Monte dei Paschi di Siena Group

Consolidated Interim Report as at 30 September 2020

MONTE DEI PASCHI DI SIENA
BANK SINCE 1472

Interim Report on Operations
Monte dei Paschi di Siena Group
30 September 2020

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

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Introduction

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obligation for listed companies to publish interim reports on operations (as at 31 March and as at 30 September) was repealed, allowing issuers to decide on a voluntary basis whether to disclose periodic financial information in addition to the annual and half-yearly reports.

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

This Interim Report on Operations, not subject to limited audit requirements, provides a description of the activities and results which largely characterised Montepaschi Group's operations as at 30 September 2020, both as a whole and in the various business lines into which consolidated operations are carried out.

Results in brief

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

The Alternative Performance Indicators (APMs) provided in this section take into account the Guidelines provided by ESMA on 5 October 2015, which Consob has incorporated in its supervisory practices (Communication no. 0092543 of 3 December 2015). These Guidelines became applicable as of 3 July 2016. Please note that for each APMs, information is provided on its definition and calculation methods, and the amounts used in the calculation may be identified through the information contained in the tables below or in the reclassified financial statements in this Interim Report on Operations.

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

INCOME STATEMENT AND BALANCE SHEET FIGURES			
MPS GROUP			
INCOME STATEMENT FIGURES (EUR mln)	30 09 2020	30 09 2019	Chg.
Net interest income	978.7	1,167.9	-16.2%
Net fee and commission income	1,049.7	1,078.4	-2.7%
Other income from banking business	212.3	262.6	-19.2%
Other operating income and expenses	(40.4)	(82.4)	-50.9%
Total Revenues	2,200.2	2,426.5	-9.3%
Operating expenses	(1,630.5)	(1,695.6)	-3.8%
Cost of customer credit	(621.0)	(390.9)	58.9%
Other value adjustments	(6.6)	(2.9)	n.m.
Net operating income	(57.9)	337.1	n.m.
Net profit (loss) for the period attributable to owners of Parent Company	(1,539.4)	186.9	n.m.
EARNINGS PER SHARE (EUR)	30 09 2020	30 09 2019	Chg.
Basic earnings per share	(1.394)	0.169	n.m.
Diluted earnings per share	(1.394)	0.169	n.m.
BALANCE SHEET FIGURES AND INDICATORS (EUR mln)	30 09 2020	31 12 2019	Chg.
Total assets	146,280.8	132,196.0	10.7%
Loans to customers	87,098.7	80,135.0	8.7%
Direct funding	98,418.1	94,217.3	4.5%
Indirect funding	99,604.0	101,791.5	-2.1%
of which: assets under management	58,484.1	59,302.0	-1.4%
of which: assets under custody	41,119.8	42,489.6	-3.2%
Group net equity	6,770.4	8,279.1	-18.2%
OPERATING STRUCTURE	30 09 2020	31 12 2019	Chg.
Total headcount - end of period	22,073	22,040	33
Number of branches in Italy	1,420	1,422	(2)

N.B.: The number of employees refers to the actual workforce and therefore does not include the staff seconded outside the scope of the Group. The increase of 33 employees since 31 December 2019 was also impacted by the 69 re-hired from Fruendo.

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

ALTERNATIVE PERFORMANCE MEASURES			
MPS GROUP			
PROFITABILITY RATIOS (%)	30 09 2020	31 12 2019	Chg.
Cost/Income ratio	74.1	69.7	4.4
R.O.E.	(27.3)	(12.0)	-15.3
Return on Assets (RoA) ratio	(1.4)	(0.8)	-0.6
ROTE (Return on tangible equity)	(27.9)	(12.2)	-15.7
KEY CREDIT QUALITY RATIOS (%)	30 09 2020	31 12 2019	Chg.
Net non performing loans to customers / Loans to Customers	2.5	7.6	-5.1
Gross NPL ratio	3.5	11.3	-7.8
Rate of change of non performing loans to customers	(66.5)	(27.4)	-39.1
Bad loans to custormers/ Loans to Customers	3.3	3.7	-0.4
Loans to customers measured at amortised cost - Stage 2/Performing loans to customers measured at amortised cost	20.4	15.5	4.9
Coverage of non perfroming loans to customers	49.5	48.7	0.8
Coverage bad loans to customers	54.6	53.6	1.0
Cost of customers loans/Cusotmers loans (Provisioning)	0.95	0.73	0.22
Texas Ratio	46.7	85.6	-38.9

** At 31 December 2019 the indicator, expressed as Net non-performing loans / Loans to customers, stood at 6.8% (6.0% at 30 September 2020). This ratio, as at 30 September 2020, is calculated net of assets held for sale and discontinued operations relating to the Hydra transaction (gross of that component, the ratio is 6.6%).*

*** At 31 December 2019 the indicator, expressed as Net impairment losses on loans at amortised cost / Loans to customers at amortised cost (Provisioning), stood at 0.68% (0.92% at 30 September 2020).*

Cost/Income ratio: ratio between operating expenses (administrative expenses and net value adjustments to property, plant and equipment and intangible assets) and total revenues (for the composition of this aggregate, see the reclassified income statement)

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

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

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

Gross NPL Ratio: gross weight of non-performing loans calculated based on the EBA guidelines[3] as the ratio between Gross non-performing loans to customers and banks, net of assets held for sale, and total gross loans to customers and banks, net of assets held for sale and discontinued operations (including assets held for sale pertaining to the Hydra compendium, Gross NPL Ratio is 9.7%). The Gross NPE Ratio already reported in previous financial statements and calculated as the ratio between gross non-performing exposures to customers/gross exposures to customers, thus including securities, stands at 11.1% at 30 September 2020, vs. 12.4% at 31 December 2019

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

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

Texas Ratio: ratio between Gross non-performing loans to customers and the sum, in the denominator, of the relative loan loss provisions and tangible shareholders' equity[2]. This ratio, as at 30 September 2020, is calculated net of assets held for sale and discontinued operations relating to the Hydra transaction (gross of that component, the Texas Ratio is 93.4%).

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

[3] EBA GL/2018/10.

REGULATORY MEASURES			
MPS GROUP			
CAPITAL RATIOS (%)	30 09 2020	31 12 2019	Chg.
Common Equity Tier 1 (CET1) ratio - phase in	12.9	14.7	-1.8
Common Equity Tier 1 (CET1) ratio - fully loaded	10.9	12.7	-1.8
Total Capital ratio - phase in	16.2	16.7	-0.5
Total Capital ratio - fully loaded	14.1	14.7	-0.6
FINANCIAL LEVERAGE INDEX (5)	30 09 2020	31 12 2019	Chg.
Leverage ratio - transitional definition	5.2	6.1	-0.9
Leverage ratio - fully phased	4.4	5.3	-0.9
LIQUIDITY RATIO (%)	30 09 2020	31 12 2019	Chg.
LCR	173.6	152.4	21.2
NSFR	119.3	112.6	6.7
Encumbered asset ratio	39.0	36.0	3.0
Loan to deposit ratio	88.5	85.1	3.4
Unencumbered Counterbalancing capacity (Eur Bn)	28.3	24.7	3.6

In the determination of capital ratios, the "phase-in" (or "transitional") version represents the application of calculation rules according to the regulatory framework in force on the reference date, while the "fully loaded" version incorporates in the calculation the rules as expected when fully operational.

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

Total Capital ratio: ratio between own funds and total RWA.

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

Liquidity Coverage Ratio (LCR): short-term liquidity indicator corresponding to the ratio between the amount of high quality liquid assets and the total net cash outflows in the subsequent 30 calendar days. The comparative figure relating to the LCR index as at 31 December 2019 was restated to take into account a specific interpretative clarification provided by the supervisory authority.

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

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

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

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

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

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

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

Executive summary

Changes in the key items of the Group's main aggregates recorded at 30 September 2020 are summarised below, noting that the results of the first nine months of 2020 were affected by the health emergency created by the spread of the COVID-19 virus, starting from the end of February. In particular:

- the Cost of Customer Credit was penalised by the effects deriving from the changed macroeconomic scenario due to the spread of the pandemic, which influenced the portfolio's risk levels,
- Net fee and commission income was impacted by the reduction of Network operations during the months of the lockdown, with a recovery of normal operations only starting from late June,
- the results of trading activities and the contribution of AXA-MPS were impacted by financial market volatility, with negative effects in the first quarter of the year and a subsequent recovery in the second quarter,
    - taxes recorded a negative contribution attributable nearly exclusively to the modification of the value of deferred tax assets (DTAs) recorded in the financial statements, carried out due to the update in long-term internal estimates (2020-2024) of the income statement and balance sheet values to take into account changes in the macroeconomic scenario caused by the pandemic. Please note, moreover, that pending the definition of the new Business Plan, the reference to the long-term internal estimates previously used to draft the consolidated half-year financial report was maintained, and, on a precautionary basis, no reassessment of DTAs was performed in 3Q2020.

With reference to the balance sheet aggregates, instead, please note:

- the reduction in Indirect Funding compared to 31 December 2019, which reflected the negative performance of financial markets in the first quarter of the year as a result of the COVID-19 emergency;
- the increase in Direct Funding and particularly in current accounts, following the prudent approach of customers to handle the uncertainty of the economic context created with the spread of the COVID-19 emergency, growth which, moreover, was seen in the entire banking system.

- **Net interest income**, equal to EUR 979 mln, was down by 16.2% compared to the same period of 2019. The decrease of Net interest income was driven by (i) the disposals of Unlikely to Pay loans carried out in the course of 2019, (ii) by the conclusion in June 2019 of the sale of the subsidiary BMP Belgio S.A, (iii) by the Bank's return to the institutional funding market, with significant volumes placed in the second half of 2019 and during 2020 (iv) by the lower contribution from the BMPS securities portfolio and (v) by declining asset yields, driven by interest rate trends and lower volumes of interest-bearing commercial loans. Moreover, Net Interest Income benefitted from the positive effects linked to access to the TLTRO3 auctions amounted to Eur 68,0 mln, although partially offset by the higher cost of deposits at central banks.

- **Net fee and commission income**, totalling **EUR 1,050 mln**, posted a decline of 2.7% compared to the same period of the previous year, impacted by reduced Network operations during the months of the lockdown. A significant portion of the decrease in fee and commission income stems from the reduced placement of third-party consumer credit products and commissions services which were affected in particular by lower customer operations due to the COVID-19 emergency. Fees and commissions from asset management, was down by 0.9%. Lastly, other net fee and commission income improved, due to the lower cost of the state guarantee following the repayment of *Guaranteed Government Bonds that took place in 1Q20*.

- **Other revenues from banking business**, totalling EUR 212 mln, posted a decline of EUR 50 mln compared to the same period of the previous year, despite the higher profits deriving from disposals of securities, as a result of the lower contribution generated by the Bancassurance partnership with AXA and the downturn in results from trading activities, negatively impacted, particularly in the first quarter of the year, by tensions in the financial market linked to the COVID-19 emergency.

- **Other operating income (expenses)**, amounting to EUR -40 mln, improved compared to the first nine months of 2019 (equal to EUR -82 mln), which included the recognition of the indemnity linked to the exercise of the right of withdrawal from the agreement entered into with Juliet for EUR 49 mln.

- As a result of the trend in these aggregates, **Total revenues** amounted to EUR 2,200 mln, down 9.3% compared to the same period of the previous year.

- **Operating expense** amounted to EUR 1,630 mln (improvement of 3.8% Y/Y). This aggregate includes **Personnel expenses**, totalling EUR 1,060 mln, which were down 1.9% compared to 30 September 2019, benefiting from the decreased average workforce and the reduction in expenses deriving from the extension of smart working as a result of the continuation of the COVID-19 emergency. This trend was only partially offset by the contractual increases/adjustments related primarily to the effects of the renewal of the National Collective Bargaining Agreement. **Other administrative expenses** amounted to EUR 404 mln, down by 5.9% compared to the same period of the previous year. Despite the higher expenses required to handle the COVID-19 emergency (specifically to purchase Personal Protection Equipment and for cleaning), the aggregate benefitted from the deconsolidation of BMP Belgio S.A. in June 2019, the savings linked to branch closures in 2019 and reduced operations during the lockdown period, as well as the savings initiatives carried out. **Net value adjustments to property, plant and equipment and intangible assets** totalled EUR 167 mln, a deterioration of -10.3% compared to the same period of the previous year, principally due to lower amortisation of intangible assets and depreciation on property, plant and equipment.

- The **cost of customer credit** amounts to EUR 621 million, worsened by EUR 230 million from the same period of the previous year (at EUR 391. It should be noted that:
  - The figure in the first nine months of 2020 includes roughly EUR 300 mln from the increase in adjustments deriving from the changed macroeconomic scenario due to the spread of the COVID-19 pandemic.
  - The value in the first nine months of 2019 instead included a negative effect of around EUR 37 mln linked to the changed macroeconomic scenario and a net positive effect of roughly EUR 209 mln connected to the exercise of the right of withdrawal from the servicing agreement entered into with Juliet (positive effect for roughly EUR 457 mln, deriving from the elimination of forecasted costs for the agreement, reflected in value adjustments) and the simultaneous revision of the NPE reduction strategy, which entailed an acceleration in the 2019 disposal plan (negative effect for around EUR 248 mln).

  Excluding these effects, the aggregate was down Y/Y primarily due to lower provisions on positions already non-performing and the lower impact of transfers to bad loan status. The Provisioning Rate[7] is equal to **95 bps** (equal to 84 bps including the EUR 300 mln increase in adjustments linked to the scenario update as a one-off effect of only the first nine months of 2020).

- The **Net Operating Income** was EUR -58 mln, compared to a positive value of EUR 337 mln in the same period of the previous year.

- The trend in the aforementioned income statement aggregates also includes **Net provisions for risks and charges,** totalling EUR -768 mln (EUR -70 mln in the first nine months of 2019), **Gains (losses) on investments**, equalling EUR 1.1 mln (EUR +3.7 mln in the first nine months of 2019), **Restructuring costs/One-off charges**, amounting to EUR -129 mln (compared to EUR -2 mln recorded in the same period of the previous year), costs associated with **SRF (Single Resolution Fund), DGS (Deposit Guarantee Systems) and similar schemes**, amounting to EUR -118 mln (EUR -123 mln at 30 September 2019), **DTA fee** of EUR -53 mln (unchanged from same period of the previous year), and **Gains (losses) on sale of investments**, equal to EUR +1.4 mln (EUR +1.1 mln in the first nine months of 2019).

- As a result of these trends, together with the positive impact on **taxes** of **EUR 414 mln** (positive EUR 104 mln in the first nine months of 2019) and the net economic effects of the **PPA**, equal to EUR -3 mln (EUR -11 mln as at 30 September 2019), the Group posts a **Net Loss of EUR -1,539 mln**, compared to a Net Profit of EUR 187 mln posted in the same period of 2019.

- **Total Funding** at 30 September 2020 amounted to approx. **EUR 198.0 bn**, with an increase in volumes of EUR 1.7 bn compared to 30 June 2020, on Indirect Funding (EUR +0.9 bn) as well as Direct Funding (EUR +0.8 bn). As regards Indirect Funding, the component of Assets under Administration, up by EUR 0.2 bn Q/Q, and the component of Assets under Management, up by EUR 0.7 bn Q/Q, both benefitted from the positive market effect linked to the recovery in the financial markets. Direct Funding is up (EUR +0.8 bn) thanks especially to growth in Current Accounts (EUR +2.7 bn) offset only in part by the decrease in repo transactions.

  Total Funding was up compared to 31 December 2019 (EUR +2.0 bn). In particular, the decrease in Indirect Funding (EUR -2.2 bn), which reflected negative market effects, was more than offset by the increase in Direct Funding (EUR +4.2 bn) linked in particular to the growth in Current Accounts (EUR +7.6 bn) and Repurchase Agreements (EUR +1.8 bn). On the other hand, decreases were recorded with respect to 31 December 2019 for other forms of funding (EUR -2.6 bn) and bonds (EUR -2.6 bn) mainly as

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

a result of the effects from the repayment of the Government-Guaranteed Bonds and the closure of the associated structured funding transactions in 1Q20.

- As at 30 September 2020, **Loans to Customers** amounted to approximately **EUR 87.1 bn**, up EUR 4.6 bn compared to the end of June 2020. Excluding the increase linked to the increased repo transactions (EUR +3.4 bn), the aggregate in any event shows growth of EUR 1.2 bn primarily due to the increase in mortgages (EUR +2.4 bn), also influenced by the effect of disbursements and moratoria connected to the government decrees issued following the COVID-19 emergency, offset only in part by the drop in current accounts (EUR -0.2 bn) and Other loans (EUR -0.9 bn).

  Similar trends are observed in the comparison with 31 December 2019, with respect to which the aggregate increased by EUR 7.0 bn. Excluding the increase linked to the increased repo transactions (EUR +5.4 bn), Loans to Customers in any event shows growth of EUR 1.6 bn primarily due to the increase in mortgages (EUR +4.4 bn), also influenced by the effect of disbursements and moratoria connected to the government decrees issued following the COVID-19 emergency, offset only in part by the drop in current accounts (EUR -1.0 bn), Other loans (EUR -1.5 bn) and net non-performing loans (EUR -0.3 bn).

- As at 30 September 2020, the coverage of non-performing loans stood at 49.5%, stable compared to 30 June 2020 (49.5%) and up compared to 31 December 2019 (48.7%), also following the increase in adjustments deriving from the changed macroeconomic scenario that emerged following the spread of the COVID-19 emergency (for more details, refer to the section "*Quantification of impairment losses on loans*" under "*Accounting Policies*").

With regard to capital ratios, as at 30 September 2020 the ***Common Equity Tier 1 Ratio*** stood at **12.9%** (14.7% at the end of 2019 and 13.4% at 30 June 2020) and the ***Total Capital Ratio*** at **16.2%** (compared to 16.7% recorded at the end of 2019 and 16.0% at 30 June 2020).

Reference context

Although the pandemic is anything but over, with the temporary lifting of the lockdown, the economies of the main advanced countries resumed activity, showing a significant recovery: China, the first economy to exit the emergency, has reached if not surpassed its pre-pandemic activity levels. The crisis generated and is generating significantly different economic, social and health effects from the geographic, sector, income, gender and generational perspective; budget and monetary policies are committed to making significant efforts to limit the effects and support the economic recovery. Unfortunately, the current context is impacted by the increase in the spread of the coronavirus (given the recent increase in contagion and deaths in certain countries, which prior to the summer had overcome the peak of the health crisis), which has driven many countries to enact new restrictions and more severe measures, reinstating a differentiated lockdown to seek to contain the spread of the pandemic. Therefore, the resurgence of the virus does not make it possible to fully remove restrictions on the recovery of production activities, confirming the impossibility of restoring pre-crisis production levels in the short term. As the backdrop to all of this is the outcome of the US presidential elections in November.

In response to the record drop in GDP in the second quarter of the year (-31.4% qoq annualised), the United States launched a fiscal and monetary stimulus even greater than that activated during the 2008 financial crisis. With the relaxation of a lockdown already less severe than that enforced in Europe and the gradual normalisation of production activities, economic indicators highlighted a recovery in activity in the summer months, demonstrated by the consistent rebound in growth in the third quarter of 2020 (+ 33.1% annualized). The job market remains weak, although it has improved since the peak of the crisis (since late August, weekly new unemployment benefit claims dropped back to below 1 million), and the significant circulation of the virus is making the recovery fragile. To further support the economy, the Fed recently revised its monetary policy strategy with a more accommodating tone, while new budget policy measures, currently under discussion, cannot but fall under the responsibility of the Administration voted into office during the presidential elections in early November.

Euro zone, after experiencing a recession in all of three quarters of the year but with the widespread lifting of spring lockdowns, it entered a recovery phase (from -14.8% in 2Q2020 to -4.3% on a trend basis in 3Q2020). However, since August there is no uniformly positive information concerning the climate of confidence of economic operators in the main European countries, and the renewed circulation of the virus is causing serious concerns. In Europe, the different protection system which tends to preserve jobs has avoided a drop in employment as intense as that seen in the US, but the trend of the number of hours worked in any event demonstrates the dramatic nature of the situation, with declines even in Germany, one of the European countries with the highest degree of worker protection. In response to the crisis, the European Authorities have provided unprecedented support to area economies, including through debt sharing instruments, by making available a total of 1,190 bn in resources, broken down into three large programmes: SURE, MES and NGEU (Next Generation EU provides support totalling EUR 750 bn, including subsidies of EUR 390 bn and loans for EUR 360 bn). The availability of funds for the requesting countries will depend on the speed with which the NGEU agreement will be ratified at community level. The ECB's ultra-accommodating policy is also providing full support to the economy.

In China, the recovery which had already started in the second quarter is consolidating (+4.9% on an annual basis, for GDP in the third quarter of the year) and levels of activity have already returned to, if not surpassed, pre-crisis levels. On the other hand, the situation of some important emerging markets (India, Brazil, etc.) remains delicate, with the spread of the pandemic joining greater difficulties in economic policy responses. Within this context, global trade is struggling to recover.

