directors of 16 June 2022, which authorized the sale, in one or more *tranches*, to the First and/or Second *Covered Bond* Programme pursuant to Law no. 130/99, of a portfolio of *performing* mortgages up to a maximum total amount of EUR 5,000.0 mln. The sale involved a portfolio of performing residential mortgage *loans* for EUR 911.0 mln and the amount of the subordinated loan disbursed to the vehicle was increased, aimed at partially financing the payment of the sale price of the assets. Furthermore, again as part of the First Covered Bond Programme, the issue of fully *retained* securities was carried out on 4 February 2022 for EUR 750.0 mln; as part of the Second Covered Bond Programme, the following issues were made, also fully *retained*, on 17 February 2022 for EUR 750.0 mln and on 13 June 2022 for EUR 1,000 mln, respectively. The transactions fall within the scope of Consob Regulation no. 17221/2010 as the Bank holds 90% of the share capital of MPS COVERED BOND S.r.l. and MPS COVERED BOND 2 S.r.l.

The following tables summarise the relationships and economic effects of transactions carried out in the first half of 2022 with associates, key management personnel and other related parties.

The "MEF Scope" column highlights the balances[27] of the balance sheet and income statement items as at 30 June 2022 relating to the transactions carried out with the MEF and the companies controlled by the MEF, namely companies controlled directly or indirectly by the MEF and their associates.

[27] The criteria to fill out the two tables are different from those of the European Securities and Markets Authority (ESMA) used for the table "Exposure to sovereign debt risk".

Related-party transactions: balance sheet items

	Value as at 30 06 2022							
	Subsidiaries	joint venture	Associated companies	key management personnel	Other related parties	MEF Scope	Total	% on FS item
Current accounts and deposits with banks	1,993.2	-	-	-	-	-	**1,993.2**	96.0%
Financial assets held for trading	402.3	-	-	-	-	1.8	**404.1**	58.3%
Other financial assets mandatorily measured at fair value	-	-	3.3	-	-	32.1	**35.4**	8.5%
Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	4,103.6	**4,103.6**	85.2%
Lonas to banks measured at amortised cost	18,575.6	-	-	-	-	0.0	**18,575.6**	49.7%
Loans to customers measured at amortised cost	712.2	74.9	62.5	2.3	2.3	5,793.8	**6,648.0**	9.3%
Other assets	66.9	-	-	-	-	404.3	**471.2**	23.1%
Total assets	**21,750.2**	**74.9**	**65.8**	**2.3**	**2.3**	**10,335.6**	**32,231.1**	**0.0%**
Financial liabilities measured at amortised cost	5,471.9	5.8	245.4	2.1	35.6	2,554.0	**8,314.8**	7.3%
Financial liabilities held for trading	290.5	-	-	-	-	1.4	**291.9**	46.1%
Financial liabilities designated at fair value	28.5	-	-	-	-	-	**28.5**	22.1%
Other liabilities	523.6	0.5	7.3	-	2.6	10.8	**544.8**	11.9%
Total liabilities	**6,314.5**	**6.3**	**252.7**	**2.1**	**38.2**	**2,566.2**	**9,180.0**	
Guaranties issued and Commitments	565.7	23.2	26.6	0.2	0.1	2,033.7	**2,649.5**	n.a.

Related-party transactions: income statement items

	Value as at 30 06 2022							
	Subsidiaries	joint venture	Associated companies	key management personnel	Other related parties	MEF Scope	Total	% on FS item
Interest income and similar revenues	49.3	0.8	0.1	-	-	63.0	**113.2**	13.4%
Interest costs and similar charges	(52.0)	-	-	-	-	(9.3)	**(61.3)**	19.7%
Fee and commission income	12.5	0.1	104.0	-	-	111.4	**228.0**	30.0%
Fee and commission expense	(1.2)	-	(0.2)	-	-	(15.3)	**(16.7)**	25.4%
Net profit (loss) from other assets and liabilities measured at fair value through profit or loss	-	-	0.2	-	-	9.2	**9.4**	24.7%
Net adjustments/impaiments	(0.3)	(0.4)	-	-	-	(1.9)	**(2.6)**	1.2%
Dividends	0.1	-	106.2	-	-	5.1	**111.4**	n.m.
Operating costs	(60.2)	-	(2.1)	(0.1)	-	-	**(62.4)**	5.5%

Certification of the condensed half-yearly financial statements pursuant to Article 81-ter of Consob Regulation no. 11971 of 14 May 1999, as subsequently amended and supplemented

1. The undersigned, Luigi Lovaglio, as Chief Executive Officer, and Nicola Massimo Clarelli, as Financial Reporting Officer of Banca Monte dei Paschi di Siena S.p.A., also having regard to article 154-bis, paragraphs 3 and 4 of Italian Legislative Decree no. 58 of 24 February 1998, do hereby certify the:
   - appropriateness with respect to the company's profile, and
   - factual application of administrative and accounting procedures for preparation of the condensed half-yearly financial statements, in the first half of 2022.