In Italy, social distancing measures and the closure of business sectors caused by the outbreak of the COVID-19 epidemic triggered an unprecedented collapse in GDP in the first part of the year (-5.6% on an annual basis in the first quarter and -17.9% in the second). Starting from May 2020, economic indicators recovered, thanks to the gradual relaxation of contagion prevention measures and the decidedly significant mobilisation of resources intended to support employment, income and liquidity. After the "Cura Italia" Decree approved in late March 2020 and the subsequent "Liquidity" Decree approved in June 2020 and the "Relaunch" Decree approved in July 2020, in August 2020 the government unveiled the "Support and Relaunch" Law Decree, bringing the overall commitment for 2020 in terms of measures to deal with the crisis to EUR 100 bn (equal to 6.1% of GDP). Although in recovery (-4,7% GDP growth in the third quarter of 2020), economic activity remains considerably lower than 2019 levels. With the virus continuing to spread, precautionary measures are being introduced in all countries, with a resulting impact on international trade as well: although recovering since May 2020, Italian exports continue to suffer from the global crisis, and the presence of foreign tourists in our country remains unmistakably low. The tremendous European resources that will be made available to our country by Next

Generation EU (expected to reach around EUR 207 bn in potential funds starting from mid-2021) constitute the real opportunity to reignite the Italian economy.

After a phase of heavy sell-offs in the first part of the year, stock prices began to rise once again, supported by the introduction of anti-crisis measures by the Central Banks as well as governments; in particular, the Chinese and US indexes recovered all of their losses recorded since the crisis, while the European ones recorded a stall in their recovery during the summer. In the first nine months of the year, the Chinese Shenzhen rose by more than 12% and the S&P 500 gained roughly 4%; the Nikkei had a weak decline (-2%); the EuroStoxx backtracked by more than 14%, around -19% for the FTSE MIB. It was once again the tech sector which contributed to market gains, while the financial and energy segments recovered only to a small extent.

The long-term yields of risk-free countries have risen from the lows observed in March 2020; however the new outbreak of the virus and the strongly accommodating tones of the Central Banks contributed to their substantial stability in the summer months, at the levels seen at the end of June. As at 30 September 2020, the yield on the German ten-year bond was at -0.52%, down from -0.19% at the end of 2019, and the US ten-year was 0.68%, from 1.92% in the previous year. After rising multiple times above 250 basis points in the spring months, the spread between the BTP and the Bund benefitted from the policies deployed by the European Authorities, retreating further in the summer after the agreement on Next Generation EU: at 30 September 2020, the spread was at 139 basis points, 20 lower than the levels marked at the end of 2019; the yield on the Italian ten-year bond fell to 0.87% at the end of September 2020, after rising to a peak of 2.43% in March.

To counter the considerable economic fallout from the pandemic, Central Banks strengthened their stimulus measures. The Fed reduced the Federal Funds rates in the range of 0.00%-0.25%; it also launched a new programme to purchase public debt and mortgage-backed securities, with no limits on amount, and introduced a series of measures to support lending to businesses, consumers and local governments. At the end of August, it also announced a revision of its monetary policy strategy to make it even more accommodating, setting policy rates at zero for an extended period of time: the Authority will intervene only to reach full employment in the job market, without making any commitment to raise Fed funds in phases of market overheating to anticipate possible salary growth. On inflation, the Fed will adopt an Average Inflation Targeting approach, pursuing not a precise but an “average” 2% inflation target over a time span not yet specified, with tolerance for periods of inflation higher than 2%. During its Governing Council meeting in September 2020, the ECB left rates unchanged and kept the PEEP bond buying programme launched in June unchanged (the EUR 1,350 bn Pandemic Emergency Purchase Programme expiring in June 2021/end of the crisis), as well as the EUR 20 bn per month Expanded Asset Purchase Programme, confirming its intention to continue to guarantee a healthy injection of liquidity through its refinancing transactions (LTRO, TLTRO3, PELTRO). With respect to a possible change in the ECB’s strategy, also in light of the Fed’s change of approach, President Lagarde affirmed that the process of reviewing the monetary policy strategy launched last year has resumed, after being delayed as a result of the looming pandemic. The strategy review will focus on three critical issues: the definition of the inflation target; the relationship between inflation and the real economy; and the transmission and effectiveness of monetary policy.

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

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

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

Regulatory interventions

Capital requirements

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

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

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

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

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

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

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

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

- changing the IFRS 9 transitional provisions, which allows banks to sterilise the capital impacts associated with the increase in credit value adjustments recognised in the 2020-2024 period with respect to 1 January 2020 for stage 1 and 2 portfolios. In particular, the Regulation provides for the re-introduction into Common Equity Tier 1 capital of a progressively decreasing share of the effect of the higher adjustments, equal to 100% in 2020 and 2021, 75% in 2022, 50% in 2023 and 25% in 2024;
- introducing a prudential filter relating to the OCI reserve on government bonds to attenuate the negative impact of the levels of volatility in the financial markets and the debt of central administrations on regulatory capital. The temporary treatment, applicable in the period from 1 January 2020 to 31 December 2022, allows banks to exclude from common equity Tier 1 capital the progressively decreasing amount (100% in 2020, 70% in 2021, 40% in 2022) of unrealised profits and losses accumulated starting from 31 December 2019, accounted for in the financial statement item "Changes in the fair value of debt instruments measured at fair value through other comprehensive income", with reference to exposures to central administrations, provided such exposures are not classified as non-performing financial assets;
- bringing forward the application date of a) the SME Supporting Factor, b) the Infrastructure Supporting Factor, and c) a more accurate calibration of the salary-/pension-backed loans. The application date of such measures was brought forward to 27 June 2020, the date of entry into force of the Regulation, instead of the date of 28 June 2021 originally established by the CRR II;
- introducing a temporary treatment of public debt issued in the currency of another Member State: until 31 December 2024, exposures to central administrations and the central banks of Member States, when such exposures are denominated and financed in the national currency of another Member State, receive more favourable weighting factors in credit risk; furthermore, the competent authorities may allow banks to take on exposures with higher limits for the purposes of the rules on large exposures;
- immediately applying the EBA's RTS on the prudential treatment of software; the CRR II introduced provisions to modify the regulatory treatment of software assets, providing for their exclusion from CET1 deductions. On 14 October 2020, the EBA published the final draft of the regulatory technical standards which specifies the methods for implementing that exemption. The application date of the new prudential treatment of software was set by the CRR II at 12 months from the entry into force of the aforementioned RTS. To free up capital and support digital investments by banks, Regulation 2020/873 brought forward the application date to the date on which the Technical Standards enter into force;
- with reference to the regulations on the prudential backstop for non-performing loans ("calendar provisioning"), extending the preferential regime envisaged for loans guaranteed by Export Credit Agencies (SACE in Italy) in terms of the provisioning obligations (0% for the first 7 years, 100% provision only in the eighth year), to all loans guaranteed by the State (only for the guaranteed portion of the loan);
- temporarily excluding, subject to the discretion of the competent authority, certain exposures to central banks from the calculation of the financial leverage ratio. With Decision (EU) 2020/1306 of 16 September 2020, the ECB recognised the existence of exceptional circumstances justifying the exclusion from the measure of the overall exposure of (i) coins and banknotes which constitute the legal currency in the country of the central bank and (ii) deposits held in the deposit facility at the central bank or balances held in reserve accounts, including funds held in order to meet minimum reserve requirements. On the basis of this decision, the ECB allows significant banks to benefit from this exclusion until 27 June 2021;
- introducing a temporary method for calculating the value of the exposure of standardised purchases and sales pending settlement for leverage ratio purposes, which establishes the possibility of offsetting the entire nominal amount of commitments to pay connected to standardised purchases with the entire nominal amount of receivables in cash connected to standardised sales pending settlement, when certain conditions are met.

Liquidity requirements

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

MREL requirement

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

Classification of exposures for accounting and prudential purposes

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

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

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

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

Forborne classification

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

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

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

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

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

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

1. the moratorium must be the result of national legislation or a private initiative. In the latter case, the measure must be based on an intervention scheme that is widely coordinated throughout the banking sector, in order to guarantee uniformity in the moratorium granted by the various credit institutions;
2. the moratorium is applied in relation to a broad spectrum of obligors, determined based on general criteria, such as certain customer types (retail, SMEs, etc.), obligors from one of the areas most affected by the pandemic, exposure type (mortgage, lease, etc.), or part of a particularly affected production sector, etc.;
3. the measure is based solely on a modification of the payment deadlines and, therefore, may consist of a payment suspension, rescheduling, or a temporary reduction of the principal and/or interest to be paid. The moratorium, therefore, cannot entail the modification of other contractual clauses (e.g., interest rate);
4. the moratorium is applied under the same conditions to all subjects who benefit from it;
5. the measure is not granted on loans disbursed after the date on which the moratorium was announced;
6. the moratorium is a response specifically to the emergency generated by the COVID-19 pandemic and applied before 30 June 2020[10].

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

On 21 September 2020, the EBA announced that the deadline of 30 September 2020 for the expiry of the extraordinary flexibility measures granted to banks on the prudential treatment of the moratoria granted due to the COVID-19 pandemic would not be extended.

The EBA specified that there will be no automatic reclassification of positions that requested the moratorium by 30 September 2020 for the entire instalment suspension period.

For exposures for which the moratorium, either legislative or provided by the banking system, will be granted by banks in the period between 30 September and 31 December 2020, the rules in force on the prudential treatment of forbearance measures will be applied. In particular:

1. unlike what took place in the period when flexibility was granted by the EBA, banks will need to evaluate any financial difficulty of the requester in repaying upcoming instalments falling due. In the case of difficulties, the position subject to the forbearance measure must be classified as forborne, even in the case of a legislative moratorium;
2. in the case of a legislative moratorium, the rules on the definition of default call for a suspension of the calculation of 90 days of delayed payment to classify the company in default.

Performing/non-performing classification

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

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

[9] The deadline was extended to 30 September 2020 compared to the original 30 June 2020 on the basis of EBA's decision published on 18 June 2020.

[10] The deadline was extended to 30 September 2020 on the basis of EBA's decision published on 18 June 2020.

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

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

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

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

Updates to macroeconomic scenarios

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

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

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

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

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

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

Lastly, please note that on 27 March 2020 the IASB published the document “COVID-19 - Accounting for expected credit losses applying IFRS 9 Financial Instruments in the light of current uncertainty resulting from the

COVID-19 pandemic". The document does not modify IFRS 9, but it suggests a way to interpret it within the current context of the pandemic. Specifically, it is clarified that entities should not continue to mechanically apply the existing methodology for the determination of ECLs ("*Entities should not continue to apply their existing ECL methodology mechanically*"); furthermore, the difficulty of incorporating the effects of the pandemic as well as the correlated government aid within models is recognised. Therefore, if the models are unable to fully reflect the effects of the COVID-19 pandemic and the relative government support measures, the possibility of making recourse to post-model management adjustments is permitted (referred to as "*post-model overlay or adjustment*").

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

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

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

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

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

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

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

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

Financial reporting

Consob, in line with the ESMA statements published in March and May[11] 2020 as well as the April IOSCO document[12], published two warning notices in April and July 2020 emphasising the importance of providing updated information on the risks related to COVID-19 that may have an impact on the economic and financial situation, on any actions taken or planned to mitigate these risks, as well as on the potential relevant impacts for the estimation of the company's future performance. The directors' attention is also directed towards a careful assessment of the impacts, including future, of COVID-19 on strategic planning and on plan targets, economic performance, the financial position and cash flows as well as on the going concern assumption.

To this end, please refer to what is described in the "MPS Group initiatives within the context of the COVID-19 pandemic" and "Outlook on operations" sections of the Interim Report on Operations.

Please also note that Consob and ESMA highlight that the risks correlated with the pandemic could compromise reaching the objectives of the plan on which the analyses of the recoverability of certain assets are based, such as goodwill and other intangible assets with an indefinite useful life, and deferred tax assets. The need is therefore noted of performing impairment testing on the above-mentioned assets and providing adequate disclosures in the financial statements, particularly with regard to sensitivity analyses.

Lastly, with reference to the disclosure of the effects of the crisis, Consob and ESMA believe that the construction of ad hoc items or alternative performance measures is not capable of providing a better representation of the issuer's income and financial position, considering the temporary nature of the effects; they instead believe it is necessary to concentrate the disclosure on the impacts of the epidemic on the income statement results for the period, including quantitative, within a single note in the interim financial statements. To this end, the Interim Report on Operations describes the effects on the income statement results for the first three quarters of 2020, to which the reader is therefore directed. With reference to alternative performance measures, 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, note that the Group has not introduced any changes to the measures in use in order to separately highlight the effects of the COVID-19 crisis.

Monetary policy interventions

Financing transactions

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

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

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

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

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

[11] ESMA Public Statement of 20 May 2020 *Implication of the Covid-19 outbreak on the half-yearly financial report*

[12] International Organization of Securities Commissions (IOSCO) *Statement on Application of Accounting Standards during the Covid-19 Outbreak* of 3 April 2020

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

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

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

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

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

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

In particular, the following measures were applied:

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

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

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

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

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

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

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

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

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

Further expansions in the group of eligible assets were subsequently decided upon by the ECB's Governing Council. In particular, from 25 May 2020 until September 2021 (when the ECB's Governing Council will evaluate their extension), it is possible to allocate:

1. loans backed by guarantees introduced by Law Decree no. 23/2020 to handle the COVID-19 emergency issued by SACE and by the Fund for SMEs;
2. loans disbursed to businesses for whose debtors only the assessment of credit quality produced by the internal system of the Bank of Italy (ICAS) is available, even if individually provided as a guarantee (until now, those assessments were used only for loans granted within portfolios of loans to businesses);
3. within portfolios of loans to businesses, performing loans irrespective of the probability of default (PD) attributed to the debtor (after eliminating the maximum PD limit, currently equal to 10%);
4. the loans disbursed in the form of with recourse factoring, both in the ordinary scheme and in the temporary scheme of ACCs.

From 17 June 2020 to September 2021 (when the ECB's Governing Council will evaluate a possible extension), the banks may also provide as guarantees in financing transactions with the Eurosystem:

1. portfolios of similar loans consisting of consumer credit provided to households;
2. mortgages provided to households within uniform portfolios, irrespective of the probability of default attributed to the debtor and the Loan-to-Value ratio (after eliminating the maximum limits currently established, equal to 10% for PD and 80% for the Loan-to-Value).

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

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

Market liquidity support

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

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

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

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

Government interventions

State Aid in the European context

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

On 24 July 2020, the European Commission, as part of its strategy for recovery from the COVID-19 crisis, adopted a package of measures for the capital markets, in order to help European companies overcome the crisis. Specifically, the package proposes targeted changes to the rules governing the capital markets, which will promote greater investment in the economy, allow for a rapid recapitalisation of companies and increase the capacity of banks to finance the recovery. The package contains targeted adjustments of the prospectus regulation, the MiFID II directive and securitisation rules.

On 3 August 2020, the European Commission approved three specific aid schemes for Italy in order to incentivise the recapitalisation by private investors of small and medium-sized enterprises (SMEs) struck by the coronavirus emergency. With funds of EUR 6 bn, these schemes call for the granting of tax credits to private parties participating in share capital increases of companies and in favour of the companies themselves which increase their own capital, as well as forms of public support in the form of subordinated loans.

On 24 August 2020, the European Commission presented to the Council a series of proposed decisions relating to granting financial support of EUR 81.4 bn to 15 Member States within the scope of SURE. Once the Council approves the proposals, the financial support will be disbursed in the form of loans which the EU will grant to the Member States under favourable conditions. The share allocated to Italy is EUR 27.4 bn.

On 17 September 2020, the European Commission approved an Italian scheme to support large companies that suffered from a considerable decline in revenues in 2020. Funded with EUR 44 bn, the aid consists of recapitalisation instruments (particularly capital instruments and hybrid capital instruments).

On 3 October 2020, the European Commission approved a scheme to support Italian businesses operating in Southern Italian Regions through aid intended to reduce the cost of labour and maintain employment levels. The scheme provides EUR 1.5 bn in funds to businesses of all sizes active in all sectors, with the exception of the financial, agricultural and domestic work sectors.

Italian government decrees

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

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

The **Cura Italia** decree acts within four main areas. Firstly, the resources available to the healthcare system have been strengthened, including for hiring doctors and nurses and increasing the number of intensive care units. Secondly, measures to support household income have been introduced through numerous instruments, mostly intended to strengthen social safety nets throughout the country for employees and freelance workers as well as specific sectors. In particular, the existing social safety nets, such as the Cassa Integrazione Guadagni Ordinaria (Ordinary Unemployment Fund)[13], the Fondo di Integrazione Salariale (Income Support Fund) and the Cassa Integrazione Guadagni in Deroga (Exceptional Unemployment Fund), are extended to all companies forced to limit or suspend business activities due to COVID-19, reducing all or part of employees' working hours. Furthermore, the decree suspends lay-offs for economic reasons for the duration of the emergency period. The third line of action relates to the support of companies' liquidity, at risk due to the collapse in demand following the halt in economic activities, through the banking system and the use of the Fondo Centrale di Garanzia (Central Guarantee Fund). The primary objective of the Italian government is to prevent the difficulties of the real economy from escalating due to a lack of liquidity and interruption in the supply of credit. In particular, it envisages:

- the temporary postponement of fiscal deadlines relating to taxes and social security contributions;
- the obligation for banks[14] to maintain credit lines to respond promptly to the exceptional and urgent need for liquidity of small and medium-sized enterprises (SMEs) in particular;
- the recognition to banks of government guarantees on one-third of the loans subject to a moratorium measure. At the same time, the Central Guarantee Fund for SMEs has been enhanced, in terms of resources and operating procedures, and a public guarantee has been granted on exposures assumed by Cassa Depositi e Prestiti to banks and financial intermediaries that disburse loans to companies affected by the emergency and operating in specific sectors.

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

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

- tax losses not yet calculated as a decrease in taxable income on the disposal date;

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

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

- notional return amount exceeding total net income, not yet deducted nor used as tax credit on the disposal date (known as ACE Surplus);

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

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

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

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

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

On 6 June 2020, <u>Law no. 40/2020, converting Law Decree no. 23/2020 ("Liquidity Decree"), was published in the Official Gazette no. 143.</u> The measures adopted include, inter alia:

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

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

- extension of the moratorium in favour of microenterprises and SMEs laid out in art. 56 of Law Decree no. 18/2020 (Cura Italia Law Decree), also to subsidised loans backed by the State and granted to businesses following the earthquakes of 2012 and 2016 for the payment of taxes, contributions and premiums already suspended or still to be paid at the effective date of the respective subsidy regulations;
- refinancing of the Guarantee Fund for SMEs;

- refinancing of the First Home Guarantee Fund;
- strengthening of the system of innovative start-ups, favouring their access to liquidity;
- aid in the form of guarantees from the Regions and the autonomous Provinces on loans to businesses;
- aid in the form of subsidised interest rates for loans to businesses;
- simplifications relating to the benefits of the Guarantee Fund for SMEs;
- structural measures intended to incentivise investments, both in risk capital and in debt capital, in the real economy and, in particular, in the world of unlisted companies, strengthening the capacity of Long-Term Savings Plans (PIR) to convey private savings towards the business world;
- SACE guarantee in favour of insurance companies in the credit segment to an extent equal to 90% of the indemnities generated by exposures relating to short-term trade receivables;
- measures to facilitate the transfer of tax credits in favour of banks and financial intermediaries;
- suppression, on a definitive basis, of the VAT and excise duty safeguard clauses.

On 14 September 2020, Law no. 120/2020, converting Law Decree no. 76/2020 on "Urgent measures for simplification and digital innovation" (**Simplification Decree**) was published. With the **Simplification** decree, the government simplified administrative procedures, eliminated and sped up bureaucratic procedures, digitalised the public administration and provided support to the green economy and business activity. The main changes introduced by the measure (some of which introduced during the process of conversion into law), in force as of 15 September 2020, include:

- jointly owned building cooperatives will be eligible for the benefits of the Gasparrini Fund, for mortgage loans disbursed to them, governing the methods for granting the suspension of mortgage instalments and the submission of the application;
- the simplification provisions intended to strengthen digital identity and digital domicile;
- the simplification and increased use of the advanced digital signature and digital identity for access to banking services;
- the deferment of the entry into force of the popular banks reform;
- the simplification measures set forth in "Nuova Sabatini";
- measures to favour the entry of young entrepreneurs into agriculture, also establishing the possibility for agricultural businesses to request subsidised loans;
- provisions intended to favour share capital increases of listed companies which impact, specifically, the simplification of procedures for approving share capital increases and the option right recognised to shareholders;
- the simplification of criteria for the qualification of listed SMEs;
- simplifications for the issue of guarantees on loans in favour of Green New Deal projects.