2. The verification of the adequacy and effective application of administrative and accounting procedures for the preparation of the condensed half-yearly financial statements as at 30 June 2022 was based on methods defined by the MPS Group in line with the COSO models and, for the IT component, COBIT, which constitute the reference framework for the internal control system generally accepted internationally.

3. It is also certified that:
   3.1 the condensed half-yearly financial statements as at 30 June 2022:
      - were prepared in accordance with the international accounting standards recognised by the European Union pursuant to European Parliament and Council Regulation No. 1606/2002 of 19 July 2002;
      - are consistent with the underlying documentary evidence and accounting records;
      - are suitable to provide a true and fair representation of the capital, economic and financial situation of the issuer.

   3.2 the half-year report on operations includes a reliable analysis of the significant events in the first six months of the financial year and their impact on the half-year condensed consolidated financial statements, as well as a description of major risks and uncertainties for the remaining six months of the year. The half-yearly report on operations includes a reliable analysis of information regarding related-party transactions of major relevance.

Siena, 04/08/2022

Signed by	Signed by
On behalf of the Board of Directors	*The Financial Reporting*
The Chief Executive Officer	*Officer*
Luigi Lovaglio	*Nicola Massimo Clarelli*

INDEPENDENT AUDITORS' REPORT

REVIEW REPORT ON CONDENSED INTERIM FINANCIAL STATEMENTS

To the Board of Directors of Banca Monte dei Paschi di Siena SpA

Foreword

We have reviewed the accompanying condensed interim financial statements of Banca Monte dei Paschi di Siena SpA (“Bank”) as of 30 June 2022, comprising the balance sheet, income statement, statement of comprehensive income, statement of changes in equity, cash flow statement and related notes. The directors of Monte dei Paschi di Siena SpA are responsible for the preparation of the condensed interim financial statements in accordance with International Accounting Standard 34 applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these condensed interim financial statements based on our review.

Scope of Review

We conducted our work in accordance with the criteria for a review recommended by Consob in Resolution No. 10867 of 31 July 1997. A review of condensed interim financial statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than a full-scope audit conducted in accordance with International Standards on Auditing (ISA Italia) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the condensed interim financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim financial statements of Banca Monte dei Paschi di Siena SpA as of 30 June 2022 are not prepared, in all material respects, in accordance with International Accounting Standard 34 applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Material uncertainty related to going concern

We draw attention what is reported in paragraph “Going concern” of the explanatory notes to the condensed interim financial statements, where the directors report the existence of a material uncertainty which may cast significant doubt on the Bank’s ability to continue as a going concern.

The directors, taking into account the state of actions put in place and having considered the material uncertainty with regard to the capital strengthening of Banca Monte dei Paschi di Siena SpA, believe that the Bank has the reasonable expectation to continue as a going concern in the foreseeable future; accordingly, they have prepared the financial statements under the going concern assumption.

Our conclusion is not qualified with regard to this matter.

Milan, 11 August 2022

PricewaterhouseCoopers SpA

Signed by

Marco Palumbo
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers.

ANNEXES

Reconciliation between the reclassified income statement and balance sheet and the related statutory accounts

Reconciliation between the reclassified income statement as at 30 June 2022 and related statutory accounts