On 14 August 2020, Law Decree no. 104 of 14 August 2020 on "Urgent measures to support and relaunch the economy" (**August Decree**) was published in the Official Gazette no. 228, whereby the government set aside an additional EUR 25 bn to strengthen the recovery from the negative consequences of the COVID-19 epidemic. Approved definitely by the Chamber of Deputies on 12 October 2020, during the parliamentary review the measure underwent a variety of changes relating, inter alia, to the Guarantee Fund for SMEs and the 110% Superbonus. The provisions with the most impact on the banking and financial system are described below:

- amendments to law no. 147 of 27 December 2013 on the First Home Guarantee Fund. Specifically, the regulation establishes that young couples or single-parent nuclear families with underage children who are tenants of buildings owned by the Autonomous Institutes for Popular Housing, as well as young people under thirty-five years of age with an atypical employment relationship, will be the exclusive recipients of Fund guarantees;
- suspension of the principal payment on loans taken out by the regions with special autonomies with the Ministry of Economy and Finance or Cassa Depositi e Prestiti before its transformation into a joint stock company;
- amendments to the 110% Superbonus regulations (pursuant to article 119 of the Relaunch Law Decree) in order to simplify its application and specifically govern the use of the facilitation in the Municipalities of regions struck by seismic events;

- extension to 2022 of the suspension of payments of instalments on loans granted to local entities by Cassa Depositi e Prestiti for the earthquake of 20 and 29 May 2012;
- refinancing of measures to support businesses (including the "Nuova Sabatini");
- refinancing of the Guarantee Fund for small and medium-sized enterprises and interventions to support business and employment, including in the South, as well as in favour of third sector entities;
- criteria for calculating company size for access to the Guarantee Fund for SMEs;
- extension to 31 January 2021 of the extraordinary moratorium on debit exposures of microenterprises and SMEs (pursuant to article 56 of the "Cura Italia" Decree);
- authorisation of the Ministry of Economy and Finance to subscribe share capital increases and capitalisation instruments of companies controlled by the State for a total amount of up to EUR 1.5 bn for the year 2020;
- amendments to the rules of Long-term savings plans (PIR), establishing an increase to EUR 300 thousand of the sums or values that investors can allocate every year to PIRs established starting from 1 January 2020;
- instructions on simplified shareholders' meetings of companies and other entities;
- extension of 15 October 2020 of rules on the simplified signing of bank and insurance contracts and the simplified signing of contracts for the placement of dematerialised interest-bearing postal bonds (introduced with the Liquidity and Relaunch Decrees);
- amendments to regulations relating to the transformation into tax credits of deferred tax assets deriving from the disposal of non-performing loans, pursuant to article 55 of the Cura Italia Decree;
- increase in the fund for financing rewards for the use of electronic payment methods ("cashback").

The conversion law of the law-decree is currently being published in the Official Gazette.

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

Occupational safety

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

The following were involved in managing the crisis:

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

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

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

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

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

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

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

The primary strategic initiatives adopted are listed below.

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

  At the height of the health emergency, when the branches and Centres had limited hours, the percentage of employees taking advantage of smart working far surpassed 90%; with the progressive re-opening of the branches, recourse to smart working on average accounts for roughly 45% - 55% of the General Management and around 5% of employees in the Branches and Specialised Centres. The smart working percentages increased by approximately 55%-60% of all personnel, following the restrictive legal provisions recently imposed.

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

- <u>Protection devices to safeguard people's health</u>

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

- all structures were equipped with Personal Protection Equipment (PPE), consisting of masks, sanitising gel, etc.;
- the cleaning service was reinforced, with the use of sanitising products and cleaning at the end of every work day, activating specific monitoring in this regard;
- respect for separation and distancing rules was favoured with the installation of around 13,500 plexiglass protection screens, with plans to instal an additional 2,900 soon, and distancing strips for customers in operating units in contact with the public;
- thermal scanners were installed at the entrances of the Parent Company's largest properties to automatically take body temperatures;
- extraordinary maintenance of the air treatment systems and air conditioning systems was activated at all locations.

- The "*Protocol for combatting and limiting the spread of the COVID-19 virus*" was also defined and constantly updated, bringing together all measures enacted (delivered to the Supervisory Bodies, such as the local health authorities, in the case of inspections at our offices); a specific biological risk assessment sheet was also drafted with a focus on COVID-19. Lastly, specific procedures were defined and distributed for suppliers and for company cafe and canteen operators relating to rules for entry, interaction and the necessary instruments.
- Customers were informed on a case by case basis through notices outside the branches, information on the Parent Company's institutional website and press releases in the media, referencing the availability of alternative channels to the traditional branch, such as the opportunity to use ATMs, internet banking and mobile banking, which were functioning and operational.
- Information to branches: the branches have been constantly updated in real time on developments in the crisis and the resulting provisions of the government, regional ordinances and municipal ordinances, including through the efforts of Health and Safety Executives. Furthermore, at certain points in time, signs were prepared that were hung up in the branches for the benefit of customers. In many branches, automatic queue management systems were installed to limit the number of customers present at the same time inside.
- Information to personnel: with the evolution of the health emergency and, consequently, the containment measures ordered by the Council of Ministers and by the individual regions, detailed instructions on corporate and national provisions have been made available and constantly updated for all personnel (via individual emails as well as through the web page dedicated to emergency management created on the company's intranet portal).
- "Health and Safety and Covid-19" Course: in collaboration with the Italian Banking Association, a compulsory course was developed to be provided starting from the end of September 2020 to help employees understand the Coronavirus better, as well as the prevention and protection measures to limit its spread.
- Responses to employees: in order to handle requests for specific clarifications and analysis, an email address and an information request form were made available to all Montepaschi Group personnel, which can be filled out on the intranet. The form consists of a series of questions with a guided response. In cases where the answer is not complete, a specific request can be added in a special field.
- *FAQs:* FAQs have been prepared and constantly updated, broken down by topic, which Group employees can access to get answers to their questions/doubts. The FAQs are published on the web page dedicated to emergency management on the company's intranet portal. This page acts as an access point for all employees for relevant useful information, stored virtually, which can be accessed from any device, including personal devices that have updated credentials.

Commercial activities

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

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

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

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

In order to reduce contacts to the extent possible, from the very start of the emergency, customers were invited to use Digital Banking (from the institutional website, app and telephone banking), through which accounts can be viewed (current account, debit and credit cards, investments, prepaid cards, mortgages and loans) and all banking transactions can be carried out remotely. From 13 March 2020, a toll-free "Covid Emergency" number was made available to customers to support the existing generic number. Direct communication activities with customers on digital information and social channels were also progressively enhanced.

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

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

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

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

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

- web collaboration (from 24 March), the relationship manager can send the customer, on the Digital Banking platform, basic and advanced advisory proposals developed through the Advice application, which the customer can accept or reject (service previously available only for Private customers and extended from 24 March to Premium customers);
- **telephone orders (from 31 March)**, allows the possibility of receiving and recording customer orders over the telephone, extended to include the conversion of UCITS units (switches), and total/partial redemption of UCITS units;
- **unilateral contracts**: at the end of September a pilot programme was activated at 5 branches (which will later be extended to the entire Network) to enable customers to take out a mortgage on the basis of a unilateral

contract which requires the presence only of the borrower and the notary. **The first unilateral contract was formalised on 30 September 2020.**

Starting from June, full Branch operations resumed in terms of "physical opening" to the public, and commercial activities almost fully resumed.

However, Prime Ministerial Decree of 26 October 2020 re-introduced several restrictive measures concerning social distancing, requiring the Bank to restore customer access to Branches and Specialised Centres by appointment only, which presumably will influence performance in the final quarter of 2020.

Credit

In the third quarter, activities continued for the management of the social and economic emergency triggered by COVID-19. Specifically, the Group continued to execute measures to support the economy approved by the government.

As in previous months, the Group's initiatives were constantly monitored with the establishment of a "**situation room**" with meetings held every week to deal with and guide activities for the deployment of measures.

Daily monitoring also continued through the **Daily Credit Dashboard**, or reporting addressed to members of the Management Committee and the senior management of the Parent Company directly concerned and shared with the Supervisory Authority during weekly meetings monitoring the performance of the main credit aggregates impacted by the crisis and the support measures granted in accordance with the Cura Italia and Liquidity decrees.

Furthermore, in light of the changed context, already in the first half of 2020, the credit strategies approved by the Board of Directors on 25 February were suspended and a project was launched to update the methodological framework for the definition of new strategies for supporting the Group companies in light of the COVID-19 emergency. The new methodology broke businesses down into 4 clusters identified on the basis of the level of impact that the crisis had on the sector to which the counterparty belongs and on the basis of the resilience of the individual company in the face of the crisis. A predominant strategy was associated with each cluster which goes from ordinary growth, intended for customers not in difficulty, to selective management for customers with a high level of risk, moving through all of those intermediate situations where the intervention of the Bank is weighted on the basis of the cluster to which the customer belongs. The new strategies were approved by the Parent Company's Board of Directors on 16 July 2020.

The strategies constitute an integral part of the credit standards revised to guarantee a more efficient and effective granting process in the new reference context, already approved by the Board of Directors on 7 May 2020. The main interventions on the standards involved a review of the set of documents supporting the screening process, the eligibility of guarantees, new rules for analysing the historical financial statements and the forecast financial statements to understand the company's resilience to the crisis. In particular, for the forecast financial statements, instructions were provided to the Network to verify their reliability and consistency with the structure of the company and its outlooks.

The screening process thus outlined provides the manager with the information required to understand the creditworthiness of the individual counterparty and its capacity to overcome the crisis period.

With reference to the **suspension measures** following the COVID-19 emergency, already at the end of February 2020 the Group decided to support its customers in difficulty by blocking the payment of instalments falling due on instalment loans, also undertaking not to revoke current account overdrafts; furthermore, it approved the extension of credit facilities falling due in the emergency period as well as the extension of advances close to being repaid, all in line with legislative provisions.

As a result, it carried out all activities required to finalise the contractualisation of new amortisation plans, including by establishing a task force to support Network functions.

The process marked increasing acceleration until representing, at 30 September 2020, roughly EUR 14.3 bn in exposures with the suspension approval obtained for performing customers equal to roughly 89% of suspensions requested, with customer response timing averaging 10 days.

The total requests for moratoria accounted for around 16% of the consumer households portfolio and roughly 30% of the portfolio of businesses and income-generating households and, with respect to total requests received at system level, represents 6.9% with respect to a market share on loans equal to around 4.6%.

Around 69% of requests for suspension regard the legislative scope, while on the remainder of the performing portfolio of requesters procedures are under way to formalise contracts according to the provisions set forth in the relative ABI Agreements.

Requests were also received from roughly 2,900 non-performing counterparties in the amount of EUR 0.9 mln; the acceptance rate was 77% in terms of counterparties and 48% considering the amounts requested.

In terms of the actions undertaken in application of the "**Liquidity Decree**", there was a significant increase in requests approved; in particular, with respect to the measures referred to in letter "M", paragraph 1 - art. 13 of the above-mentioned decree, at the date of 30 September 2020, the approval rate reached 98% for a total amount of EUR 1.3 bn; the approval timing recorded on loans under EUR 30 thousand amounted to 5 days.

With reference to the other financing measures, and in particular the lines exceeding EUR 30 thousand benefitting from the Central Fund guarantee, 63% of the proposals under way were decided upon, with growth margins on consolidation measures accompanied by disbursements of new borrowings (art. 13 of the Liquidity Law Decree, converted with law no. 40/2020). The deployment of these measures was slowed by the complexity of the screening process in preparation for disbursement, also due to potential legal risks associated with these activities. In order to guarantee effective application, an initiative was launched which calls for a dedicated workflow and local meetings to evaluate compatibility between the financial requirements of specific high risk counterparties and the features of that product.

Overall, the amounts approved relating to secured loans exceeding EUR 30 thousand came to roughly EUR 2.9 bn, of which around 65% referring to letter "C" of art. 13 of the above-mentioned decree and the remainder to be linked nearly exclusively to letter "E" (around EUR 0.9 bn).

In addition to the above-mentioned amount, the decision-making process is ongoing for roughly EUR 1.35 bn in exposures, of which 68% is represented by measures pursuant to letter "E" of art. 13 of the Liquidity Law Decree.

With respect to applications submitted to MCC, the Group's share of the system total is 5.7%; particularly with respect to the measures pursuant to letter "M" it amounts to 6.5%.

Lastly, the Group is fully operative in the application of measures for new borrowings guaranteed by Sace, with roughly EUR 450 mln already disbursed against requests of around EUR 1.2 bn.

Total loans disbursed backed by public guarantees thus amount to roughly EUR 3.5 bn at Group level.

Business Continuity Management

In particular, business continuity management has:

- guaranteed operational continuity of critical and systemic processes by:
    - creating separate working teams for the core treasury and operating liquidity processes operating in the regular offices, through smart working and in the recovery room; to date, for all of the bank's critical processes, activities continue predominantly in smart working mode;
    - using smart working, progressively implemented based on developments in the emergency and government provisions; since the end of June, following the complete re-opening of branches, smart working declined considerably; following the recent regulatory provisions, the branches may be entered by appointment only, with teller service only in the mornings; the larger branches (>=8 resources) are operating in shifts with separate teams, which has recently boosted the use of smart working;
    - progressively implementing equipment (laptops) for all other resources involved in critical processes, coordinating the delivery of nearly 3,000 new laptops; since July, the normal assignment procedure was reactivated;
- launched the crisis management process envisaged by company regulations - emergency level raised to 3 (extraordinary), reduced to 2 (Ordinary) as of mid-June;
- convened and launched the Crisis Management Committee (CMC) to monitor the emergency as long as the crisis level remained at level 3;
- participated regularly in institutional working teams created by CODISE (Service continuity for managing the banking system crisis led by Bank of Italy), ABI, COBAN, and the BCM Observatory.

Logical Security and Physical Security Management

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

- activated up to 720 "Citrix" licenses for secure connection to the corporate system using personal devices, subsequently available only in cases of actual need;
- enhanced infrastructure to support the expansion of corporate VPN services (reaching peaks of around 19 thousand users connected in agile work);
- strengthened security measures against *cyber attacks, intensifying monitoring and control on the expanded network scope due to the large-scale use of VPN connectivity;*
- significantly increased communications and training of users on security aspects linked to the use of agile work;
- continued with the plan for strengthening Physical Security with a particular focus on the measures for protection from ATM attacks (smoke bombs, cages, etc.) and ad hoc measures for the re-emergence of "black box" attacks (cryptography, etc.);
- continued to adopt extraordinary measures for managing customer flows in branches during peak periods (e.g., for pension payments);
- installed thermal scanners to take body temperature in large complexes;
- the automatic solution for taking body temperatures in the Branch is being evaluated;
- continued daily monitoring of the number of people in the Head Office buildings.

Shareholders

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

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

Major BMPS shareholders as at 30 September 2020

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

* Shares held directly and through subsidiary companies.

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

Information on the BMPS share

Share price and trends

Also in the third quarter of the year, the performance of international stock indexes was influenced primarily by the evolution of the crisis caused by the spread of COVID-19, the developments of which held back the net rise in prices taking place in the previous quarter.

In the US, the upcoming presidential elections have increased the climate of uncertainty in the markets, supported, however, by the good result of the technology stocks index, which contributed to the +8.5% recorded by the New York index (S&P 500). Also in Asia, the main Stock Exchanges closed in the black, although with more limited growth, on a quarterly basis, with Tokyo (Nikkei) at +4.0% and Shanghai (SHCOMP) at +7.8%.

In Europe, the only positive index was the Frankfurt DAX, which closed the third quarter with a gain of +3.7%. On the other hand, the Stock Exchanges of the countries in which the increase in contagion was more significant closed in the red, with the Paris index (CAC40) at -2.7%, the London UKX at -4.9% and Madrid (IBEX) at -7.1%.

In Italy, the FTSE MIB marked a decline of -1.9%. The concerns linked to growth in contagion in the month of September, indeed, was partially offset by the narrowing of the spread, which followed the regional elections of September 2020, the results of which were seen as an element of stability for the government. In the banking market, the topic of greatest interest was consolidation, fuelled by the merger between Caixa and Bankia in Spain and the positive closure of Intesa's offer on UBI in Italy, thus multiplying speculative appeal even amongst Italian banks. In this context, the MPS stock closed the quarter with a decline of -12.0%, compared to the IT8300 "All Italian Banks" index, which closed with -5.7%.

SHARE PRICE SUMMARY STATISTICS (from 01/07/20 to 30/09/20)	
Average	1.49
Minimum	1.29
Maximum	1.93

Rating

The ratings assigned by the rating agencies are provided below:

Rating Agencies	Short-term debt	Outlook	Long-term debt	Outlook	Latest rating action (at 30/09/20)
Fitch	B	-	B	Rating Watch Negative	02/07/20
DBRS	R-4	Stable	B (High)	Negative	16/06/20
Moody's	(P)NP	-	Caa1	Rating Under Review	21/07/20

The quarter was characterised by the Moody's and Fitch rating actions, which followed the announcement of the transaction with AMCO.

- On 21 July 2020, Moody's Investors Service placed the Baseline Credit Assessment standalone rating ("b3") and the long-term ratings of BMPS, including the Long-Term Bank Deposits rating ("B1") and the Long-Term Senior Unsecured rating ("Caa1"), under review for a possible upgrade. The long-term outlook was changed from "Developing" to "Rating under Review".
- On 2 July 2020, the Fitch Ratings agency, during the annual review, revised the rating watch from "negative" to "evolving" for long-term ratings and for the standalone Viability Rating of BMPS.
- On 16 June 2020, DBRS Morningstar confirmed, during its annual review, all ratings of BMPS, including the long-term rating of "B (high)" and the short-term rating of "R-4".The long-term outlook remains "negative" and the short-term outlook remains "stable".

Significant events in the first nine months of 2020

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

On **21 July 2020**, the Moody's Investors Service rating agency ("Moody's") placed the Baseline Credit Assessment standalone rating ("b3") and the long-term ratings of the Parent Company, including the Long-Term Bank Deposits rating ("B1") and the Long-Term Senior Unsecured rating ("Caa1"), under review for an upgrade. The long-term outlook was changed from "Developing" to "Rating under Review".

On **6 August 2020** the union agreement was signed for the voluntary departure of around 500 resources in 2020 by making recourse to the sector "Solidarity Fund".

On **2 September 2020**, the Parent Company received the "*Final Decision*" from the European Central Bank of the authorisation measure with respect to the partial non-proportional demerger with asymmetric option in favour of AMCO – Asset Management Company S.p.A.

On **3 September 2020**, the Parent Company concluded the placement of a subordinated Tier 2 fixed-rate bond issue with 10-year maturity for institutional investors, in the amount of EUR 300 mln, with an annual yield of 8.50%. The issue is functional to the AMCO Demerger and meets one of the conditions set forth by the ECB in the transaction authorisation, as set forth in the *Final Decision* of 2 September 2020. The bond, issued as part of the BMPS Debt Issuance Programme with a rating of Caa1 (Moody's) / CCC+ (Fitch) / B(low) (DBRS), is listed on the Luxembourg Stock Exchange.

Significant events after 30 September 2020

On **4 October 2020** the Extraordinary Shareholders' Meeting of the Parent Company, meeting on single call, decided:
- to approve the partial proportional demerger plan of MPS Capital Services Banca per le Imprese S.p.A. in favour of the Parent Company ("MPSCS Project");
- to approve the partial non-proportional demerger plan of the Parent Company in favour of AMCO – Asset Management Company S.p.A. ("AMCO Demerger Plan") with the attribution of an asymmetric option to the shareholders of BMPS, other than the Ministry of Economy and Finance, as well as the amendment of paragraphs 1 and 2 of art. 6 of the Parent Company's articles of association as a result of the approval of the AMCO Demerger Plan.

On **15 October 2020**, a first instance ruling was issued against Viola Fabrizio and Profumo Alessandro for false disclosure in relation to the half-yearly report as at 30 June 2015 and for market manipulation for press releases relating to the approval of the financial statements as at 31 December 2012, 31 December 2013 and 31 December 2014 and the half-yearly report as at 30 June 2015 as well as with respect to Salvadori Paolo for the sole offence of false disclosure in relation to the half-yearly report as at 30 June 2015. Again with regard to the offence of false disclosure, it was instead ruled that the case could not proceed with respect to the financial statements as at 31 December 2012 as the statute of limitations had been reached and all defendants were acquitted because there was no case to answer in relation to the financial statements as at 31 December 2013 and 31 December 2014.

On **16 October 2020**, by means of a Prime Ministerial Decree, the Ministry of Economy and Finance (MEF) was authorised to proceed with extraordinary transactions functional to the divestment of its stake in Banca MPS, including the transaction for the partial, non-proportional demerger, with asymmetric option, of the MPS compendium consisting of non-performing exposures, DTAs, net equity and liabilities (so-called Hydra M deal). Upon completion of this demerger transaction, the disposal of the stake held by MEF in Banca MPS is authorised, which may be carried out, in one or more phases, by means of sales methods and techniques in use on the market, specifically by resorting, singly or jointly, to a public offer to investors in Italy, including MPS Group employees and/or Italian and international institutional investors, to a direct negotiation to be carried out through transparent and non-discriminatory competitive procedures, to one or more extraordinary transactions, including a merger transaction. The completion of the demerger and any extraordinary transactions is subject to obtaining the necessary authorisations from the competent Supervisory Authorities.

On **20 October 2020**, with reference to the partial non-proportional demerger transaction of Banca Monte dei Paschi di Siena S.p.A. ("**MPS**" or the "**Bank**") in favour of AMCO – Asset Management Company S.p.A. ("**AMCO**") with the attribution of an asymmetric option to the shareholders of MPS other than the Ministry of Economy and Finance (the "**Demerger**"), the terms have expired both for the exercise of the right of withdrawal and for the exercise of the right of sale of the MPS shareholders that had not voted to approve the Demerger. In detail, the right of withdrawal was validly exercised for a total of 15,481,959 MPS ordinary shares, representing 1.36% of the share capital of MPS (for a total equivalent settlement value of EUR 20,730,343.10), while the sale right was validly exercised for a total of 8,883,843 MPS ordinary shares, representing 0.78% of the share capital of MPS (for a total equivalent settlement value of EUR 11,895,465.78).

Strategy and Restructuring Plan

The Group's strategy is still that outlined in the Restructuring Plan approved by the European Commission on 4 July 2017, which is subject to formal monitoring by the European Commission, through a Monitoring Trustee[15]. This monitoring assumes formal relevance in verifying compliance with the commitments only at specific deadlines agreed with the European Commission. Moreover, although the Parent Company has fulfilled multiple commitments defined with the European Commission, also in relation to the evolution of the reference scenario, there were significant variances referring to revenues and assets, as laid out in the 2017-2021 Plan. In this regard, commitment #9 establishes cost reduction targets if profitability targets are not reached.

In order to take into account the change in the macroeconomic scenario that occurred following the outbreak of the COVID-19 pandemic, in the last months the Parent Company updated its internal long-term projections (2020-2024). These estimates are lower than that envisaged in the 2017-2021 Restructuring Plan approved by the competent authorities in July 2017, highlighting a loss trend for the 2020-2022 three-year period. Moreover, activities were also launched for the revision of the Group's business plan in the second half of 2020, also in order to re-assess the strategic options and industrial levers available to the management.

Furthermore, following the provisions for legal risks made in the third quarter of 2020 and the updated estimates of the impacts of regulatory headwinds and of the persisting pandemic, the Parent Company updated the capital adequacy projections prepared in the context of the application to the ECB for the Hydra transaction. From this update, a prospective shortfall with respect to SREP capital requirements emerged, with respect to which capital strengthening initiatives are being evaluated.

In this context, the MEF, as the controlling shareholder, reiterated its support for the Hydra transaction; its intention to respect the commitments undertaken by the Italian Republic towards the European Union and to carry out a market transaction identifying an anchor investor and/or banking partner of adequate standing, in order to restore and ensure the Bank's competitiveness; any capital support that may become necessary in the future to ensure compliance with minimum capital requirements.

As regards the credit strategy, to appropriately handle the risks deriving from the COVID-19 economic emergency, starting from the second quarter of 2020 the Parent Company revised its strategic policies for offering credit to customers, focusing its performing loan growth mission on measures to provide financial support to existing customers. In this sense, the Group clustered the loan portfolio on the basis of the risk arising in the economic sectors and the relative resilience and recovery capacity over time based on the impact estimates starting from the main macroeconomic indicators (change in GDP, turnover, etc.). This made it possible to identify portions of the portfolio on which to best focus financial support, relying first and foremost on the measures laid out by the Legislature in the various decrees issued throughout the first half of the year ("Cura Italia" decree and Liquidity decree) in the form of the restructuring of outstanding loans and granting additional liquidity backed by the State. The Group also fully participated in the Sector Agreements promoted by the Italian Banking Association which make it possible to offer customers additional benefits to overcome the economic and financial impacts of the emergency situation. Likewise, the Parent Company refocused, in keeping with such policies, interactions with its customers, specifying the set of documents and instruments useful for adequate credit assessments from a forward-looking perspective (ad hoc questionnaires, statement for verifying financial requirements, etc.).

Despite the initial forecasts of negative impacts triggered by the COVID-19 emergency on the cure rate and transfers from NPE exposures, monitoring showed how the trend of these aggregates has remained consistent with the new objectives established within the RAS revision.

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

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

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

- ***improving the customer experience and continuing the digital transformation***, through the extension of the NPS (Net Promoter Score) surveys with "close-the-loop" processes for managing customer feedback and improving the service based on reports collected; the launch of Customer journeys designed for improving commercial proposition activities through the establishment of logical omnichannel contact paths, particularly with reference to new customers or those with the risk of abandonment; the search for a superior experience in the internet banking platform for retail customers, also through the creation of new smartphone apps and the enhancement of tools that allow remote contract signing, enabling products and services to be subscribed without having to go to the branch; upgrading of the branch technology platform and the optimisation of media centre activities and remote customer service;
- ***activating a new Wealth Management Platform:*** starting from 27 July 2020, the new wealth management platform named "MPS Athena" was activated, with the release of the Non-Financial Analysis Service on a pilot group of 8 Branches and 2 Private/Family Office Centres. Starting from 22 September 2020, on the basis of a release plan that will continue incrementally in the course of 2021 as well, the process of migrating from "MPS Advice" to "MPS Athena" began, with the opening of several functions of the Basic Advisory path exclusively for Bank employees to which the Service is offered as a sneak preview;
- ***reviewing commercial processes from a customer centricity perspective***, by optimising the commercial contact processes with renewed instruments to guide planning through the use of "air & ground" campaigns and the resulting commercial proposition activity, the specialisation of employees in the various areas of customer needs (with particular reference to the Value segment) and a well-developed caring programme and targeted actions for potential customers;
- ***optimising the allocation of commercial resources,*** by updating the service models for the commercial management of customers, differentiated by type and economic return in a manner consistent with the available staff;
- ***defining a new "value proposition" in the Agrifood sector***, based on the role that the Group intends to take on as a "Hub" for developing small businesses in the SME sector, consisting of relations with the players in the ecosystem, with specific reference to innovation and sustainability issues;
- ***accelerating growth in Bancassurance***, through interventions on the layout of branches and updates of the operating and commercial model, already successfully tested in the last months of 2019 on 86 pilot branches. The project was extended in early July 2020 to an additional 150 branches already involved in the training activity in the month of June, while for the *branding* starting from September 2020 inspections began which will be followed by the initial set-up activities starting in October. An additional cluster of roughly 150 branches has also been identified as a boost for the fourth quarter of 2020;
- ***restyling roughly 75 large/highly visible branches*** in order to improve commercial proactivity with a focus on the Value line. For these agencies, the lay-out of the lobby area will be updated, obsolete/former brand signs will be replaced and some monitors will be installed. These interventions act on the following performance drivers: increasing the privacy of workstations, improving the usability of spaces, appearance and brand identity. The real estate activities have regarded roughly 20 branches to date; on the remaining ones, all planning and inspection activities have been completed, in preparation for the executive project to be implemented by year-end.

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

- Exposure to sovereign debt:
  - financial assets measured at fair value through other comprehensive income (FVTOCI) are down by around EUR 0.9 bn compared to the end of 2019, mainly in reference to Italian government debt securities.
- Transfer of foreign banks:
  - with reference to the closing of the sale of Banca Monte dei Paschi Belgio S.A. (BMPB), finalised on 14 June 2019, on 23 March 2020, the procedure for calculating the price adjustment was completed

through the intervention of an independent expert: as a result, the Parent Company recorded a write-back of approximately EUR 2 mln in the first quarter;
- the Parent Company, as envisaged in Commitment no. 14 of the Restructuring Plan, approved the orderly winding-down procedure of the subsidiary Monte Paschi Banque S.A. (MPB), which consists of limiting the subsidiary's activities strictly to those targeted at the deleveraging of loans, excluding the development of new business. This procedure became necessary after attempts at disposal were unsuccessful with the timing set forth in the commitment. In this context, MPB has focused its efforts on existing customers and activities: the performance for 2019 and the first nine months of 2020 is in line with the objectives of the subsidiary's orderly winding down plan.

- Closure of foreign branches:
  - following the suspension of banking activities and the extinction or transfer to Italy of residual assets (which began in 2019), the Hong Kong Branch ceased to exist in February 2020, with the return of the banking license to the local authority (HKMA), which formalised the confirmation of receipt.
- Cost reduction measures:
  - through the activation of the Solidarity Fund, departure of 2,550 resources from 2017 to 2019 (53% of the total 4,800 resources over the Plan period). By virtue of the Parent Company's commitment to continuing its headcount reduction activities, in line with what is laid out in the Restructuring Plan, with the trade union agreement of 6 August 2020 the voluntary departure of an additional 500 resources as at 1 November 2020 was defined, by making recourse to the sector "Solidarity Fund". This group was then expanded by 60 resources with the agreement of 2 October 2020;
  - closure of 612 branches, achieving the overall target set for the period. Of these, 107 branches were closed in the fourth quarter of 2019, one in the first quarter of 2020 and one in early July, in line with the scheduled closures;
  - in 2019 the Parent Company did not achieve the profit targets established in the Restructuring Plan. The Plan commitment establishes that, if the profit objectives are not reached, a programme will be activated to reduce operating costs by 2021 by EUR 100 mln with respect to the Plan commitments.
- Sale of property assets:
  - the commitment calls for the closure of the Perimetro Consortium (concluded in 2019) as well as the disposal over the course of the Plan of owned properties for an equivalent value of EUR 500 mln; from the approval of the Plan (4 July 2017) to the Interim Report on Operations as at 30 September 2020, the Group sold 88 real estate assets for a value of roughly EUR 55.9 mln. Furthermore, preliminary agreements were entered into for the sale of real estate corresponding to a book value of roughly EUR 283 mln as at 30 September 2020, including the preliminary sale agreement entered into on 30 June 2020 with Ardian for the sale of a real estate portfolio owned by the Group (including the prestigious offices in Milan (via S. Margherita) and Rome (via del Corso 232 and via del Corso 518/520)), the completion of which is expected, for the majority of the properties, by the end of 2020.
- Strengthening of the capital position:
  - in January 2020, a subordinated Tier 2 bond was issued for EUR 400 mln, thereby completing the plan for the issue of this type of instrument laid out in the Restructuring Plan and subject of a specific commitment with DG Comp.
  - in September 2020, an additional Tier 2 issue was carried out for the amount of EUR 300 mln. The issue is functional to the partial non-proportional demerger transaction with asymmetric option of a compendium consisting, inter alia, of non-performing loans by BMPS in favour of AMCO – Asset Management Company S.p.A. and meets, in particular, one of the conditions set forth by the ECB in the transaction authorisation, as set forth in the *Final Decision* of 2 September.
- Disposal of the equity investment by the MEF:
  - the commitments required by DG Comp envisage, among other things, that the MEF divest its shareholding in the Parent Company by the end of the Restructuring Plan. Thus, the MEF should have submitted to the European Commission by the end of 2019 a plan to sell its stake in the Parent Company's capital. On 30 December 2019, the MEF communicated that, in agreement with the services of the European Commission, the presentation of the plan to sell the equity investment in MPS was postponed, pending the completion of the Parent Company's derisking transaction (the "Hydra" transaction). Indeed, this transaction was planned with the ultimate goal of creating the conditions for the sale of the equity investment. To that end, on 16 July 2020, the Parent Company engaged Mediobanca as financial advisor in order to evaluate the alternative strategies available. On 16 October 2020, by Prime Ministerial Decree, the MEF was authorised to proceed with extraordinary transactions functional to the disposal of the equity investment, including the non-proportional demerger

transaction, with asymmetric option, of the MPS compendium. After the demerger transaction, the disposal of the equity investment held by the MEF in Banca MPS was authorised, which may be carried out in one or more phases through individual or joint recourse: to a public sale offer to investors in Italy and/or Italian and international institutional investors, direct negotiations to be carried out through transparent and non-discriminatory competitive procedures and one or more extraordinary transactions including a merger transaction.

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

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

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

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

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

As regards institutional funding, the changed context has slowed the implementation of the Group's issue plans for 2020; in the second and third quarter of the year, access to the primary market of public bonds was limited only to the Tier 2 issue of EUR 300 mln mentioned above.

On the other hand, the Group can benefit from the important extraordinary monetary policy measures announced by the ECB in March, with particular reference to the LTRO/PELTRO/TLTRO III refinancing operations. The Parent Company already had access, in March, to the new LTROs that matured in June 2020, for EUR 5 bn, while, as regards TLTRO III, the considerable increase in the maximum amount to which each bank has access led to a revision of the plans prepared by the Group: in the course of the months of June and September, the Parent Company again accessed the TLTRO III auctions for EUR 17 bn and EUR 3 bn, thus bringing the total TLTRO III amount to EUR 24 bn (against a maximum amount available of approx. EUR 27 bn).

Any additional recourse to the TLTRO III may be used to handle potential future requirements to support the economic fabric, with respect for the overall maximum.

In the current market environment, characterised by less possibility to access the senior unsecured public funding market, the Bank is constantly monitoring market conditions in order to carry out the issue programme set forth for the achievement of the MREL targets. In this regard, as part of the 2020 resolution cycle, the new MREL targets that will be disclosed in 2021 will be established based on the transitional period envisaged by SRMR2, with a first interim binding requirement for 2022 and a final requirement for 2024.

Given its potential impacts on banks' sources of liquidity, the health crisis could affect the expected development of the regulatory liquidity indicators (LCR - Liquidity Coverage Ratio and NSFR - Net Stable Funding Ratio). In this regard, the central bank has communicated the possibility for banks to temporarily operate below the minimum threshold of 100%, with particular reference to the LCR. Considering the solid liquidity position established in previous years and the satisfactory levels of its indicators (at 30 June 2020, LCR equal to 173.6% and NSFR equal to 119.3%), BMPS expects to be able to keep its targets higher than the minimum threshold, with an adequate buffer.

"Hydra M" transaction - partial non-proportional demerger with asymmetric option of a set of non-performing loans by MPS in favour of AMCO

On 29 June 2020, the Boards of Directors of the Parent Company and of AMCO (Asset Management Company) approved a plan relating to the partial non-proportional demerger with asymmetric option (AMCO Demerger) by the Parent Company in favour of AMCO of a set consisting of non-performing loans (NPE), tax assets (DTA), other assets, financial debt, other liabilities and shareholders' equity. The effectiveness of the AMCO Demerger is subject to the following conditions precedent (the "Conditions Precedent"):

- the intervening effectiveness of the partial proportional demerger of MPS Capital Services (MPSCS) in favour of the Parent Company, which calls for the transfer of a set of non-performing loans of MPSCS, which will be included in the AMCO Demerger;
- the disbursement of the loan as well as the issue of a letter of consent from JP Morgan and UBS for the transfer of financial debt by the Parent Company to AMCO due to the Demerger and the delivery of irrevocable instructions to free up the sums in escrow, to be carried out when the Demerger becomes effective;
- the circumstance that, after the procedure for the offer of MPS shares subject to the exercise of the right of withdrawal/sale deriving from the AMCO Demerger, the equivalent value of any residual shares is no higher than a total of EUR 150 mln (the "Maximum Outlay Condition Precedent"). This condition precedent is established in the interest of the Parent Company and may be waived at its discretion;

Moreover, on 2 September 2020, the European Central Bank (ECB) authorised the Parent Company to carry out the Demerger, subjecting that authorisation and therefore the effectiveness of the transaction to the occurrence of the following events:

(i) that the Parent Company, prior to the effective date of the Demerger, (a) issues, under market conditions, subordinated instruments for at least EUR 250 mln, eligible for inclusion in Tier 2 capital for the entire nominal amount pursuant to art. 63 of Regulation (EU) no. 575/2013 or (b) provides the ECB with adequate evidence of the binding firm commitment by one or more investors of adequate standing (including, if applicable, any public entity or affiliated entity), to subscribe the Tier 2 by 31 December 2020;

(ii) the validity – at the effective date of the Demerger – of a law decree or legislative decree or ordinary law (a) ordering the allocation of the public funds necessary to subscribe the capital instruments issued under market conditions by any Italian company with public participation (it being understood that capital instruments refers to subordinated instruments eligible for inclusion in additional Tier 1 and Tier 2); (b) pursuant to which the Parent Company is eligible for recapitalisation and (c) which enables the Ministry of Economy and Finance (MEF) to subscribe, within the limits of the public funds set aside, up to 70% of the amount of capital instruments issued by the Parent Company to ensure continued respect for the overall capital requirements applicable to it, without prejudice to the fact that at least 30% of the relative amount will need to be subscribed by private investors;

(iii) that the Parent Company provides to the ECB, before the effective date of the Demerger, at least three "comfort letters" issued by just as many investment banks no more than 20 calendar days prior to the Demerger execution date, which confirm that, according to their respective analyses and estimates, the Parent Company would be reasonably capable of obtaining the subscription by private investors of at least 30% of the amount of the additional Tier 1 instruments potentially issued by the Parent Company, without prejudice to the fact that each investment bank will determine this amount in good faith, according to the best professional standards and on the basis of all information available to it;

(iv) that the Parent Company's extraordinary shareholders' meeting approves the amendments to the articles of association required to carry out the AMCO Demerger.

Therefore, the AMCO Demerger will be effective only subsequent to: (1) the fulfilment of the Conditions Precedent; (2) the occurrence of the events specified in points (i) to (iv) noted above and (3) the relative assessment by the Parent Company's Board of Directors.

As noted above, in this regard, on 3 September 2020 the Parent Company announced that it had placed a subordinated Tier 2 fixed-rate bond issue with maturity in 10 years (issuer has the option of early repayment after 5 years from issue date, upon approval by the regulator), intended for institutional investors, in the amount of EUR 300 mln.

The contracts relating to the loan were signed on 1 October 2020, and the loan was disbursed on 2 October 2020. The liquidity deriving from the loan was deposited in some escrow accounts opened to secure the loan. The signing of the agreement with AMCO, JP Morgan and UBS for the transfer of financial debt by the Parent Company to AMCO due to the demerger and the issue of irrevocable instructions to free up the sums in escrow, will be carried out when the demerger deed is signed.

The Extraordinary Shareholders' Meetings of the Parent Company and of AMCO approved the implementation of the AMCO Demerger on 4 October 2020, approving the relative plan to that end.

On 20 October 2020, the period ended for the exercise by the shareholders of Banca MPS of the Right of Withdrawal and the Right of Sale: acceptances for a total of 24.4 mln shares, for an equivalent value of EUR 32.6 mln, were received. On 23 October the period began for the offer under option and pre-emption to shareholders of the MPS shares for which the Right of Withdrawal and the Right of Sale was exercised, which will end on 21 November. Those who exercise the option right (any pre-emption) may express, when they exercise that right, their intention to exercise the asymmetric option on the shares subject to acquisition, or the option for which, pursuant to the Demerger plan, the MPS shareholders, other than the Ministry of Economy and Finance ("MEF"), which have not exercised the right of withdrawal/sale (including MPS as the owner of treasury shares), have the right to request not to receive the AMCO B Shares, not to have their MPS shares cancelled due to the Demerger exchange ratio and, therefore, to maintain their number of MPS shares unchanged, increasing, in percentage terms, their equity investment held in the share capital of MPS against a reduction in the equity investment held by the MEF.

The Parent Company is proceeding with the activities in order to finalize the remaining conditions precedent.

Explanatory Notes

The Interim Report on Operations of Monte dei Paschi di Siena Group as at 30 September 2020, approved by the Board of Directors on 5 November 2020, was prepared in consolidated format by applying the recognition and measurement criteria envisaged in IAS/IFRS international accounting standards issued by the International Accounting Standards Board (IASB) and the related interpretations by the IFRS Interpretations Committee, as endorsed by the European Commission and effective at the time this interim report was prepared, pursuant to EC Regulation no. 1606 of 19 July 2002.

With reference to the classification, recognition, valuation and derecognition of the various asset, liability and equity entries, as well as the methods for recognising revenue and costs, the accounting principles used for the preparation of this Interim Report on Operations are basically the same as those used for preparation of the Consolidated Financial Statements as at 31 December 2019, to which the reader is referred for more detail.

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

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

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

On 15 January 2020, the European Commission endorsed, via publication of Regulation (EU) no. 2020/34 the document Interest Rate Benchmark Reform (Amendments to IFRS 9 Financial instruments, IAS 39 Financial instruments: recognition and measurement and IFRS 7 Financial instruments: disclosures) which modifies IFRS 9, IAS 39 and IFRS 7. The Regulation, which orders the compulsory application of the relative provisions as of 1 January 2020, introduced several amendments on hedge accounting, in order to prevent uncertainties on the amount and timing of cash flows deriving from the rates reform from causing a discontinuation of hedges in place and difficulties in designating new hedging relationships. The Group decided to opt for early application of the Regulation already in the 2019 Financial Statements. As already highlighted in the 2019 Financial Statements, to which the reader is referred for additional details, the matter relates to developments connected to the review or replacement of certain reference indexes for the determination of interest rates in various jurisdictions.

With the publication of the above-mentioned Regulation no. 2020/34, the first phase of the IASB's project relating to the possible accounting impacts of the benchmark rates reform concluded, particularly with reference to the period which precedes the replacement of the existing benchmark rates with new rates ("pre-replacement issue"). On conclusion of the second phase of the project, instead focusing on the analysis of possible accounting impacts deriving from the application of new rates and other less urgent matters ("replacement issue"), on 27 August the IASB issued the document *"Interest Rate Benchmark Reform — Phase 2 (Amendments to IFRS 9 Financial instruments, IAS 39 Financial instruments: recognition and measurement, IFRS 7 Financial instruments: disclosures and IFRS 16 Leases)"*. The document, still pending endorsement, calls for, extremely briefly, the possibility of considering modifications deriving from the reform on financial assets, financial liabilities and leases in the same way as modifications ensuing from an update in benchmark interest rates, as well as the possibility of not discontinuing hedging relationships due solely to the reform. The amendments shall apply as of 1 January 2021. Their early application is permitted.