Item	Income Statement accounts	30/06/22	Economic effects from allocation of BAV acquisition costs to BMPS (PPA)	Reclassification of dividends on treasury stock transactions	Reclassification of the portion of profits from equity investments	Reclassification provision to BRRD and DGSD funds	Recovery of stamp duty and customers' expenses	DTA Fee	Restructuring costs (Personnel expenses for early retirement)	Securitization, Recapitalization and Commitment Costs	Cost of credit	30/06/22	Reclassified Income Statement accounts
			1.8	-	-	-	-	-	-	-	-	532.9	Net interest income
10	Interest income and similar revenues	842.7	1.8	-	-	-	-	-	-	-	-	844.5	
	of which interest income calculated applying the effective interest rate method	722.5	-	-	-	-	-	-	-	-	-		
20	Interest expense and similar charges	(311.6)	-	-	-	-	-	-	-	-	-	(311.6)	
			-	-	-	-	-	-	-	-	-	693.2	Net fee and commision income
40	Fee and commission income	759.1	-	-	-	-	-	-	-	-	-	759.1	
50	Fee and commission expense	(65.9)	-	-	-	-	-	-	-	-	-	(65.9)	
70	Dividends and similar income	120.1	-	-	-	-	-	-	-	-	-	120.1	Dividends, similar income and gains (losses) on equity investments
			-	-	-	**0.0**	-	-	-	-	(5.7)	84.5	Net profit (loss) from trading, from financial assets/liabilities measuerd at fair value and Net profit (loss) on disposals/repurchases
80	Net profit (loss) from trading	6.0	-	-	-	-	-	-	-	-	-	6.0	
100	Gains/(losses) on disposal/repurchase of:	45.9	-	-	-	-	-	-	-	-	(1.5)	44.4	
	a) financial assets measured at amortised cost	45.0	-	-	-	-	-	-	-	-	(1.5)	43.5	
	b) Financial assets measured at fair value through other comprehensive income	0.9	-	-	-	-	-	-	-	-	-	0.9	
	c) financial liabilities	-	-	-	-	-	-	-	-	-	-	-	
110	Net profit (loss) from other financial assets and liabilities measured at fair value through profit or loss	38.3	-	-	-	*0.0*	-	-	-	-	(4.2)	34.1	
	a) financial assets and liabilities designated at fair value	21.8	-	-	-	-	-	-	-	-	-	21.8	
	b) other financial assets mandatorily measured at fair value	16.5	-	-	-	**0.0**	-	-	-	-	(4.2)	12.3	
90	Net profit (loss) from hedging	7.6	-	-	-	-	-	-	-	-	-	7.6	Net profit (loss) from hedging
200	Other operating expenses/income	140.0	-	-	-	-	(110.4)	(4.6)	-	-	-	25.0	Other operating income (expenses)
160	Administrative expenses:	(1,151.8)	-	-	-	69.5	99.6	31.4	2.4	0.6	-	(948.2)	Administrative expenses
	a) personnel expenses	(659.1)	-	-	-	-	-	-	2.4	-	-	(656.7)	a) personnel expenses
	b) other administrative expenses	(492.7)	-	-	-	69.5	99.6	31.4	-	0.6	-	(291.6)	b) other administrative expenses
			0.4	-	-	-	10.8	-	-	-	-	(34.9)	Net value adjustments to property, plant and equipment and intangible assets
180	Net adjustments to/recoveries on property, plant and equipment	(45.6)	-	-	-	-	10.8	-	-	-	-	(34.8)	
190	Net adjustments to/recoveries on intangible assets	(0.5)	0.4	-	-	-	-	-	-	-	-	(0.1)	
130	Net impairment (losses)/reversals on	(194.6)	-	-	-	-	-	-	-	-	(2.0)	(195.5)	Cost of customers credit
	a) financial assets measured at amortised cost	(194.6)	-	-	-	-	-	-	-	-	(1.5)	(196.1)	130a) financial assets measured at amortised cost - customers
	b) financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-	-		
			-	-	-	-	-	-	-	-	1.5	1.5	100a) Loans to customers measured at amortised cost
			-	-	-	-	-	-	-	-	4.2	4.2	110b) Loans
			-	-	-	-	-	-	-	-	(6.2)	(6.2)	170a) Net provision for risks and charges related to financial guarantess issued and other commitments
140	Modification gains/(losses)	1.1	-	-	-	-	-	-	-	-	-	1.1	140 Modification gains (losses)
			-	-	-	-	-	-	-	-	1.5	1.5	Net impairment (losses)/reversals on securities and loans to banks
170	Net provision for risks and charges:	(85.6)	-	-	-	-	-	-	-	-	6.2	(79.4)	Net provisions for risks and charges
	a) commitments and guarantees issued	(6.2)	-	-	-	-	-	-	-	-	6.2		
	b) other net provisions	(79.4)	-	-	-	-	-	-	-	-	-	(79.4)	
220	Gains (losses) on investments	0.7	-	-	-	-	-	-	-	-	-	0.7	Gains (losses) on investments
			-	-	-	-	-	-	(2.4)	(0.6)	-	(3.0)	Restructuring costs /One-0ff costs
			-	-	-	(69.5)	-	-	-	-	-	(69.5)	Risks and charges related to the SRF, DGS and similar schemes
			-	-	-	-	-	(26.8)	-	-	-	(26.8)	DTA Fee
230	Net gain (losses) on property, plant and equipment and intangible assets measured at fair value	(9.4)	-	-	-	-	-	-	-	-	-	(9.4)	Net gain (losses) on property, plant and equipment and intangible assets measured at fair value
250	Gains (losses) on disposal of investments	0.3	-	-	-	-	-	-	-	-	-	0.3	Gains (losses) on disposal of investments
260	Profit (loss) before tax from continuing operations	96.8	2.3	-	-	-	0.0	-	-	-	-	99.1	Profit (loss) for the period before tax
270	Tax (expense)/recovery on income from continuing operations	0.2	(0.7)	-	-	-	-	-	-	-	-	(0.5)	Tax (expense)/recovery on income from continuing operations
280	Profit (loss) after tax from continuing operations	97.0	1.5	-	-	-	0.0	-	-	-	-	98.5	Profit (loss) after tax
290	Profit (loss) after tax from groups of assets held for sale and discontinued operations	-	-	-	-	-	-	-	-	-	-	-	
300	Profit (loss) for the period	97.0	1.5	-	-	-	0.0	-	-	-	-	98.5	Profit (loss) for the period before PPA
			(1.5)	-	-	-	-	-	-	-	-	(1.5)	PPA (Purchase Price Allocation)
300	**Profit (loss) for the period**	**97.0**	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**97.0**	**Net profit (loss) for the period**