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

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

The Interim Report as at 30 September 2020 is supplemented by the certification of the Financial Reporting Officer, pursuant to art. 154-bis, paragraph 2 of the Consolidated Law on Finance.

Application of Group accounting policies to transactions deemed significant for the purposes of the statement of financial position.

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

For accounting purposes, the demerger transaction more fully described in the section above falls within the general definition of “transaction under common control”: Banca MPS (Demerged Company) and AMCO (Beneficiary Company) meet the definition of companies under common control for the purposes of IFRS 3 (Business combinations) as companies subject to common control of the MEF. As a result, in terms of the relative accounting treatment, neither IFRS 3 nor IFRIC 17 (Distributions of Non-cash Assets to Owners) apply. Specifically, the demerger is not specifically treated by the international accounting standards and it is therefore subject to an “accounting election” by the directors of the Demerged Company and the Beneficiary Company. Given the reorganisational nature of the transaction - indeed, from the perspective of the MEF, the demerger will entail the mere transfer of the demerger compendium from one subsidiary (the Demerged Company) to another subsidiary (the Beneficiary Company) - the values at which the compendium will be transferred at the effective date of the Demerger, expected for next 1 December, will be determined by applying the principle of the continuity of values, or with reference to the accounting values at which such assets and liabilities will be recognised at the above date in the accounts of the Demerged Company. In particular:

- the Demerged Company will reverse from its accounts the asset and liability items included in the compendium which will be transferred to the Beneficiary Company with a resulting reduction of its shareholders' equity. Until the effective date of the demerger, the assets in the compendium will be measured with the same criteria as those applied to draft the consolidated financial statements of the MPS Group as at 31 December 2019 and the accounting policies of the Demerged Company;
- the Beneficiary Company will recognise in its accounts the asset and liability items included in the demerger compendium at the same values as those set forth in the financial statements of the Demerged Company with a resulting increase in its shareholders' equity.

From the accounting perspective, the assets and liabilities included in the compendium fall within the definition of disposal group pursuant to IFRS 5 Appendix A. In particular, this standard sets forth in paragraph 5.5A that “*the classification, presentation and measurement requirements in this IFRS applicable to a non- current asset (or disposal group) that is classified as held for sale apply also to a non- current asset (or disposal group) that is classified as held for distribution to owners acting in their capacity as owners (held for distribution to owners)*”.

In the case in question, it is deemed that the transaction, consisting i) of the demerger of the compendium of the Parent Company in favour of AMCO and ii) the latter’s capital increase, both approved by the common shareholder MEF in its capacity as owner and final beneficiary of the AMCO share capital increase, falls within the scope of application of the above-mentioned provision of IFRS 5.5A.

The capital elements included in the demerger compendium at the date of 30 September 2020 are set forth below:

- loans for a net book value of EUR 3.7 bn (gross book value of EUR 7.5 bn) classified for EUR 3.6 bn in item 40 “Financial assets measured at amortised cost - loans to customers” and EUR 48.5 mln in item 20 c) “Other financial assets measured at fair value as per mandatory requirements”, of which:
    - bad loans for a net book value of EUR 2.3 bn (gross book value of EUR 4.9 bn);
    - unlikely to pay loans for a net book value of EUR 1.4 bn (gross book value of EUR 2.6 bn);
    - past due non-performing loans for a net book value of EUR 0.6 mln (gross book value of EUR 0.7 mln);
    - past due performing loans for a net book value of EUR 0.7 mln (gross book value of EUR 0.8 mln);
    - performing loans for a net book value of EUR 19.6 mln (gross book value of EUR 20.8 mln);
- bonds and equity securities for a book value of EUR 17.7 mln classified in the following accounting portfolios:
    - EUR 14.1 mln in item 20 c) “Other financial assets measured at fair value as per mandatory requirements”,
    - EUR 0.2 mln in item 20 a) “Financial assets held for trading”;

  - o EUR 3.4 mln in item 30 "Financial assets measured at fair value through other comprehensive income";
- derivative contracts with a positive fair value for EUR 0.4 mln classified in item 20 a) "Financial assets held for trading" and derivative contracts with a negative fair value for EUR 0.04 mln classified in the item "Financial liabilities held for trading";
- deferred tax assets for a book value of EUR 73.4 mln;
- other assets for EUR 0.2 mln

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For the sake of full disclosure, note that at 30 September 2020 real estate, works of art and plants for which preliminary sale agreements have been entered into at the reference date of this Interim Report on Operations are also classified under non-current assets held for sale and discontinued operations. They include the portfolio of 28 properties owned by the Parent Company, for which Banca MPS and Ardian France S.A. will enter into the notary deed for 26 properties by 30 November 2020 and for the remainder (2 properties) by the end of 2023 and in any event not before the end of 2021.

Lastly, they also include non-performing credit exposures subject to disposal transactions already approved and expected to be finalised during the final quarter of this year.

TLTRO III – "Targeted Longer Term Refinancing Operations"

In light of the COVID-19 emergency, the Governing Council of the ECB, at its meetings held on 12 March and 30 April 2020, improved the parameters of the targeted longer term refinancing operations (TLTRO-III), particularly with reference to the maximum borrowing allowance and the relative remuneration.

In particular, following the above-mentioned revisions, the interest rate was set at a level equal to the average rate of the Eurosystem's main refinancing operations (MRO), currently equal to 0% with the exception of the period between 24 June 2020 and 23 June 2021 ("special interest rate period"), during which a rate lower than 50 basis points will be applied.

An incentive mechanism has also been established which provides access to more favourable rate conditions when specific benchmarks are reached. In particular, for counterparties whose net eligible loans between 1 March 2020 and 31 March 2021 ("special reference period") are at least equal to the respective reference levels ("benchmark net lending"), the rate applied will be equal to the average rate on deposits (DFR), currently equal to -0.5%, for the entire duration of the operation, in addition to a further reduction of 50 basis points for the "special interest rate period". The "benchmark net lending" in the "special reference period" is set at zero for counterparties whose net eligible loans increased in the twelve months prior to 31 March 2019; otherwise, that benchmark is equal to the reduction in net eligible loans recorded in the twelve months prior to 31 March 2019.

For counterparties that do not reach the net eligible loans target referred to in the previous point, the remuneration scheme originally established will be applied, i.e.: MRO rate on the life of the operation, with the possibility to benefit from a reduction in the rate if a certain benchmark is passed in the period from 1 April 2019 to 31 March 2021 ("second reference period"), up to a minimum equal to the DFR rate. In particular, to benefit from the maximum interest reduction, it is necessary for the net eligible loans of the "second reference period" to surpass the "benchmark net lending" levels to an extent equal to or more than 1.15%. In the "special interest rate period", it will be possible to benefit from a reduction, which will depend on the benchmark thresholds reached and the MRO and DFR rate levels.

At 30 September 2020, the ECB funding operations, consisting entirely of TLTRO III financing, amount to EUR 24 bn, subscribed in full by the Parent Company in three quarterly auctions starting from December 2019. Each operation has a duration of three years.

With reference to the methods for recognising interest from the transactions in question in the accounts, please note that the conditions for the remuneration of the refinancing operations established by the ECB should be considered market rates as the ECB defines and enacts monetary policy for the Eurozone and may also decide to modify these conditions at any time. Moreover, as they are floating rate financial liabilities, the periodic re-estimation of cash flows to reflect changes in market interest rates modifies the effective interest rate pursuant to IFRS 9 paragraph B.5.4.5. Therefore, also taking into account that the liabilities in question may be repaid in advance at any time with no penalties, each period characterising the life of each tranche has a given effective interest rate. If the benchmarks are fully reached and on the basis of current DFR trends, the effective interest rates would therefore be equal respectively to:

- -0.5% from the issue date until 24 June 2020;
- -1.0% from 24 June 2020 until 23 June 2021;
- -0.5% from 23 June 2021 until maturity.

In light of the various mechanisms described above, taking into account that the benchmark net lending in the special reference period for the MPS Group is negative and that the net eligible loans as of 1 March 2020 recorded an evolution such so as to make it highly likely that the benchmark net lending would be surpassed at 31 March 2021 - or at the end of the observation period of the net eligible loans - interest for the period was recognised, taking into account the minimum deposit rate, currently equal to -0.5%, as well as the additional reduction of 50 bps in the “special interest rate period” on an annual basis.

The interest at 30 September 2020, recognised in income statement item “10. interest income and similar revenues” therefore amounted to a total of EUR 67.7 mln (of which EUR 39.1 mln linked to reaching the benchmarks described above). Particularly with reference to the benefit of the additional reduction of 50 bps in the special interest rate period, equal to EUR 117.2 mln, it should be specified that the amount recognised at 30 September 2020 totals EUR 28.6 mln, obtained by breaking down the above-mentioned benefit throughout a one-year time horizon.

Estimates and assumptions when preparing the interim report on operations

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

In this regard, please note that in the period subject to disclosure there were no changes compared to the estimation criteria applied to draft the Financial Statements as at 31 December 2019, with the exception primarily of the quantification of the expected loss on financial instruments which, pursuant to IFRS 9, are subject to forecasts concerning impairment, based on the update in the outlook scenarios relating to the 2020-2022 period, estimated last June.

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

Quantification of impairment losses on loans

Updating macroeconomic scenarios for purposes of calculating expected loss and staging

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

The supervisory authorities (ESMA, EBA and ECB) and the standard setters (IASB) provided instructions in March, April and May of this year on the application of IFRS 9 and, in particular, on the use of forward-looking information in the context of the pandemic. Specifically with regard to this aspect, there is a general call for caution in using economic scenarios and in the methods of converting prospective information into the identification of staging and expected lifetime loss.

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

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

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

In addition, as regards performing corporate loans, in order to reflect the severe repercussions that the pandemic and the containment measures launched by governments to limit the spread of contagion have had on specific sectors, the scenario provided by Cerved was used. In particular, the Group relied on an outlook scenario contributed by that provider, which shows a GDP decline for the year 2020 of 8.2%[16] which, compared to the macroeconomic scenarios usually developed and the "satellite" model in use for estimating the multi-year PD curves (which for the corporate segment requires a distinction in 5 macro-segments: agriculture, commerce, building, industry and services) made it possible to differentiate the effects of the COVID-19 pandemic by sector of economic activity and geographical location. The forward-looking shock applied to the multi-year PD curves was determined in terms of the change in probabilities of default in 30 sectors of economic activity, on the basis of the changes (weighted for the relative counterparty exposures) observed between the Cerved forecasts pre and post COVID-19. This approach made it possible to identify the credit relationships of the corporate counterparties for which the pandemic triggered a significant increase in credit risk, resulting in a redetermination of the staging and the calculation of the lifetime ECL.

At 30 September 2020, updating the "scenario" component resulted in the recognition of total additional adjustments of around EUR 300 mln, of which roughly EUR 200 mln for the performing portfolio and around EUR 100 mln for the non-performing portfolio. These adjustments take into account significant aspects of uncertainty linked to developments in the pandemic as well as the breadth and effects of the government measures to support the economy.

IFRS 9 staging

The drivers for identifying a significant increase in credit risk (SICR), a necessary and sufficient condition for classifying the financial assets subject to assessment in stage 2, used for the staging allocation at the reference date of this interim report on operations, were unchanged with respect to the financial statements as at 31 December 2019, to which reference is made for more details. In this regard, note that the updates in the macroeconomic scenarios applied in the first nine months of 2020 (see section "Updating macroeconomic scenarios for purposes of calculating expected loss and staging") resulted in an overall increase in stage 2 as at 30 September 2020 of roughly EUR 2.5 bn.

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

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

support and public support announced, believe that they constitute a sufficient justification to rebut that presumption.

Impacts of customer and bank support measures on ECL calculation

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

Instead, issuing public guarantees on loans seeks to facilitate the granting of liquidity at favourable terms by the financial system. In this regard, the Group has made efforts since the end of the first quarter to implement the legislative provisions regarding the guarantees of the Central Guarantee Fund/Ismea (Italian Institute for Services to the Agricultural and Food Markets), Cassa Depositi e Prestiti and SACE (arts. 1 and 13 of the "Liquidity" Law Decree, converted with law no. 40/2020, and art. 57 of the "Cura Italia" Decree, converted with law no. 27/2020). At 30 September 2020, the Group disbursed loans backed by those guarantees for a total of roughly EUR 3.5 bn.

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

Estimation and assumptions on recoverability of deferred tax assets

As at 30 September 2020, the Group accounted for write-downs of around EUR 560 mln on DTAs due to the adoption for probability test purposes of the forecast plans and the discount factor updated to take into account the different macroeconomic scenario emerging as a result of the COVID-19 pandemic.

This amount also includes the share of DTAs potentially arising during the period, which could not be recognised on the basis of the probability test assessment.

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

Lastly, please note that the income statement item taxes includes income of EUR 11.9 mln deriving from the transformation of DTAs from tax losses and excess ACE into tax credits, following the disposal of non-performing loans in the first nine months of 2020, pursuant to art. 55 of Law Decree 18/2020.

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

As at 30 September 2020, the method for determining the fair value of financial instruments and the inputs of the measurement techniques used have not been changed with respect to the financial statements as at 31 December 2019. There were no significant changes in level 3 of the fair value hierarchy.

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

Contractual changes and forbearance

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

- suspension of instalment payments and/or extension of due dates on instalment transactions, in application of both the legislative rules suspending instalments until 30 September 2020[17] as well as the ABI moratorium tool, which allows suspension of up to 12 months, extendable up to 24 months for companies belonging to specific sectors or production chains with greater recovery difficulties;
- extension of due dates for outstanding advances;
- new medium/long-term financing products to meet the working capital needs of borrowers.

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

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

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

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

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

In this regard, to handle as promptly as possible the high number of requests received due to the emergency caused by the pandemic crisis, the Group authorised a simplified approval procedure which establishes a preventive freeze of instalments for the requests accepted, pending the finalisation of contractual documentation. At 30 September, roughly 116.2 thousand requests had been received for a residual debt of roughly EUR 17.0 bn, of which around 102 thousand approved for EUR 14.7 bn. With respect to this last aggregate, roughly 80% has been finalised by approving the credit line, finalising contractual documentation and updating the amortisation plans in the reference operational services, for a residual debt of EUR 13.6 bn.

As at 30 September 2020, income statement item 140 "Modification gains/(losses)" includes a loss related to the COVID-19 suspensions finalised for roughly EUR 2.1 mln.

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

Classification criteria applied (moratoria, defaults)

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

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

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

Going concern

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

In this regard, it should be noted that following i) the significant provisions on legal risks made in the third quarter of 2020, ii) the prospective effects of the Hydra transaction, iii) the penalising impact of the COVID-19 pandemic on the macroeconomic scenario and iv) regulatory headwinds, a capital shortfall is expected with respect to SREP capital requirements. Therefore, capital strengthening initiatives are being evaluated with the full support of the controlling shareholder.

In this context, the MEF reiterated its support for the Hydra transaction; its intention to respect the commitments undertaken by the Italian Republic towards the European Union and to carry out a market transaction identifying an anchor investor and/or banking partner of adequate standing, in order to restore and ensure the Bank's competitiveness; any capital support that may become necessary in the future to ensure compliance with minimum capital requirements.

In light of these elements and with regard to the indications contained in Document no. 2 of 6 February 2009 and Document no. 4 of 3 March 2010, issued jointly by the Bank of Italy, Consob and ISVAP, and subsequent amendments, the Group reasonably expects to continue operating as a going concern in the foreseeable future and has therefore prepared the Interim Report on Operations as at 30 September 2020 under the going concern assumption.

Income statement reclassification principles

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

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

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

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

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

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

- Item "**Net interest income**" was cleared of the negative contribution (equal to EUR -3.9 mln) of the Purchase Price Allocation (PPA), referring to past business combinations, which was reclassified to a specific item.
- Item "**Net fee and commission income**" was cleared of the negative contribution (equal to EUR 31.1 mln) represented by fee and commission expense relating to the non-proportional demerger plan with asymmetric option of a set of non-performing loans in favour of AMCO, which was attributed to the reclassified item "Restructuring costs/One-off charges".
- Item "**Dividends, similar income and gains (losses) on investments**" incorporates item 70 "Dividends and similar income" and the relevant portion of profits from investments in the associate AXA, consolidated using the equity method, equivalent to EUR 48.9 mln, included in item 250 "Gains (losses) on investments". The aggregate was also cleared of dividends earned on equity securities other than equity investments (EUR 1.4 mln), reclassified to item "Net profit (loss) from trading, the fair value measurement of assets/liabilities and gains from disposals/repurchases".
- Item "**Net profit (loss) from trading, from financial assets/liabilities measuerd at fair value and Net profit (loss) on disposals/repurchases**" includes item 80 "Net profit (loss) from trading", item 100 "Gains (losses) on disposal/repurchase", cleared of the contribution from loans to customers (EUR +1.9 mln) reclassified in the item "Cost of customer credit", and item 110 "Net profit (loss) from other financial assets and liabilities measured at fair value through profit and loss", cleared of the contribution from loans to customers (EUR +4.6 mln) reclassified in the item "Cost of customer credit". In addition, the aggregate incorporates dividends earned on equity securities other than equity investments (EUR 1.4 mln).
- Item "**Net profit (loss) from hedging**" includes financial statement item 90 "Net profit (loss) from hedging".
- Item "**Other operating income (expense)**" includes the balance of item 230 "Other operating expenses/income" net of stamp duties and other expenses recovered from customers, which are included in the reclassified item "Other administrative expenses" (EUR 196.0 mln) and net of other expenses recovered, which are posted to "Net value adjustments to property, plant and equipment" (EUR 15.5 mln).
- Item "**Personnel expenses**" includes the balance of item 190a "Personnel expenses" reduced by the cost component of EUR 92.4 mln, relating to provisions for the early retirement/solidarity fund initiative pursuant to the agreement with the trade unions of 6 August 2020, reclassified to "Restructuring costs/One-off charges".

- Item "**Other administrative expenses**" includes the balance of income statement item 190b "Other administrative expenses", reduced by the following cost items:
  - expenses, amounting to EUR 117.7 mln, resulting from the EU Deposit Guarantee Schemes Directive (hereinafter "DGSD") and Bank Recovery Resolution Directive (hereinafter "BRRD") for the resolution of bank crises, posted under the reclassified item "Risks and charges associated with SRF, DGS and similar schemes";
  - DTA fee, convertible into tax credit, for an amount of EUR 53.3 mln (posted to the reclassified item "DTA fee");
  - extraordinary charges of EUR 7.1 mln, relating to initiatives also aimed at complying with the commitments undertaken with DG Comp, including expenses for the non-proportional demerger plan with asymmetric option of a compendium of non-performing loans in favour of AMCO, stated under reclassified item "Restructuring costs/One-off charges".

  This item also includes the portion of stamp duty and other expenses recovered from customers (EUR 196.0 mln) posted under item 230 "Other operating expenses/income".
- Item "**Net value adjustments to property, plant and equipment and intangible assets**" includes the values of items 210 "Net value adjustments to (recoveries on) property, plant and equipment" and 220 "Net value adjustments to (recoveries on) intangible assets" and was cleared of the negative contribution (EUR -0.7 mln) referring to the Purchase Price Allocation (PPA), which was recognised in a specific item, while it incorporates the amount of the expense recovery (EUR 15.5 mln) that was recorded under item 230 "Other operating expenses/income".
- Item "**Cost of customer credit**" includes the income statement components relating to loans to customers of item 100a "Gains (losses) on disposal/repurchase of financial assets measured at amortised cost" (EUR +1.9 mln), item 110b "Net profit (loss) from other financial assets measured at fair value as per mandatory requirements" (EUR +4.6 mln), item 130a "Net impairment (losses)/reversals on financial assets measured at amortised cost" (EUR -628.8 mln), item 140 "Modification gains/(losses)" (EUR -4.5 mln) and item 200a "Net provisions for risks and charges - commitments and guarantees given" (EUR +5.8 mln).
- Item "**Net impairment losses on securities and loans to banks**" includes the portion related to securities (EUR -2.5 mln) and loans to banks (EUR -1.4 mln) in item 130a "Financial assets measured at amortised cost" and item 130b "Net impairment (losses)/reversals on financial assets measured at fair value through other comprehensive income" (EUR -2.7 mln).
- Item "**Net provisions for risks and charges**" includes the balance of financial statement item 200 "Net provisions for risks and charges", reduced by component 200a "commitments and guarantees given" (EUR +5.8 mln), which was included in the specific item "Cost of customer credit".
- Item **"Gains (losses) on investments**" includes the balance of item 250 "Gains (losses) on investments", cleared of the portion of profit relative to the investments in AXA, consolidated at equity and equivalent to EUR 48.9 mln, reclassified under item "Dividends, similar income and gains (losses) on investments".
- Item "**Restructuring costs/One-off costs**" includes the following amounts:
  - commission expense of EUR 31.1 mln relating to the non-proportional demerger plan with asymmetric option of a compendium of non-performing loans in favour of AMCO, accounted for in the financial statements under item 60 "Net fee and commission income"
  - expenses recognised in provisions for the early retirement/solidarity fund initiative equal to EUR 92.4 mln, recognised in the financial statements under item 190a "Personnel expenses";
  - charges of EUR 7.1 mln, relating to project initiatives also aimed at complying with the commitments undertaken with DG Comp, including expenses for the non-proportional demerger plan with asymmetric option of a compendium of non-performing loans in favour of AMCO, accounted for in the financial statements under item 190b "Other administrative expenses"
  - gains of EUR 2 mln linked to the definition of the price adjustment on the sale of BMP Belgio S.A., accounted for in the financial statements under item 280 "Gains (losses) on disposal of investments".
- Item "**Risks and charges associated with SRF, DGS and similar schemes**" includes expenses deriving from the EU Deposit Guarantee Schemes Directive (DGSD) and the Bank Recovery and Resolution Directive (BRRD), equivalent to EUR 117.7 mln, posted in the financial statements under item 190b "Other administrative expenses".
- Item "**DTA fee**" includes the expenses related to the fees paid on DTAs that can be converted into tax credit as set forth in art. 11 of Law Decree no. 59 of 3 May 2016, converted into Law no. 119 of 30 June 2016, recognised in the financial statements under item 190b "Other administrative expenses", for EUR 53.3 mln.
- Item "**Gains (losses) on disposal of investments**" includes the balance of financial statement item 280 "Gains (losses) on disposal of investments" reduced by the positive effect linked to the definition of the

resulting price adjustment on the disposal of MP Belgio (EUR +2 mln), which was recognised in the reclassified item "Restructuring costs/One-off charges".