Reconciliation between the reclassified income statement as at 30 June 2021 and related statutory accounts

	Income Statement accounts	30/06/21	Economic effects from allocation of BAV acquisition costs to BMPS (PPA)	Reclassification of dividends on treasury stock transactions	Reclassification of the portion of profits from equity investments	Reclassification provision to BRRD and DGSD funds	Recovery of stamp duty and customers' expenses	DTA Fee	Restructuring costs (Personnel expenses for early retirement)	Securitization, Recapitalization and Commitment Costs	Cost of credit	30/06/21	Reclassified Income Statement accounts
			2.3	-	-	-	-	-	-	-	-	477.4	Net interest income
10	Interest income and similar revenues	843.2	2.3	-	-	-	-	-	-	-	-	845.5	
	of which interest income calculated applying the effective interest rate method	744.5	-	-	-	-	-	-	-	-	-	-	
20	Interest expense and similar charges	(368.1)	-	-	-	-	-	-	-	-	-	(368.1)	
			-	-	-	-	-	-	-	-	-	711.8	Net fee and commission income
40	Fee and commission income	767.1	-	-	-	-	-	-	-	-	-	767.1	
50	Fee and commission expense	(55.3)	-	-	-	-	-	-	-	-	-	(55.3)	
70	Dividends and similar income	47.6	-	-	-	-	-	-	-	-	-	47.6	Dividends, similar income and gains (losses) on equity investments
			-	-	-	-	-	-	-	-	4.1	155.4	Net profit (loss) from trading, from financial assets/liabilities measuerd at fair value and Net profit (loss) on disposals/repurchases
80	Net profit (loss) from trading	14.5	-	-	-	-	-	-	-	-	-	14.5	
100	Gains/(losses) on disposal/repurchase of:	127.6	-	-	-	-	-	-	-	-	0.2	127.8	
	a) financial assets measured at amortised cost	122.5	-	-	-	-	-	-	-	-	0.2	122.7	
	b) Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	
	c) financial liabilities	5.1	-	-	-	-	-	-	-	-	-	5.1	
110	Net profit (loss) from other financial assets and liabilities measured at fair value through profit or loss	*9.2*	-	-	-	-	-	-	-	-	*3.9*	*13.1*	
	a) financial assets and liabilities measured at fair value	2.3	-	-	-	-	-	-	-	-	-	2.3	
	b) other financial assets mandatorily measured at fair value	6.9	-	-	-	-	-	-	-	-	3.9	10.8	
90	Net profit (loss) from hedging	1.6	-	-	-	-	-	-	-	-	-	1.6	Net profit (loss) from hedging
200	Other operating expenses/income	122.6	-	-	-	-	(123.1)	(4.5)	-	-	-	(5.0)	Other operating income (expenses)
160	Administrative expenses:	(1,174.5)	-	-	-	71.4	112.2	31.6	2.7	0.8	-	(955.8)	Administrative expenses
	a) personnel expenses	(665.4)	-	-	-	-	-	-	2.7	-	-	(662.7)	a) personnel expenses
	b) other administrative expenses	(509.1)	-	-	-	71.4	112.2	31.6	-	0.8	-	(293.1)	b) other administrative expenses
			0.4	-	-	-	10.9	-	-	-	-	(39.8)	Net value adjustments to property, plant and equipment and intangible assets
180	Net adjustments to/recoveries on property, plant and equipment	(50.6)	-	-	-	-	10.9	-	-	-	-	(39.7)	
190	Net adjustments to/recoveries on intangible assets	(0.5)	0.4	-	-	-	-	-	-	-	-	(0.1)	
130	Net impairment (losses)/reversals on	(154.9)	-	-	-	-	-	-	-	-	4.0	(156.1)	Cost of customers credit
	a) financial assets measured at amortised cost	(156.3)	-	-	-	-	-	-	-	-	1.8	(154.5)	130a) financial assets measured at amortised cost - customers
	b) financial assets measured at fair value through other comprehensive income	*1.4*	-	-	-	-	-	-	-	-	*(1.4)*	*0.0*	
			-	-	-	-	-	-	-	-	*(0.2)*	*(0.2)*	100a) Loans to customers measured at amortised cost
			-	-	-	-	-	-	-	-	*(3.9)*	*(3.9)*	110b) Loans
			-	-	-	-	-	-	-	-	*7.7*	*7.7*	170a) Net provision for risks and charges related to financial guarantess issued and other commitments
140	Modification gains/(losses)	(5.2)	-	-	-	-	-	-	-	-	-	(5.2)	140 Modification gains (losses)
			-	-	-	-	-	-	-	-	(0.4)	(0.4)	Net impairment (losses)/reversals on securities and loans to banks
170	Net provision for risks and charges:	(45.2)	-	-	-	-	-	-	-	-	(7.7)	(52.9)	Net provisions for risks and charges
	a) commitments and guarantees issued	7.7	-	-	-	-	-	-	-	-	(7.7)		
	b) other net provisions	(52.9)	-	-	-	-	-	-	-	-	-	(52.9)	
220	Gains (losses) on investments	(3.1)	-	-	-	-	-	-	-	-	-	(3.1)	Gains (losses) on investments
			-	-	-	-	-	-	(2.7)	(0.8)	-	(3.5)	Restructuring costs /One-0ff costs
			-	-	-	(71.4)	-	-	-	-	-	(71.4)	Risks and charges related to the SRF, DGS and similar schemes
			-	-	-	-	-	(27.1)	-	-	-	(27.1)	DTA Fee
230	Net gain (losses) on property, plant and equipment and intangible assets measured at fair value	(26.0)	-	-	-	-	-	-	-	-	-	(26.0)	Net gain (losses) on property, plant and equipment and intangible assets measured at fair value
250	Gains (losses) on disposal of investments	11.0	-	-	-	-	-	-	-	-	-	11.0	Gains (losses) on disposal of investments
260	Profit (loss) before tax from continuing operations	61.0	2.7	-	-	-	-	-	-	-	-	63.7	Profit (loss) for the period before tax
270	Tax (expense)/recovery on income from continuing operations	68.3	(0.9)	-	-	-	-	-	-	-	-	67.4	Tax (expense)/recovery on income from continuing operations
280	Profit (loss) after tax from continuing operations	129.3	1.8	-	-	-	-	-	-	-	-	131.1	Profit (loss) after tax
290	Profit (loss) after tax from groups of assets held for sale and discontinued operations	-	-	-	-	-	-	-	-	-	-	-	
300	Profit (loss) for the period	129.3	1.8	-	-	-	-	-	-	-	-	131.1	Profit (loss) for the period before PPA
			(1.8)	-	-	-	-	-	-	-	-	(1.8)	PPA (Purchase Price Allocation)
300	**Profit (loss) for the period**	129.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	129.3	**Net profit (loss) for the period**

Reconciliation between the reclassified balance sheet and related statutory accounts as at June 2022

	Balance-sheet Items - Assets	30/06/22	Loans to customers	Trading derivatives	Securities	Loans to Banks @ AC - Loans to Central Banks	Non-current assets held for sale and disposal groups	Non-current assets held for sale and disposal groups -Others	Change in value of macro-hedged financial assets	30/06/22	Reclassified Balance-sheet Items - Assets
10	Cash and cash equivalents	2,674.4	-	-	-	-	-	-	-	2,674.4	Cash and cash equivalents
20	Financial assets measured at fair value through profit or loss	1,111.1	-	-	-	-	-	-	-	14,080.0	Securities assets
			-	-	13,837.2	-	-	-	-	13,837.2	
	a) financial assets held for trading	693.0	-	(692.8)	-	-	-	-	-	0.2	
	b) financial assets designated at fair value	-		-	-	-	-	-	-		
	c) other financial assets mandatorily measured at fair value	418.1	(175.6)	-	-	-	-	-	-	242.5	
30	Financial assets measured at fair value through other comprehensive income	4,817.5	-	-	(4,817.5)	-	-	-	-		
40	Financial assets measured at amortised cost:	109,261.9	-	-	-	-	-	-	-		
			-	-	-	17,273.4	-	-	-	17,273.4	Loans to central banks
	a) Loans to banks	37,375.3	-	-	(1,125.4)	(17,273.4)	1.4	-	-	18,977.9	Loans to banks
	b) Loans to customers	71,886.6	175.5	-	(7,894.3)	-	213.2	-	-	64,381.0	Loans to customers
50	Hedging derivatives	722.7	-	692.8	-	-	-	-	-	1,415.5	Derivatives
60	Change in value of macro-hedged financial assets (+/-)	(500.2)	-	-	-	-	-	-	500.2	-	
70	Equity investments	2,492.9	-	-	-	-	-	-	-	2,492.9	Equity investments
80	Property, plant and equipment	2,254.2	-	-	-	-	65.0	-	-	2,319.2	Property, plant and equipment
90	Intangible assets	0.9	-	-	-	-	-	-	-	0.9	Intangible assets
	- of which goodwill	-	-	-	-	-	-	-	-	-	*-of which goodwill*
100	Tax assets	1,202.1	-	-	-	-	-	-	-	1,202.1	Tax assets
	a) current	353.4	-	-	-	-	-	-	-	353.4	a) current
	b) deferred	848.7	-	-	-	-	-	-	-	848.7	b) deferred
			-	-	-	-	-	-	-	1,544.3	Other assets
110	Non-current assets held for sale and disposal groups	279.6	0.1	-	-	-	(279.6)	-	-	0.1	110 Non-current assets held for sale and disposal groups
120	Other assets	2,044.4	-	-	-	-	-	-	(500.2)	1,544.2	120 Other assets
	Total Assets	**126,361.5**	-	-	-	-	-	-	-	**126,361.5**	**Total Assets**

Items	Balance-sheet Items - Liabilities	30/06/22	Due to central banks	Due to banks	Debt securities issued - customers	Trading derivatives	Financial liabilities designated at fair value	Provision for staff severance indemnities	Change in value of macro-hedged financial liabilities (+/-)	Net Equity	30/06/22	Reclassified balance-sheet items - Liabilities
10	Financial liabilities measured at amortised cost	113,917.2	-	-	-	-	-	-	-	-	78,550.4	Direct funding