- Item "**Tax expense (recovery)**" includes the balance of item 300 "Tax expense (recovery) on income from continuing operations" cleared of the theoretical tax component relating to the Purchase Price Allocation (PPA), which was reclassified to a specific item for an amount of EUR 1.5 mln.
- The overall negative effects of the **Purchase Price Allocation (PPA)** were reclassified to a specific item, excluding them from affected income statement items (in particular "Net interest income" for EUR -3.9 mln and "Net value adjustments to property, plant and equipment and intangible assets" for EUR -0.7 mln, net of a theoretical tax burden of EUR +1.5 mln which was added to the item).

Balance sheet reclassification principles

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

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

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

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

- Asset item "**Loans to central banks**" includes the portion relating to operations with central banks of item 40 "Financial assets measured at amortised cost".
- Asset item "**Loans to banks**" includes the portion relating to operations with banks of item 40 "Financial assets measured at amortised cost" and item 20 "Financial assets measured at fair value through profit and loss".
- Asset item "**Loans to customers**" includes the portion relating to loans to customers of financial statement items 20 "Financial assets measured at fair value through profit and loss", 40 "Financial assets measured at amortised cost" and 120 "Non-current assets held for sale and discontinued operations".
- Asset item "**Securities assets**" includes the portion relating to securities of item 20 "Financial assets measured at fair value through profit and loss", item 30 "Financial assets measured at fair value through other comprehensive income", item 40 "Financial assets measured at amortised cost" and item 120 "Non-current assets held for sale and discontinued operations".
- Asset item "**Derivative assets**" includes the portion relating to derivatives of item 20 "Financial assets measured at fair value through profit and loss" and item 50 "Hedging derivatives".
- Asset item "**Equity investments**" includes item 70 "Equity Investments" and the portion related to investments in item 120 "Non-current assets held for sale and discontinued operations".
- Asset item "**Property, plant and equipment and intangible assets**" includes item 90 "Property, plant and equipment", item 100 "Intangible assets" and the amounts related to property, plant and equipment and intangible assets in item 120 "Non-current assets held for sale and discontinued operations".
- Asset item "**Other assets**", includes item 60 "Change in value of macro-hedged financial assets", item 130 "Other assets", and the amounts in item 120 "Non-current assets held for sale and discontinued operations" not included in the previous items.

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

Reclassified income statement

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

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

- the Cost of Customer Credit was penalised by the effects deriving from the changed macroeconomic scenario due to the spread of the pandemic, which influenced the portfolio's risk levels,
- Net fee and commission income was impacted by the reduction of Network operations during the months of the lockdown, with a recovery of normal operations only starting from late June,
- the results from trading activities and the contribution of AXA-MPS were negatively impacted by tensions in the financial markets linked to the COVID-19 emergency,
- taxes recorded a negative contribution attributable nearly exclusively to the modification of the value of deferred tax assets (DTAs) recorded in the financial statements, carried out due to the update in long-term internal estimates (2020-2024) of the income statement and balance sheet values to take into account changes in the macroeconomic scenario caused by the pandemic. Please note, moreover, that pending the definition of the new Business Plan, the reference to the long-term internal estimates previously used to draft the consolidated half-year financial report was maintained, and, on a precautionary basis, no reassessment of DTAs was performed in 3Q2020.

Reclassified Consolidated Income Statement				
			Change	
MONTEPASCHI GROUP	30 09 2020	30 09 2019	Abs.	%
Net interest income	978.7	1,167.9	(189.2)	-16.2%
Net fee and commission income	1,049.7	1,078.4	(28.7)	-2.7%
Income from banking activities	**2,028.4**	**2,246.3**	**(217.9)**	**-9.7%**
Dividends, similar income and gains (losses) on equity investments	57.5	80.3	(22.8)	-28.4%
Net profit (loss) from trading, from financial assets/liabilities measuerd at fair value and Net profit (loss) on disposals/repurchases	153.8	181.1	(27.3)	-15.1%
Net profit (loss) from hedging	1.0	1.2	(0.2)	-16.7%
Other operating income (expenses)	(40.4)	(82.4)	42.0	-50.9%
Total Revenues	**2,200.2**	**2,426.5**	**(226.3)**	**-9.3%**
Administrative expenses:	(1,463.8)	(1,509.8)	46.0	-3.0%
a) personnel expenses	(1,059.9)	(1,080.5)	20.6	-1.9%
b) other administrative expenses	(403.8)	(429.3)	25.5	-5.9%
Net value adjustments to property, plant and equipment and intangible assets	(166.7)	(185.8)	19.1	-10.3%
Operating expenses	**(1,630.5)**	**(1,695.6)**	**65.1**	**-3.8%**
Pre-Provision Operating Profit	**569.7**	**730.9**	**(161.1)**	**-22.0%**
Cost of customer credit	**(621.0)**	**(390.9)**	**(230.1)**	**58.9%**
Net impairment (losses)/reversals on securities and loans to banks	**(6.6)**	**(2.9)**	**(3.7)**	**n.m.**
Net operating income	**(57.9)**	**337.1**	**(394.9)**	**n.m.**
Net provisions for risks and charges	(767.8)	(70.3)	(697.5)	n.m.
Gains (losses) on investments	1.1	3.7	(2.6)	-69.5%
Restructuring costs / One-off costs	(128.6)	(2.5)	(126.1)	n.m.
Risks and charges associated to the SRF, DGS and similar schemes	(117.7)	(123.2)	5.5	-4.5%
DTA Fee	(53.3)	(52.9)	(0.4)	0.7%
Gains (losses) on disposal of investments	1.4	1.1	0.3	27.3%
Profit (Loss) for the period before tax	**(1,122.7)**	**93.0**	**(1,215.6)**	**n.m.**
Tax expense (recovery) on income from continuing operations	(413.8)	104.5	(518.3)	n.m.
Profit (Loss) after tax	**(1,536.5)**	**197.5**	**(1,733.9)**	**n.m.**
Net profit (loss) for the period including non-controlling interests	**(1,536.5)**	**197.5**	**(1,733.9)**	**n.m.**
Net profit (loss) attributable to non-controlling interests	(0.1)	(0.1)	-	n.m.
Parent Company's Profit (loss) for the period before PPA	**(1,536.4)**	**197.6**	**(1,733.9)**	**n.m.**
PPA (Purchase Price Allocation)	(3.0)	(10.7)	7.6	-71.4%
Parent company's net profit (loss) for the period	**(1,539.4)**	**186.9**	**(1,726.3)**	**n.m.**

Quarterly trend in reclassified consolidated income statement							
	2020			2019			
MONTEPASCHI GROUP	3°Q 2020	2°Q 2020	1°Q 2020	4°Q 2019	3°Q 2019	2°Q 2019	1°Q 2019
Net interest income	331.8	319.8	327.1	333.4	354.7	404.3	408.9
Net fee and commission income	355.4	324.4	369.9	371.1	355.9	363.7	358.8
Income from banking activities	**687.3**	**644.1**	**697.0**	**704.5**	**710.6**	**768.0**	**767.7**
Dividends, similar income and gains (losses) on equity investments	11.2	34.5	11.8	15.3	36.9	27.5	15.9
Net profit (loss) from trading, from financial assets/liabilities measuerd at fair value and Net profit (loss) on disposals/repurchases	61.7	62.3	29.8	141.1	102.0	50.5	28.6
Net profit (loss) from hedging	0.5	3.3	(2.8)	(5.8)	1.8	(0.6)	-
Other operating income (expenses)	(12.9)	(21.1)	(6.4)	2.2	(11.1)	(63.0)	(8.3)
Total Revenues	**747.7**	**723.1**	**729.4**	**857.3**	**840.2**	**782.4**	**804.0**
Administrative expenses:	(490.6)	(480.2)	(493.0)	(524.6)	(491.9)	(509.7)	(508.2)
a) personnel expenses	(352.0)	(351.2)	(356.7)	(352.5)	(354.5)	(357.4)	(368.6)
b) other administrative expenses	(138.5)	(129.0)	(136.3)	(172.1)	(137.4)	(152.3)	(139.6)
Net value adjustments to property, plant and equipment and intangible assets	(54.5)	(56.7)	(55.5)	(69.4)	(57.3)	(67.6)	(60.9)
Operating expenses	**(545.1)**	**(536.9)**	**(548.5)**	**(594.0)**	**(549.2)**	**(577.3)**	**(569.1)**
Pre-Provision Operating Profit	**202.6**	**186.2**	**180.9**	**263.3**	**291.0**	**205.0**	**234.9**
Cost of customer credit	**(101.7)**	**(204.8)**	**(314.5)**	**(191.8)**	**(137.1)**	**(109.9)**	**(143.9)**
Net impairment (losses)/reversals on securities and loans to banks	**(1.1)**	**(4.4)**	**(1.1)**	**(2.4)**	**(2.2)**	**(0.6)**	**(0.1)**
Net operating income	**99.8**	**(23.0)**	**(134.7)**	**69.1**	**151.7**	**94.5**	**90.9**
Net provisions for risks and charges	(410.7)	(317.0)	(40.1)	(85.6)	(11.9)	(19.4)	(39.0)
Gains (losses) on investments	0.4	0.5	0.2	(9.3)	0.5	2.3	0.9
Restructuring costs / One-off costs	(100.7)	(30.4)	2.6	2.2	(5.6)	0.9	2.2
Risks and charges associated to the SRF, DGS and similar schemes	(41.0)	(18.4)	(58.3)	(0.2)	(35.7)	(26.6)	(60.9)
DTA Fee	(17.8)	(17.7)	(17.8)	(17.7)	(17.7)	(17.3)	(17.9)
Gains (losses) on disposal of investments	0.3	(0.8)	1.9	1.9	0.4	0.1	0.6
Profit (Loss) for the period before tax	**(469.6)**	**(406.8)**	**(246.2)**	**(39.6)**	**81.7**	**34.6**	**(23.3)**
Tax expense (recovery) on income from continuing operations	20.0	(437.6)	3.8	(1,179.0)	13.3	34.4	56.7
Profit (Loss) after tax	**(449.6)**	**(844.4)**	**(242.4)**	**(1,218.6)**	**95.0**	**69.0**	**33.5**
Net profit (loss) for the period including non-controlling interests	**(449.6)**	**(844.4)**	**(242.4)**	**(1,218.6)**	**95.0**	**69.0**	**33.5**
Net profit (loss) attributable to non-controlling interests	-	(0.1)	-	-	(0.1)	(0.2)	0.2
Parent Company's Profit (loss) for the period before PPA	**(449.6)**	**(844.3)**	**(242.4)**	**(1,218.6)**	**95.1**	**69.2**	**33.3**
PPA (Purchase Price Allocation)	(1.1)	(0.9)	(1.1)	(1.3)	(1.3)	(4.0)	(5.4)
Parent company's net profit (loss) for the period	**(450.7)**	**(845.2)**	**(243.5)**	**(1,219.9)**	**93.8**	**65.2**	**27.9**

Revenue trends

As at 30 September 2020, the Group achieved total **Revenues** of **EUR 2,200 mln**, down 9.3% compared to the same period of last year. This trend is attributable, in particular, to the drop in Net interest income, linked to the disposal of UTP loans and to the effects of the other initiatives set forth during 2019 and the first part of 2020 in compliance whit Restructuring Plan commitments, but also to decreasing short-term interest rates and commercial volumes. Net interest income benefitted from the positive effects of access to TLTRO3 auctions (Eur 24,0 bn take up). Net fee and commissions, down Y/Y, were affected by reduced operations during lockdown and by fewer placements of third-parties consumer credit products. The decrease in other income from banking business was influenced by the lower contributions from the Bancassurance partnership with AXA and a decline in trading results, negatively impacted by tensions on financial markets for the COVID-19 emergency, which more than offset the higher profits deriving from the disposal of securities. Other operating income/expenses improve, having been burdened, in the first nine months of 2019, by the recognition of approximately EUR 49 mln for the indemnity relating to the exercise of the right of withdrawal from the Juliet agreement.

In the comparison with the previous quarter, Revenue was on the rise (EUR +25 mln) thanks to the recovery in Net fee and commission income, particularly fees on asset management which benefitted from the resumption of normal Network operations after the lockdown period, and the recovery in Net interest income. Other revenues from banking business deteriorated compared to the prior quarter, in relation to the lower contribution deriving from trading operations and AXA-MPS. 2Q20 also benefitted from the recognition of the Bank of Italy dividend.

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

SEGMENT REPORTING	**Operating Segments**						**Corporate Center**		**Total Montepaschi Group**	
Primary segment	**Retail banking**		**Wealth Management**		**Corporate banking**					
(EUR mln)	30/09/20	Chg. % Y/Y	30/09/20	Chg. % Y/Y	30/09/20	Chg. % Y/Y	30/09/20	Chg. % Y/Y	30/09/20	Chg. % Y/Y
PROFIT AND LOSS AGGREGATES										
Net interest income	664.8	-15.9%	6.1	-42.6%	310.7	-13.3%	(2.9)	n.m.	978.7	-16.2%
Net fee and commission income, of which	801.0	-9.7%	82.1	1.4%	216.1	-1.8%	(49.5)	-55.0%	1,049.7	-2.7%
Fee and commission income	*851.9*	-9.9%	*82.7*	1.0%	*250.1*	-1.2%	*(2.1)*	-66.2%	*1,182.6*	*-7.2%*
Fee and commission expense	*(50.9)*	-12.6%	*(0.7)*	-33.7%	*(34.0)*	2.7%	*(47.3)*	-54.3%	*(132.9)*	*-32.2%*
Other Revenues from Banking and Insurance Business	40.1	-31.2%	10.9	-30.7%	41.4	-19.9%	119.9	-12.4%	212.3	-19.2%
Other operating expenses/income	10.4	13.3%	(0.4)	n.m.	(5.9)	-53.5%	(44.5)	-43.6%	(40.4)	-50.9%
Total Revenue	1,516.2	-13.1%	98.7	-8.1%	562.3	-8.9%	23.0	n.m.	2,200.2	-9.3%

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

Net interest income as at 30 September 2020 was equal to **EUR 979 mln**, down by 16.2% compared to the same period of 2019. The decrease in net interest income was driven by (i) the disposal on Unlikely-to-pay loans in 2019 (ii) by the completed sale of subsidiary BMP Belgio S.A. in June 2019, (iii) by the Bank's return to the institutional funding market, with significant volumes placed in the second half of 2019 and during 2020 (iv) by the lower contribution from the BMPS securities portfolio and (v) by declining asset yields, driven by interest rate trends and lower volumes of interest-bearing commercial loans. Moreover, Net Interest Income benefitted from the positive effects of EUR 68 mln linked to access to the TLTRO3 auctions although partially offset by the higher cost of deposits at central banks.

The result for 3Q20 is instead up compared to the previous quarter (+3.8%) thanks to the above-mentioned benefit deriving from access to the TLTRO3 auctions, offset only in part by the cost of deposits at central banks and the lower contribution of lending to businesses and the BMPS securities portfolio.

Items	30 09 2020	30 09 2019	Chg. Y/Y		3°Q 2020	2°Q 2020	Chg. Q/Q	
			Abs.	%			Abs.	%
Loans to customers measured at amortised cost	1,151.0	1,266.9	(115.9)	-9.1%	385.4	379.6	5.8	1.5%
Securiries issued	(249.3)	(184.6)	(64.7)	35.0%	(83.4)	(83.6)	0.2	-0.2%
Net Differentials on hedging derivatives	(19.4)	(7.0)	(12.4)	n.m.	(19.4)	(1.3)	(18.1)	n.m.
Loans to Banks measured at amortised cost	30.2	(18.9)	49.1	n.m.	35.8	1.7	34.1	n.m.
Trading portfolios	29.0	31.0	(2.0)	-6.5%	7.5	12.0	(4.5)	-37.5%
Portfolios measured at fair value	5.6	8.9	(3.3)	-37.1%	1.6	3.0	(1.4)	-46.7%
Financial assets measured at fair value through other comprehensive income	24.8	65.2	(40.4)	-62.0%	2.4	5.3	(2.9)	-54.7%
Other net interest income	6.8	6.4	0.4	6.2%	1.9	3.1	(1.2)	-38.7%
Net interest income	**978.7**	**1,167.9**	**(189.2)**	**-16.2%**	**331.8**	**319.8**	**12.0**	**3.8%**
of which: interest income on impaired financial assets	*127.8*	*170.3*	*(42.5)*	*-25.0%*	*43.1*	*40.7*	*2.4*	*5.9%*

Net fee and commission income in the first nine months of 2020, totalling **EUR 1,050 mln**, posted a decline of 2.7% compared to the same period of the previous year, impacted by reduced Network operations during the months of the lockdown. A significant portion of the decrease in fees and commissions stems from the reduced placement of third-party consumer credit products and commissions on services, which were particularly affected by reduced customer activity following the COVID-19 emergency. Assets under management fees decreased by 0.9%. Lastly, other net fee and commission income improved, due to the lower cost of the state guarantee following the repayment of Guaranteed Government Bonds that took place in 1Q20.
The contribution of 3Q20 was up in the comparison with the previous quarter (+9.6%), with respect to which there was an increase in income on asset management, particularly on product placement, which benefitted from the recovery in Network operations after the strong slowdown in the previous quarter due to the COVID-19 emergency and commissions from services. Growth compared to the previous quarter also for commissions on loans and other net commissions. Moreover, starting from the end of October, there was a renewed reduction in branch operations following the new wave of COVID-19 infections.

Services/value	30 09 2020	30 09 2019	Change Y/Y		3°Q 2020	2°Q 2020	Change Q/Q	
			abs.	%			abs.	%
Assets under management fee	**469.4**	**473.7**	**(4.3)**	**-0.9%**	**157.2**	**138.6**	**18.6**	**13.4%**
Product placement	146.0	156.7	(10.7)	-6.8%	48.2	34.8	13.4	38.4%
Continuing fees	257.7	258.2	(0.5)	-0.2%	87.3	82.0	5.2	6.4%
Placement of securities	32.4	29.0	3.4	11.7%	9.6	12.4	(2.8)	-22.6%
Sales of Protection	33.3	29.8	3.5	11.8%	12.1	9.4	2.7	29.3%
Fee and commisions from traditional activities	**643.7**	**738.4**	**(94.8)**	**-12.8%**	**213.6**	**202.5**	**11.1**	**5.5%**
Credit fees	290.4	351.5	(61.0)	-17.4%	92.7	91.1	1.5	1.7%
Fees from foreign service	34.7	38.4	(3.7)	-9.7%	11.3	10.7	0.6	5.2%
Other services	318.6	348.5	(30.0)	-8.6%	109.7	100.7	9.0	8.9%
Other fee and commission income	**(63.4)**	**(133.7)**	**70.3**	**-52.6%**	**(15.3)**	**(16.8)**	**1.5**	**-8.7%**
Net fees and commission income	**1,049.7**	**1,078.4**	**(28.7)**	**-2.7%**	**355.4**	**324.4**	**31.1**	**9.6%**

SEGMENT REPORTING	Operating segments			Corporate Center	Total Montepaschi Group
Primary segment	Retail banking	Wealth Management	Corporate banking		
	30/09/20	30/09/20	30/09/20	30/09/20	30/09/20
Assets under management fee	**393.1**	**75.2**	**3.5**	**-**	**471.8**
Product placement	138.9	7.0	0.2	-	146.1
Continuing fees	194.0	61.6	2.6	-	258.1
Placement of securities	27.4	6.3	0.5	-	34.2
Sales of Protection	32.8	0.3	0.1	-	33.3
Fee and commisions from traditional activities	**454.0**	**4.7**	**214.5**	**-**	**673.2**
Credit fees	145.4	1.4	155.7	-	302.5
Fees from foreign service	8.5	0.1	29.0	-	37.6
Other services	300.2	3.2	29.8	-	333.2
Other fee and commission income	4.8	2.8	32.2	(2.1)	37.7
Net fees and commission income	**851.9**	**82.7**	**250.1**	**(2.1)**	**1,182.6**

Dividends, similar income and gains (losses) on investments totalled **EUR 58 mln** and include the contribution generated by the Bancassurance partnership with AXA[18]. This component was down compared to 30 September 2019 (EUR -23 mln) with the 3Q20 contribution deteriorating compared to the previous quarter (EUR -23 mln) which, moreover, also included the Bank of Italy dividend.