	a) due to banks	35,496.1	(28,947.4)	(6,548.7)	-	-	-	-	-	-	-	
	b) due to customers	69,226.0	-	-	9.1	-	-	-	-	-	69,235.1	a) due to customers
	c) debts securities issued	9,195.1	-	-	(9.1)	-	129.3	-	-	-	9,315.3	b) Securities issued
		-	28,947.4	-	-	-	-	-	-	-	28,947.4	Due to central banks
		-	-	6,548.7	-	-	-	-	-	-	6,548.7	Due to banks
20	Financial liabilities held for trading	633.7	-	-	-	(633.7)	-	-	-	-	-	On-balance-sheet financial liabilities held for trading
30	Financial liabilities designated at fair value	129.3	-	-	-	-	(129.3)	-	-	-	-	
		-	-	-	-	-	-	-	-	-	1,005.5	Derivatives
40	Hedging derivatives	371.8	-	-	-	-	-	-	-	-	371.8	Hedging derivatives
		-	-	-	-	633.7	-	-	-	-	633.7	Trading derivatives
50	Change in value of macro-hedged financial liabilities (+/-)	(44.4)	-	-	-	-	-	-	44.4	-	-	
60	Tax liabilities	-	-	-	-	-	-	-	-	-	-	Tax liabilities
	a) current	-	-	-	-	-	-	-	-	-	-	a) current
	b) deferred	-	-	-	-	-	-	-	-	-	-	b) deferred
70	Liabilities associated with non-current assets held for sale and disposal groups	-	-	-	-	-	-	-	-	-	-	
		-	-	-	-	-	-	-	-	-	4,544.9	Other liabilities
		-	-	-	-	-	-	-	(44.4)	-	(44.4)	Change in value of macro-hedged financial liabilities (+/-)
		-	-	-	-	-	-	-	-	-	-	Liabilities associated with non-current assets held for sale and disposal group
80	Other liabilities	4,589.3	-	-	-	-	-	-	-	-	4,589.3	Other liabilities
90	Provisions for employees severance pay	137.4	-	-	-	-	-	(137.4)	-	-	-	
100	Provisions for risks and charges:	1,615.7	-	-	-	-	-	-	-	-	1,753.1	Provisions for specific use
		-	-	-	-	-	-	137.4	-	-	137.4	a) Provision for staff severance indemnities
	a) financial guarantees and other commitments	145.6	-	-	-	-	-	-	-	-	145.6	b) Provision related to guarantees and other commitments issued
	b) post-employment benefits	22.2	-	-	-	-	-	-	-	-	22.2	c) Pension and other post-retirement benefit obligations
	c) other provisions	1,447.9	-	-	-	-	-	-	-	-	1,447.9	d) Other provisions
110	Valuation reserves	57.4	-	-	-	-	-	-	-	(57.4)	-	
140	Reserves	(4,337.9)	-	-	-	-	-	-	-	4,337.9	-	
		-	-	-	-	-	-	-	-	-	5,011.5	Net equity
		-	-	-	-	-	-	-	-	57.4	57.4	a) Valuation reserves
		-	-	-	-	-	-	-	-	-	-	b) Redeemable shares
		-	-	-	-	-	-	-	-	-	-	c) Equity Instruments
		-	-	-	-	-	-	-	-	(4,337.9)	(4,337.9)	d) Reserves
		-	-	-	-	-	-	-	-	-	-	e) Share premium reserve
160	Share capital	9,195.0	-	-	-	-	-	-	-	-	9,195.0	f) Share capital
		-	-	-	-	-	-	-	-	-	-	g) Treasury shares (-)
		-	-	-	-	-	-	-	-	97.0	97.0	h) Net profit (loss) for the period
170	Treasury shares (-)	-	-	-	-	-	-	-	-	-	-	
180	Profit (loss) for the period (+/-)	97.0	-	-	-	-	-	-	-	(97.0)	-	
	Total Liabilities and Shareholders' Equity	**126,361.5**	-	-	-	-	-	-	-	-	**126,361.5**	**Total Liabilities and Shareholders' Equity**

Reconciliation between the reclassified balance sheet and related statutory accounts as at December 2021

	Balance-sheet Items - Assets	31 12 2021	Loans to customers	Trading derivatives	Securities	Loans to Banks @ AC - Loans to Central Banks	Non-current assets held for sale and disposal groups - Property, plant and equipements	Non-current assets held for sale and disposal groups - Others	Change in value of macro-hedged financial assets	31 12 2021	Reclassified Balance-sheet Items - Assets
10	Cash and cash equivalents	3,020.5	-	-	-	-	-	-	-	3,020.5	Cash and cash equivalents
20	Financial assets measured at fair value through profit or loss	980.7	-	-	-	-	-	-	-	15,187.0	Securities assets
		-	-	-	14,943.7	-	-	-	-	14,943.7	
	a) financial assets held for trading	611.8	-	(611.6)	-	-	-	-	-	0.2	
	b) financial assets designated at fair value	-	-	-	-	-	-	-	-	-	
	c) other financial assets mandatorily measured at fair value	368.9	(125.9)	-	-	-	-	-	-	243.0	
30	Financial assets measured at fair value through other comprehensive income	5,313.0	-	-	(5,313.0)	-	-	-	-	-	
40	Financial assets measured at amortised cost:	111,382.9	-	-	-	-	-	-	-	-	
		-	-	-	-	20,454.8	-	-	-	20,454.8	Loans to central banks
	a) Loans to banks	39,656.7	-	-	(1,216.9)	(20,454.8)	-	-	-	17,985.0	Loans to banks
	b) Loans to customers	71,726.2	130.0	-	(8,413.8)	-	-	-	-	63,442.4	Loans to customers
50	Hedging derivatives	4.8	-	611.6	-	-	-	-	-	616.4	Derivatives
60	Change in value of macro-hedged financial assets (+/-)	577.4	-	-	-	-	-	-	(577.4)	-	
70	Equity investments	2,494.3	-	-	-	-	-	-	-	2,494.3	Equity investments
80	Property, plant and equipment	2,308.9	-	-	-	-	68.0	-	-	2,376.9	Property, plant and equipment
90	Intangible assets	1.3	-	-	-	-	-	-	-	1.3	Intangible assets
	- of which goodwill	-	-	-	-	-	-	-	-	-	*-of which goodwill*
100	Tax assets	1,204.4	-	-	-	-	-	-	-	1,204.4	Tax assets
	a) current	418.0	-	-	-	-	-	-	-	418.0	a) current
	b) deferred	786.4	-	-	-	-	-	-	-	786.4	b) deferred
		-	-	-	-	-	-	-	-	2,164.4	Other assets
110	Non-current assets held for sale and disposal groups	72.3	(4.1)	-	-	-	(68.0)	(0.2)	-	-	110 Non-current assets held for sale and disposal groups
120	Other assets	1,586.8	-	-	-	-	-	0.2	577.4	2,164.4	120 Other assets
	Total Assets	**128,947.4**	-	-	-	-	-	-	-	**128,947.4**	**Total Assets**