Net profit (loss) from trading, from financial assets/liabilities measuerd at fair value and Net profit (loss) on disposals/repurchasesat 30 September 2020 amounted to **EUR 154 mln**, a decrease compared to the values recorded in the same period of the previous year (-15.1%) and with a 3Q20 contribution substantially stable compared to 2Q20 (EUR -1 mln). The analysis of the main aggregates shows the following:

- **Net profit (loss) from trading of EUR +30 mln**, down compared to 30 September 2019, due to the lower contribution from the subsidiary MPS Capital Services, penalised particularly in the first quarter of the year by tensions in the financial markets associated with the COVID-19 emergency, and BMPS, also in relation to the elimination of the positive effects recorded in 2019 on derivatives hedging liabilities at fair value. The contribution of 3Q20 is also down compared to the previous quarter, due to the lower contribution of the results of the subsidiary MPS Capital Services.
- **Net profit (loss) from financial assets/liabilities measured at fair value through profit and loss negative for EUR 4 mln,** an improvement compared to the same period of the previous year (EUR -17 mln), penalised by the recognition of capital losses on liabilities measured at fair value.
  The contribution of 3Q20 improved from the negative contribution of EUR 6 mln in 2Q20, primarily due to the recognition of capital gains on UCITS units.
- **Gains on disposal/repurchase** (excluding loans to customer measured at amortised cost) **were positive for EUR 128 mln**, up compared to EUR 110 mln in the same period of the previous year thanks to higher gains on sales of securities, in particular Italian government bonds, carried out in the first nine months of 2020.
  The contribution of 3Q20, equal to EUR 52 mln, was up by EUR 28 mln compared to 2Q20, due to the higher profits deriving from the above-mentioned sale of securities.

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

Items	30 09 2020	30 09 2019	Chg. Y/Y		3°Q 2020	2°Q 2020	Chg. Q/Q	
			Abs.	%			Abs.	%
Financial assets held for trading	1.2	180.7	(179.5)	-99.4%	29.8	95.7	(65.9)	-68.9%
Financial liabilities held for trading	(22.9)	(148.6)	125.7	-84.6%	(55.9)	(29.4)	(26.5)	90.1%
Exchange rate effects	11.7	17.5	(5.8)	-33.1%	2.0	4.5	(2.5)	-55.6%
Derivatives	39.6	39.0	0.6	1.5%	31.5	(26.8)	58.3	n.m.
Trading results	**29.6**	**88.6**	**(59.0)**	**-66.6%**	**7.4**	**44.0**	**(36.6)**	**-83.3%**
Net profit (loss) from financial assets and liabilities measured at fair value through profit and loss	(3.8)	(17.1)	13.3	-77.8%	2.2	(6.1)	8.3	n.m.
Disposal / repurchase (excluding loans to customers measured at amortised cost)	128.0	109.6	18.4	16.8%	52.1	24.4	27.7	n.m.
Net profit (loss) from trading, from financial assets and liabilities measured at fair value and gains/losses from disposals/ purchases	**153.8**	**181.1**	**(27.3)**	**-15.1%**	**61.7**	**62.3**	**(0.6)**	**-1.0%**

The following items also make up Revenues:

- **Net profit (loss) from hedging at EUR +1.0 mln,** substantially stable compared to 30 September 2019 (equal to EUR +1.2 mln) and with a contribution of 3Q20 (EUR 0.5 mln) which deteriorated compared to that of 2Q20 (equal to EUR +3.3 mln);
- **Other operating income (expenses), amounting to a negative EUR 40 mln,** improved compared to the first nine months of 2019 (equal to EUR -82 mln), which included the recognition of the indemnity linked to the exercise of the right of withdrawal from the agreement entered into with Juliet for EUR 49 mln. The contribution of 3Q20, equal to EUR -13 mln, was up compared to 2Q20 (equal to EUR -21 mln).

Operating expenses

Operating expenses totalled **EUR 1,630 mln** as at 30 September 2020, down 3.8% on the previous year and with a contribution of 3Q20 that was up compared to 2Q20 (+1.5%). A closer look at the individual aggregates reveals the following:

- **Administrative expenses** were **EUR 1,464 mln**, down by roughly EUR 46 mln from the same period of the previous year, with a contribution of 3Q20 of EUR 491 mln, up by around EUR 10 mln compared to 2Q20. A breakdown of the aggregate shows:
  - **Personnel expenses**, equal to **EUR 1,060 mln**, fell 1.9% compared to 30 September 2019, benefiting primarily from the lower average workforce (in relation, in particular, to the 750 departures for the Solidarity Fund recorded in 2019 and the 105 departures deriving from the deconsolidation of BMP Belgio S.A. in June 2019) and the reduction in expenses deriving from the extension of smart working as a result of the continuation of the COVID-19 emergency. This trend was only partially offset by the contractual increases/adjustments related primarily to the effects of the renewal of the National Collective Bargaining Agreement. The aggregate is essentially stable, compared to the previous quarter. Benefits from the 560 exits of personnel through the Solidarity Fund on November 1st are expected from Q4.
  - **Other administrative expenses**, which amounted to **EUR 404 mln**, were down by 5.9% compared to the same period of the previous year. Despite the higher expenses required to handle the COVID-19 emergency (specifically to purchase Personal Protection Equipment and for cleaning), the aggregate benefitted from the deconsolidation of BMP Belgio S.A. in June 2019, the savings linked to branch closures in 2019 and reduced operations during the lockdown period, as well as the savings initiatives carried out. The aggregate is up roughly 7.4% Q/Q, primarily due to higher expenses linked to the continuation of the COVID-19 emergency.
- **Net value adjustments to property, plant and equipment and intangible assets** totalled **EUR 167 mln** as at 30 September 2020, a deterioration of -10.3% compared to the same period of the previous year, principally due to lower amortisation of intangible assets and depreciation of property, plant and equipment. 3Q20 showed an improvement of 3.9% compared to the previous quarter.

Type of transaction	30 09 2020	30 09 2019	Chg Y/Y		3°Q 2020	2°Q 2020	Chg Q/Q	
			Abs.	%			Abs.	%
Wages and salaries	(767.1)	(770.6)	3.5	-0.5%	(255.7)	(256.6)	0.9	-0.4%
Social-welfare charges	(208.8)	(211.2)	2.4	-1.1%	(68.8)	(70.3)	1.5	-2.1%
Other personnel expenses	(84.0)	(98.7)	14.7	-14.9%	(27.5)	(24.3)	(3.2)	13.2%
Personnel expenses	**(1,059.9)**	**(1,080.5)**	**20.6**	**-1.9%**	**(352.0)**	**(351.2)**	**(0.8)**	**0.2%**
Taxes	(172.9)	(179.6)	6.7	-3.7%	(56.6)	(56.7)	0.1	-0.2%
Furnishing, real estate and security expenses	(57.6)	(62.0)	4.4	-7.1%	(21.2)	(17.1)	(4.1)	24.0%
General operating expenses	(153.9)	(139.0)	(14.9)	10.7%	(53.1)	(45.7)	(7.4)	16.2%
Information technology expenses	(94.0)	(103.0)	9.0	-8.7%	(32.8)	(33.8)	1.0	-3.0%
Legal and professional expenses	(77.1)	(88.3)	11.2	-12.7%	(25.9)	(29.9)	4.0	-13.4%
Indirect personnel costs	(4.1)	(7.8)	3.7	-47.4%	(0.6)	(1.9)	1.3	-68.4%
Insurance	(32.6)	(37.5)	4.9	-13.1%	(12.6)	(10.7)	(1.9)	17.8%
Advertising, sponsorship and promotions	(3.4)	(3.5)	0.1	-2.9%	(0.9)	(1.3)	0.4	-30.8%
Other	(4.2)	(14.2)	10.0	-70.2%	(2.4)	1.6	(4.0)	n.m.
Expenses recovery	196.0	205.6	(9.6)	-4.7%	67.6	66.5	1.1	1.7%
Other administrative expenses	**(403.8)**	**(429.3)**	**25.5**	**-5.9%**	**(138.5)**	**(129.0)**	**(9.5)**	**7.4%**
Tangible assets	(110.7)	(120.6)	10.0	-8.3%	(35.8)	(37.5)	1.7	-4.6%
Intangible assets	(56.0)	(65.2)	9.2	-14.0%	(18.7)	(19.2)	0.5	-2.4%
Net value adjustments to property, plant and equipment and intangible assets	**(166.7)**	**(185.8)**	**19.1**	**-10.3%**	**(54.5)**	**(56.7)**	**2.2**	**-3.9%**
Operating expenses	**(1,630.5)**	**(1,695.6)**	**65.1**	**-3.8%**	**(545.1)**	**(536.9)**	**(8.2)**	**1.5%**

As a result of these trends, the Group's **Gross Operating Income** totalled **EUR 570 mln** (EUR 731 mln as at 30 September 2019), with a contribution of 3Q20 up by roughly EUR 16 mln compared to the previous quarter.

Cost of customer credit

At 30 September 2020, the Group recognised a **Cost of customer credit** equal to **EUR 621 mln**, a deterioration of EUR 230 mln compared to the corresponding period of the previous year (EUR -391 mln).
It should be noted that:

- The figure in the first nine months of 2020 includes roughly EUR 300 mln from the increase in adjustments deriving from the changed macroeconomic scenario due to the spread of the COVID-19 pandemic;
- The value in the first nine months of 2019 instead included a negative effect of around EUR 37 mln linked to the changed macroeconomic scenario and a net positive effect of roughly EUR 209 mln connected to the exercise of the right of withdrawal from the servicing agreement entered into with Juliet (positive effect for roughly EUR 457 mln, deriving from the elimination of forecasted costs for the agreement, reflected in value adjustments) and the simultaneous revision of the NPE reduction strategy, which entailed an acceleration in the 2019 disposal plan (negative effect for around EUR 248 mln).

Excluding these effects, the aggregate was down Y/Y primarily due to lower provisions on positions that are already non-performing and the lower impact of transfers to bad loans.

Cost of customer credit for 3Q20 is down from the previous quarter, which included the mentioned additional provisions resulting from the changed macroeconomic scenario, booked for EUR 107 million in 2Q20 (in addition to EUR 193 million in 1Q20).

The ratio of straight-line annualised cost of customer credit for the first nine months of 2020 over total customer loans as at 30 September 2020 reflects a **Provisioning rate of 95 bps** (73 bps as at 31 December 2019). The provisioning rate is 84 bps considering the EUR 300 million increase in adjustments linked to the updated scenario as a *one-off effect* for the first nine months of 2020 only.

	30 09 2020	30 09 2019	Chg. Y/Y		3°Q 2020	2°Q 2020	Chg. Q/Q	
			Abs.	%			Abs.	%
Loans to customers measured at amortised cost	(628.8)	(358.6)	(270.2)	75.3%	(99.7)	(209.6)	109.9	-52.4%
Modification gains/(losses)	(4.5)	(3.6)	(0.9)	25.0%	(1.7)	(1.8)	0.1	-5.6%
Gains/(losses) on disposal/repurchase of loans to customers measured at amortised cost	1.9	(9.7)	11.6	n.m.	1.1	0.5	0.6	n.m
Net change of Loans to customers mandatorily measured at fair value	4.6	(56.5)	61.1	n.m.	(1.0)	3.4	(4.4)	n.m
Net provision for risks and charges on commitments and guarantees issued	5.8	37.5	(31.7)	-84.5%	(0.4)	2.7	(3.1)	n.m
Adjustments to cost of customer credit	**(621.0)**	**(390.9)**	**(230.1)**	**58.9%**	**(101.7)**	**(204.8)**	**103.1**	**-50.3%**

The Group's **Net Operating Income** was **negative for approximately EUR 58 mln** as at 30 September 2020, compared to a positive value of EUR 337 mln in the same period of the previous year. However, the contribution of 3Q20 was EUR 99.8 mln, an improvement compared to the previous quarters when the value was negative, EUR -23 mln in 2Q20 and EUR -134.7 mln in 1Q20.

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

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

- **Net provisions for risks and charges** in the amount of **EUR -768 mln**, mainly allocated for legal risks, in particular on previous share capital increase transactions and risks linked to contractual agreements. As at 30 September 2019, the balance was negative for EUR 70 mln, mainly attributable to provisions for commitments assumed by the Parent Company against the compensation relating to transactions in diamonds.

- **Gains on investments** of approx. **EUR 1.1 mln**, against a gain of EUR 3.7 mln in the same period of the previous year with a EUR +0.4 mln contribution recorded in 3Q20, against roughly EUR +0.5 mln recorded in 2Q20.

- **Extraordinary costs/One-off charges**, of **EUR -129 mln**, mainly relating to legal costs linked to the early retirement initiative for the departure of 560 resources through the activation of the Solidarity Fund and expenses relating to the non-proportional demerger plan with asymmetric option of a set of non-performing loans in favour of AMCO.

  At 30 September 2019, the aggregate was a negative EUR 2 mln and included costs linked to project expenses and the price adjustment for the disposal of BMP Belgio S.A., offset in part by recoveries recognised by INPS on previous early retirement/solidarity fund procedures.

- **Risks and charges associated with SRF, DGS and similar schemes**, amounting to **EUR -118 mln**, comprised of the contribution due from the Group to the Single Resolution Fund (SRF) accounted for in the first quarter of 2020 amounting to EUR 58 mln, the additional amount to the National Resolution Fund (NRF) accounted for in the second quarter of 2020 amounting to EUR 18 mln and the estimated amount to be recognised to IDPF (DGS) accounted for in 3Q20 (EUR 41 mln).

  The aggregate at 30 September 2019 (EUR -123 mln) included the annual contribution to the Single Resolution Fund (SRF) of EUR 54 mln, the extraordinary contribution to the National Resolution Fund (NRF) of EUR 20 mln, the loss of EUR 13 mln on the exposure to the IDPF Voluntary Scheme (for the Carige intervention) and the estimated amount to be recognised to IDPF (DGS) amounting to EUR 36 mln.

- **DTA fee**, amounting to **EUR -53 mln**. This amount, determined according to the criteria set forth in Law Decree 59/2016, converted into Law no. 119 of 30 June 2016, represents the fee as at 30 September 2020 on DTA (Deferred Tax Assets) that can be converted into a tax credit.

- **Gains (losses) on disposal of investments of EUR 1.4 mln** related to the sale of property. As at 30 September 2019, the aggregate was positive for EUR 1.1 mln.

Due to the changes discussed above, the Group's **Loss before tax for the period** stood at **EUR -1,123 mln**, compared to 30 September 2019, when there was a profit of EUR +93 mln.

Tax expense (recovery) on income from continuing operations recorded a negative contribution of **EUR 414 mln** (equal to a positive EUR +104 mln in the first nine months of 2019) attributable nearly exclusively to the modification of the value of deferred tax assets (DTAs) recorded in the financial statements, carried out due to the update in long-term internal estimates (2020-2024) of the income statement and balance sheet values to take into account changes in the macroeconomic scenario caused by the pandemic.

Considering the net effects of the PPA (EUR -3 mln), the **Loss for the period attributable to the Parent Company amounted to EUR -1,539 mln**, compared to a profit of EUR 187 mln in the same period of 2019.

Reclassified balance sheet

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

Note that the first nine months of 2020 were affected by the health emergency created by the spread of the COVID-19 virus, starting from the end of February. With reference to the balance sheet aggregates, please note in particular:

- the reduction in Indirect Funding compared to 31 December 2019, which reflected the negative performance of financial markets in the first quarter of the year linked to the COVID-19 emergency,
- the increase in Direct Funding and particularly in current accounts, following the prudent approach of customers to handle the uncertainty of the economic context created with the spread of the COVID-19 emergency, growth which, moreover, was seen in the entire banking system.

Reclassified Balance Sheet				
Assets	**30 09 2020**	**31 12 2019**	**Chg**	
			abs.	**%**
Cash and cash equivalents	662.4	835.1	(172.7)	-20.7%
Loans to central banks	18,679.7	9,405.4	9,274.3	98.6%
Loans to banks	4,934.9	5,542.7	(607.8)	-11.0%
Loans to customers	87,098.7	80,135.0	6,963.7	8.7%
Securities assets	23,024.6	24,185.1	(1,160.5)	-4.8%
Derivatives	3,023.0	3,041.2	(18.2)	-0.6%
Equity investments	991.8	931.0	60.8	6.5%
Property, plant and equipment / Intangible assets	2,821.5	2,909.2	(87.7)	-3.0%
of which:				
a) goodwill	*7.9*	*7.9*	-	0.0%
Tax assets	2,111.1	2,763.0	(651.9)	-23.6%
Other assets	2,933.1	2,448.3	484.8	19.8%
Total assets	**146,280.8**	**132,196.0**	**14,084.8**	**10.7%**

Liabilities	**30 09 2020**	**31/12/19**	**Chg**	
			abs.	**%**
Direct funding	98,418.1	94,217.3	4,200.8	4.5%
a) Due to customers at amortised cost	86,827.3	80,063.2	6,764.1	8.4%
b) Securities issued	11,590.8	14,154.1	(2,563.3)	-18.1%
Due to central banks at amortised cost	23,994.9	16,041.5	7,953.4	49.6%
Due to banks at amortised cost	4,733.6	4,136.6	597.0	14.4%
On-balance-sheet financial liabilities held for trading	3,122.2	2,436.0	686.2	28.2%
Derivatives	3,293.9	2,762.5	531.4	19.2%
Provisions for specific use	1,942.4	1,388.5	553.9	39.9%
a) Provisions for staff severance indemnities	182.1	178.7	3.4	1.9%
b) Provisions related to guarantees and other commitments given	153.0	158.8	(5.8)	-3.7%
c) Pensions and other post-retirement benefit obligations	33.1	36.1	(3.0)	-8.3%
d) Other provisions	1,574.2	1,014.9	559.3	55.1%
Tax liabilities	3.0	3.3	(0.3)	-9.1%
Other liabilities	4,001.0	2,929.4	1,071.6	36.6%
Group net equity	6,770.4	8,279.1	(1,508.7)	-18.2%
a) Valuation reserves	153.5	66.4	87.1	n.m.
d) Reserves	(1,858.6)	(769.2)	(1,089.4)	n.m.
f) Share capital	10,328.6	10,328.6	-	0.0%
g) Treasury shares (-)	(313.7)	(313.7)	-	0.0%
h) Net profit (loss) for the period	(1,539.4)	(1,033.0)	(506.4)	49.0%
Non-controlling interests	1.3	1.8	(0.5)	-27.8%
Total Liabilities and Shareholders' Equity	**146,280.8**	**132,196.0**	**14,084.8**	**10.7%**

Reclassified Balance Sheet - Quarterly Trend

Assets	30/09/20	30/06/20	31/03/20	31/12/19	30/09/19	30/06/19	31/03/19
Cash and cash equivalents	662.4	679.9	611.2	835.1	675.8	650.1	609.1
Loans to central banks	18,679.7	15,037.8	8,109.5	9,405.4	7,275.7	6,932.3	5,772.8
Loans to banks	4,934.9	5,757.3	4,938.8	5,542.7	5,577.2	4,776.8	4,571.0
Loans to customers	87,098.7	82,510.6	82,206.1	80,135.0	81,642.2	80,385.8	81,900.5
Securities assets	23,024.6	25,569.4	26,006.3	24,185.1	24,646.6	24,859.6	25,749.4
Derivatives	3,023.0	3,129.1	3,233.8	3,041.2	3,374.1	3,462.5	3,288.6
Equity investments	991.8	953.9	892.0	931.0	1,053.4	958.2	901.7
Property, plant and equipment / Intangible assets	2,821.5	2,850.6	2,870.5	2,909.2	2,921.8	2,943.1	2,992.6
of which:							
a) goodwill	*7.9*	*7.9*	*7.9*	*7.9*	*7.9*	*7.9*	*7.9*
Tax assets	2,111.1	2,193.1	2,763.6	2,763.0	3,913.6	4,065.7	4,062.6
Other assets	2,933.1	2,974.4	2,636.9	2,448.3	2,794.8	2,504.8	2,274.0
Total assets	**146,280.8**	**141,656.1**	**134,268.7**	**132,196.0**	**133,875.2**	**131,538.9**	**132,122.3**

Liabilities	30/09/20	30/06/20	31/03/20	31/12/19	30/09/19	30/06/19	31/03/19
Direct funding	98,418.1	97,585.2	95,367.1	94,217.3	92,246.3	92,215.9	92,686.1
a) Due to customers at amortised cost	86,827.3	86,139.8	83,680.4	80,063.2	79,263.3	80,639.8	80,728.1
b) Securities issued	11,590.8	11,445.4	11,686.7	14,154.1	12,983.0	11,576.1	11,958.0
Due to central banks at amortised cost	23,994.9	21,330.6	15,997.9	16,041.5	16,561.7	16,566.8	16,694.4
Due to banks at amortised cost	4,733.6	4,853.9	4,752.1	4,136.6	4,484.9	4,570.5	5,475.8
On-balance-sheet financial liabilities held for trading	3,122.2	2,192.1	2,407.1	2,436.0	1,777.7	1,379.9	1,041.3
Derivatives	3,293.9	3,419.2	3,174.4	2,762.5	3,346.6	2,811.3	2,480.9
Provisions for specific use	1,942.4	1,570.9	1,310.3	1,388.5	1,417.2	1,462.5	1,513.7
a) Provisions for staff severance indemnities	182.1	180.3	166.4	178.7	184.7	182.8	182.1
b) Provisions related to guarantees and other commitments given	153.0	152.6	155.3	158.8	205.0	208.1	220.6
c) Pensions and other post-retirement benefit obligations	33.1	34.0	35.2	36.1	35.9	36.6	37.2
d) Other provisions	1,574.2	1,204.0	953.4	1,014.9	991.6	1,035.0	1,073.7
Tax liabilities	3.0	3.0	3.3	3.3	3.9	3.8	30.8
Other liabilities	4,001.0	3,541.4	3,327.8	2,929.4	4,448.0	3,189.9	3,108.3
Group net equity	6,770.4	7,158.4	7,927.0	8,279.1	9,587.0	9,336.3	9,088.6
a) Valuation reserves	153.5	35.2	(41.5)	66.4	153.0	(15.1)	(123.7)
d) Reserves	(1,858.6)	(1,803.0)	(1,802.9)	(769.2)	(767.8)	(756.6)	(830.5)
f) Share capital	10,328.6	10,328.6	10,328.6	10,328.6	10,328.6	10,328.6	10,328.6
g) Treasury shares (-)	(313.7)	(313.7)	(313.7)	(313.7)	(313.7)	(313.7)	(313.7)
h) Net profit (loss) for the period	(1,539.4)	(1,088.7)	(243.5)	(1,033.0)	186.9	93.1	27.9
Non-controlling interests	1.3	1.4	1.7	1.8	1.9	2.0	2.4
Total Liabilities and Shareholders' Equity	**146,280.8**	**141,656.1**	**134,268.7**	**132,196.0**	**133,875.2**	**131,538.9**	**132,122.3**

Customer funding

The Group's **Total Funding** at 30 September 2020 amounted to **EUR 198.0 bn**, with an increase of EUR 1.7 bn compared to 30 June 2020, on Indirect Funding (EUR +0.9 bn) as well as Direct Funding (EUR +0.8 bn). The aggregate was also up compared to 31 December 2019 (EUR +2.0 bn) thanks to the increase in Direct Funding (EUR +4.2 bn), which more than offset the decline in Indirect Funding, which suffered from negative market trends.