	Balance-sheet Items - Liabilities	31 12 2021	Due to central banks	Due to banks	Debt securities issued - customers	Trading derivatives	Financial liabilities designated at fair value	Provision for staff severance indemnities	Change in value of macro-hedged financial liabilities (+/-)	Net Equity	31 12 2021	Reclassified balance-sheet items - Liabilities
10	Financial liabilities measured at amortised cost	117,613.2	-	-	-	-	-	-	-	-	81,041.5	**Direct funding**
	a) due to banks	36,717.1	(29,092.8)	(7,624.3)	-	-	-	-	-	-	-	
	b) due to customers	70,378.2	-	-	380.7	-	-	-	-	-	70,758.9	a) due to customers
	c) debts securities issued	10,517.9	-	-	(380.7)	-	145.3	-	-	-	10,282.6	b) Securities issued
		-	29,092.8	-	-	-	-	-	-	-	29,092.8	**Due to central banks**
		-	-	7,624.3	-	-	-	-	-	-	7,624.3	**Due to banks**
20	Financial liabilities held for trading	517.0	-	-	-	(517.0)	-	-	-	-	-	**On-balance-sheet financial liabilities held for trading**
30	Financial liabilities designated at fair value	145.3	-	-	-	-	(145.3)	-	-	-	-	
		-	-	-	-	-	-	-	-	-	1,775.6	**Derivatives**
40	Hedging derivatives	1,258.6	-	-	-	-	-	-	-	-	1,258.6	Hedging derivatives
		-	-	-	-	517.0	-	-	-	-	517.0	Trading derivatives
50	Change in value of macro-hedged financial liabilities (+/-)	15.9	-	-	-	-	-	-	(15.9)	-	-	
60	Tax liabilities	-	-	-	-	-	-	-	-	-	-	**Tax liabilities**
	a) current	-	-	-	-	-	-	-	-	-	-	a) current
	b) deferred	-	-	-	-	-	-	-	-	-	-	b) deferred
70	Liabilities associated with non-current assets held for sale and disposal groups	-	-	-	-	-	-	-	-	-	-	
		-	-	-	-	-	-	-	-	-	2,649.6	**Other liabilities**
		-	-	-	-	-	-	-	15.9	-	15.9	Change in value of macro-hedged financial liabilities (+/-)
		-	-	-	-	-	-	-	-	-	-	Liabilities associated with non-current assets held for sale and disposal group
80	Other liabilities	2,633.7	-	-	-	-	-	-	-	-	2,633.7	Other liabilities
90	Provisions for employees severance pay	153.8	-	-	-	-	-	(153.8)	-	-	-	
100	Provisions for risks and charges:	1,583.3	-	-	-	-	-	-	-	-	1,737.1	**Provisions for specific use**
		-	-	-	-	-	-	153.8	-	-	153.8	a) Provision for staff severance indemnities
	a) financial guarantees and other commitments	141.2	-	-	-	-	-	-	-	-	141.2	b) Provision related to guarantees and other commitments issued
	b) post-employment benefits	26.8	-	-	-	-	-	-	-	-	26.8	c) Pension and other post-retirement benefit obligations
	c) other provisions	1,415.3	-	-	-	-	-	-	-	-	1,415.3	d) Other provisions
110	Valuation reserves	168.4	-	-	-	-	-	-	-	(168.4)	-	
140	Reserves	(4,487.8)	-	-	-	-	-	-	-	4,487.8	-	
		-	-	-	-	-	-	-	-	-	5,026.6	**Net equity**
		-	-	-	-	-	-	-	-	168.4	168.4	a) Valuation reserves
		-	-	-	-	-	-	-	-	-	-	b) Redeemable shares
		-	-	-	-	-	-	-	-	-	-	c) Equity Instruments
		-	-	-	-	-	-	-	-	(4,487.8)	(4,487.8)	d) Reserves
		-	-	-	-	-	-	-	-	-	-	e) Share premium reserve
160	Share capital	9,195.0	-	-	-	-	-	-	-	-	9,195.0	f) Share capital
		-	-	-	-	-	-	-	-	-	-	g) Treasury shares (-)
		-	-	-	-	-	-	-	-	151.0	151.0	h) Net profit (loss) for the period
170	Treasury shares (-)	-	-	-	-	-	-	-	-	-	-	
180	Profit (loss) for the period (+/-)	151.0	-	-	-	-	-	-	-	(151.0)	-	
	Total Liabilities and Shareholders' Equity	**128,947.4**	-	-	-	-	-	-	-	-	**128,947.4**	**Total Liabilities and Shareholders' Equity**