Background

Within a context in which there is a high propensity to save for precautionary purposes, annual growth in bank deposits was above 6% per year in the summer months, a slight acceleration compared to the average of the previous three quarters. The trend in the aggregate was driven by current accounts, up by roughly EUR 85 bn compared to December 2019, equal to more than 8% per year; deposits redeemable at notice also accelerated, recording a yearly increase exceeding 2%, while time deposits remained at levels similar to those of the end of the previous year. In the third quarter (data available until August), the acceleration in the growth trend of deposits of consumer households halted, returning to around +5% per year (from an average of +6% in the first half); the trend likely reflects a partial recovery in consumption subject to greater restrictions during the lockdown. The production sector (non-financial companies and income-generating households) instead significantly increased its deposits with banks (EUR +67 bn compared to last December, nearly all between March and August), with an annual trend rising to nearly 20%, highlighting widespread prudence by companies and the postponement of many investment plans. Instead, the downturn in bank bonds has resumed, after certain positive signs in the second half of 2019; in August, the stock was down more than EUR 20 bn compared to the end of 2019 and 8% on an annual basis.

The ECB's action contributed towards keeping the cost of direct funding low. Interest rates on deposits of non-financial companies and households decreased further, having fallen to 0.34% in August (-3 bps compared to December 2019); the interest rate on current accounts is at an all-time low (0.03%), while on time deposits, it has stabilised at just over 1%. As regards bonds, the average rate continued its downward trend, falling to below 2% (-17 bps compared to the end of 2019); in more recent months, yields on the secondary market declined, coming close to 1.5% at the end of September, a level significantly lower than that seen in March (3.9%), but which remains around 50 bps higher than the figure recorded prior to the health emergency.

After the particularly negative performance of the first quarter (EUR -12.1 bn in net funding), investments in units of mutual investment funds again became positive, with an unprecedented rally compared to other crisis phases, due to the rise in financial market indexes and the significant liquidity in circulation. In August, cumulative net flows amounted to EUR 8.6 bn, while assets under management returned to above EUR 1,050 bn, still lower than the figure at the end of 2019 (of 1.5%), but up by 1.9% y/y. Net funding from retail individual portfolio management was more stable, with the cumulative amount for the eight-month period positive for EUR 1.3 bn. New savings policy business suffered from the lockdown, showing signs of a partial improvement in the summer months; overall in the first eight months of the year, premiums were however down by 14%, while net funding was positive for EUR 12.8 bn.

Customer Funding					Chg Q/Q		Chg 31/12		Chg Y/Y	
	30/09/20	30/06/20	31/12/19	30/09/19	Abs.	%	Abs.	%	Abs.	%
Direct funding	98,418.1	97,585.2	94,217.3	92,246.3	832.9	0.9%	4,200.8	4.5%	6,171.8	6.7%
Indirect funding	99,604.0	98,702.9	101,791.5	101,023.0	901.1	0.9%	-2,187.6	-2.1%	(1,419.0)	-1.4%
Total funding	**198,022.1**	**196,288.1**	**196,008.8**	**193,269.3**	**1,734.0**	**0.9%**	**2,013.2**	**1.0%**	**4,752.8**	**2.5%**

The trend in **Direct Funding** was particularly influenced by growth in current accounts taking place due to the spread of the COVID-19 emergency. This trend, which impacted the entire banking system, is linked to the prudent behaviour of customers in light of the uncertainties in the economic context that have increased due to the spread of the pandemic.

In more detail, volumes of **Direct Funding** stood at **EUR 98.4 bn**, recording growth of EUR 0.8 bn compared to the end of June 2020. The increase is attributable primarily to the continuation of growth in Current Accounts (EUR +2.7 bn) and deposits, offset only in part by the decrease in repo transactions (EUR -2.3 bn). The bond segment was also up (EUR +0.1 bn) following the institutional issue in September.

The aggregate was up by EUR 4.2 bn compared to the end of December 2019 due to the above-mentioned increase in Current Accounts (EUR +7.6 bn) and the increase in repo transactions (EUR +1.8 bn). Decreases were recorded with respect to 31 December 2019 for other forms of funding (EUR -2.6 bn) and bonds (EUR -2.6 bn) mainly as a result of the effects linked to the repayment of the Guaranteed Government Bonds and the closure of the associated structured funding transactions in 1Q20.

The Group's market share[19] on Direct Funding was 3.84% (figure updated in July 2020), an improvement compared to December 2019 (3.70%).

Direct funding										
					Change Q/Q		Change 31.12		Change Y/Y	
Type of transaction	30/09/20	30/06/20	31/12/19	30/09/19	Abs.	%	Abs.	%	Abs.	%
Current accounts	63,606.8	60,943.2	56,045.6	55,267.1	2,663.6	4.4%	7,561.2	13.5%	8,339.7	15.1%
Time deposits	9,544.0	9,273.1	9,594.2	9,621.8	270.9	2.9%	(50.2)	-0.5%	(77.8)	-0.8%
Reverse repurchase agreements	8,009.9	10,283.2	6,173.7	5,700.9	(2,273.3)	-22.1%	1,836.2	29.7%	2,309.0	40.5%
Bonds	11,590.8	11,445.4	14,154.0	12,983.0	145.5	1.3%	(2,563.2)	-18.1%	(1,392.2)	-10.7%
Other types of direct funding	5,666.6	5,640.3	8,249.8	8,673.5	26.3	0.5%	(2,583.2)	-31.3%	(3,006.9)	-34.7%
Total	**98,418.1**	**97,585.2**	**94,217.3**	**92,246.3**	**833.0**	**0.9%**	**4,200.8**	**4.5%**	**6,171.8**	**6.7%**

Indirect funding stood at **EUR 99.6 bn**, up (EUR +0.9 bn) compared to 30 June 2020 on assets under management (EUR +0.7 mln Q/Q) and assets under custody (EUR +0.2 bn Q/Q), thanks to the positive market effect linked to the recovery in financial markets.

Assets under Management, amounting to **EUR 58.5 bn**, grew by EUR 0.7 bn compared to June 2020, across all segments thanks to the above-mentioned positive market effect.

In the comparison with 31 December 2019, there was a decline of Indirect Funding of EUR 2.2 bn due to a negative market effect, reflected in both the Assets under Management and Assets under Custody components.

Indirect Funding										
	30/09/20	30/06/20	31/12/19	30/09/19	Change Q/Q		Change 31/12		Change Y/Y	
					Abs.	%	Abs.	%	Abs.	%
Assets under management	58,484.1	57,737.0	59,302.0	58,603.0	747.2	1.3%	(817.8)	-1.4%	(118.9)	-0.2%
Mutual Funds/Sicav	*25,970.2*	*25,761.2*	*27,181.4*	*27,080.0*	*209.1*	*0.8%*	*(1,211.2)*	*-4.5%*	*(1,109.8)*	*-4.1%*
Individual Portfolio under	*5,006.0*	*4,939.4*	*5,103.1*	*5,142.0*	*66.6*	*1.3%*	*(97.1)*	*-1.9%*	*(136.0)*	*-2.6%*
Insurance Products	*27,507.9*	*27,036.4*	*27,017.4*	*26,381.0*	*471.5*	*1.7%*	*490.4*	*1.8%*	*1,126.9*	*4.3%*
Assets under custody	41,119.8	40,965.9	42,489.6	42,420.0	153.9	0.4%	(1,369.8)	-3.2%	(1,300.2)	-3.1%
Government bonds	*13,714.5*	*13,419.9*	*13,567.3*	*13,457.4*	*294.5*	*2.2%*	*147.1*	*1.1%*	*257.0*	*1.9%*
Others	*27,405.4*	*27,546.0*	*28,922.2*	*28,962.6*	*(140.6)*	*-0.5%*	*(1,516.9)*	*-5.2%*	*(1,557.2)*	*-5.4%*
Total funding	**99,604.0**	**98,702.9**	**101,791.5**	**101,023.0**	**901.1**	**0.9%**	**-2,187.6**	**-2.1%**	**-1,419.0**	**-1.4%**

[19] 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 September 2020, the Group's **Loans to Customers** amounted to **EUR 87.1 bn**, up EUR 4.6 bn compared to the end of June 2020. Also excluding the increase linked to the increased repo transactions (EUR +3.4 bn), Loans to Customers in any event show growth of EUR 1.2 bn primarily due to the increase in mortgages (EUR +2.4 bn), also influenced by the effect of disbursements and moratoria connected to the government decrees issued following the COVID-19 emergency, offset only in part by the drop in current accounts (EUR -0.2 bn) and Other loans (EUR -0.9 bn).

Similar trends are observed in the comparison with 31 December 2019, with respect to which the aggregate increased by EUR 7.0 bn. Also excluding the increase linked to the increased repo transactions (EUR +5.4 bn), the aggregate in any event shows growth of EUR 1.6 bn primarily due to the increase in mortgages (EUR +4.4 bn), also influenced by the above-mentioned disbursements and moratoria connected to the government decrees issued following the COVID-19 emergency, offset only in part by the drop in current accounts (EUR -1.0 bn), Other loans (EUR -1.5 bn) and net non-performing loans (EUR -0.3 bn).

Background

Since March, bank lending trends have shown signs of an acceleration; the annual growth of loans to the private sector, adjusted for disposals, indeed increased from +0.4%, in line with the final months of 2019, to +6.3 in August.

The increase in lending is due especially to the significant rally in loans to businesses (EUR +42 bn in the six months) which, after falling on an annual basis until February, again began increasing on a yearly basis by 6%, due largely to the effects of the liquidity support measures adopted by the government: use of the Central Guarantee Fund (CGF) for SMEs, SACE and Cassa Depositi e Prestiti, block on revocation and extension and suspension of terms for the repayment of certain types of loans. From mid-March to the first ten days of September 2020, the CGF received more than one million requests from banks, for the most part relating to SMEs, for a total amount of nearly EUR 80 bn; SACE provided guarantees for EUR 13 bn to large companies. These interventions supported the supply to respond to greater demand for lending by the production sector, in order to cover liquidity shortfalls and replace working capital, accompanied by a decline in loans required for investments. The Italian banks participating in the Eurozone bank lending survey referring to the second quarter of 2020 marked an easing of the offering criteria applied to loans to businesses, attributable to the issue of public guarantees on new loans. In the third quarter of 2020, the surveys amongst businesses performed by the Bank of Italy and ISTAT in September indicated that credit access conditions have improved further on the whole.

For the households sector, there was substantial stability in the bank lending growth trend, around 2% per year from the end of last year. Amongst its components, those for income-generating households were impacted by the support measures, highlighting a significant increase: +5 bn compared to the end of 2019 and +8% on an annual basis. For consumers, interest-bearing loans are basically stable, in terms of amounts, at the levels seen in late 2019. Home purchase loans and consumer credit continued to show modest trends, consistent with the decline in the climate of confidence and the downturn in consumption and transactions in the real estate market; on loans for other reasons, there was a trend reversal starting from April, with an increase of nearly EUR 6 bn, equal to roughly 5%. The measure relating to moratoria was widespread and effectively enacted; in early September, requests from households and those activated by banks on a voluntary basis regarded EUR 300 bn in loans (against more than 2.7 million requests).

With regard to interest rates, there was a further decline both for loans to businesses, whose rate fell to 1.82% in August (-18 bps on the end of 2019), and those to households, with the rate at 2.82% (-15 bps). Also on new transactions, interest rates recorded a considerable downturn; on home purchase loans, they declined to around 1.30% (roughly -12 bps compared to the final quarter of last year), with substantial stability of the new effective disbursements and an increase in transfers. On consumer credit, the average rate in the first eight months declined compared to 2019, while however remaining well above 6%, with flows declining by around 25% per annum; on loans for other reasons, the rate fell below the average of 3% recorded last year, to 2.40% in August, with flows up significantly, especially starting from May, when the bank lending support measures became fully effective. Even for non-financial companies, the trend of interest rates on new disbursements was down, with the average rate falling below 1.20% (-22 bps compared to December 2019).

Non-performing loan disposal transactions recovered only starting in June, amounting to EUR 4.8 bn in two months. In August, the reduction in bad loans was 26% on an annual basis and more than EUR 7 bn compared to the end of last year; correcting the figure for securitisations and disposals, growth falls from 4.3% at the end of 2019 to 2.7%. The effect of the weakness in the economic cycle on the emergence of new non-performing loans was limited by low interest rates, but especially by the government lending support measures, as well as the instructions of the supervisory authorities on the use of flexibility in the classification of loans covered by public guarantees and greater graduality in provisions against non-performing loans. According to ABI, the impact of bad loans, net of loss provisions, on bank loans fell in July to 1.41% (from 1.55% in December 2019).

The Group's market share[20] stood at 4.87% (last available figure from July 2020), down 6 basis points from the end of 2019.

Loans to customers

Type of transaction	30/09/20	30/06/20	31/12/19	30/09/19	Change Q/Q Abs.	Change Q/Q %	Change 31.12 Abs.	Change 31.12 %	Change Y/Y Abs.	Change Y/Y %
Current accounts	3,648.8	3,896.2	4,626.0	4,945.7	(247.4)	-6.3%	(977.2)	-21.1%	(1,296.9)	-26.2%
Mortgages	53,416.5	50,978.9	49,046.0	49,089.2	2,437.6	4.8%	4,370.5	8.9%	4,327.3	8.8%
Other forms of lending	14,420.6	15,330.5	15,921.2	16,394.8	(909.9)	-5.9%	(1,500.6)	-9.4%	(1,974.2)	-12.0%
Repurchase agreements	9,829.3	6,450.1	4,434.0	4,417.9	3,379.2	52.4%	5,395.3	121.7%	5,411.4	n.m.
Non performing loans	5,783.5	5,854.9	6,107.8	6,794.6	(71.4)	-1.2%	(324.3)	-5.3%	(1,011.1)	-14.9%
Total	**87,098.7**	**82,510.6**	**80,135.0**	**81,642.2**	**4,588.1**	**5.6%**	**6,963.7**	**8.7%**	**5,456.5**	**6.7%**
Stage 1	*64,641.6*	*61,767.5*	*62,402.3*	*63,026.2*	*2,874.1*	*4.7%*	*2,239.3*	*3.6%*	*1,615.4*	*2.6%*
Stage 2	*16,523.4*	*14,734.7*	*11,475.3*	*11,677.2*	*1,788.7*	*12.1%*	*5,048.1*	*44.0%*	*4,846.2*	*41.5%*
Stage 3	*5,759.6*	*5,779.2*	*5,933.7*	*6,588.7*	*(19.6)*	*-0.3%*	*(174.1)*	*-2.9%*	*(829.1)*	*-12.6%*
Performing loans measured at fair value	*150.1*	*153.5*	*149.6*	*144.2*	*(3.4)*	*-2.2%*	*0.5*	*0.3%*	*5.9*	*4.1%*
Non performing loans measured at fair value	*24.1*	*75.7*	*174.1*	*205.9*	*(51.6)*	*-68.2%*	*(150.0)*	*-86.2%*	*(181.8)*	*-88.3%*

In 3Q20, the medium/long-term component recorded new disbursements of EUR 4.0 bn, up compared to 2Q20 (EUR +0.7 bn) and Y/Y, also thanks to disbursements linked to the "Liquidity Decree".

	Loans to customers measured at amortised cost	Stage 1	Stage 2	Stage 3	**Total**
30 09 2020	Gross exposure	64,713.6	17,083.6	11,374.8	**93,172.0**
	Adjustments	72.0	560.2	5,615.2	**6,247.4**
	Net exposure	64,641.6	16,523.4	5,759.6	**86,924.5**
	Coverage ratio	*0.1%*	*3.3%*	*49.4%*	***6.7%***
	% on Loans to customers measured at amortised cost	*74.4%*	*19.0%*	*6.6%*	***100.0%***

	Loans to customers measured at amortised cost	Stage 1	Stage 2	Stage 3	**Total**
30 06 2020	Gross exposure	61,843.0	15,292.3	11,354.0	**88,489.3**
	Adjustments	75.6	557.6	5,574.8	**6,208.0**
	Net exposure	61,767.4	14,734.7	5,779.2	**82,281.3**
	Coverage ratio	*0.1%*	*3.6%*	*49.1%*	***7.0%***
	% on Loans to customers measured at amortised cost	*75.1%*	*17.9%*	*7.0%*	***100.0%***

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

Loans to customers measured at amortised cost		Stage 1	Stage 2	Stage 3	**Total**
31 12 2019	Gross exposure	62,465.9	11,885.5	11,479.8	**85,831.2**
	Adjustments	63.6	410.2	5,546.1	**6,019.9**
	Net exposure	62,402.3	11,475.3	5,933.7	**79,811.3**
	Coverage ratio	*0.1%*	*3.5%*	*48.3%*	***7.0%***
	% on Loans to customers measured at amortised cost	*78.2%*	*14.4%*	*7.4%*	***100.0%***

Loans to customers measured at amortised cost		Stage 1	Stage 2	Stage 3	**Total**
30 09 2019	Gross exposure	63,090.4	12,096.2	13,886.6	**89,073.2**
	Adjustments	64.2	419.0	7,298.0	**7,781.2**
	Net exposure	63,026.2	11,677.2	6,588.7	**81,292.1**
	Coverage ratio	*0.1%*	*3.5%*	*52.6%*	***8.7%***
	% on Loans to customers measured at amortised cost	*77.5%*	*14.4%*	*8.1%*	***100.0%***

Stage 1 loans, amounting to EUR 64.7 bn, recorded an increase compared to 30 June 2020 (equal to EUR 61.8 bn) and compared to 31 December 2019 (amounting to EUR 62.5 bn). Positions classified in stage 2, the gross exposure of which amounted to EUR 17.1 bn as at 30 September 2020, also rose compared to EUR 15.3 bn as at 30 June 2020 and EUR 11.9 bn as at 31 December 2019.

Net of positions belonging to the set of Hydra transaction assets, the breakdown by stages of Loans to Customers at amortised cost would be as follows:

		Stage 1	Stage 2	Stage 3	**Total**
30 09 2020	Gross exposure	64,711.8	17,063.8	4,012.6	**85,788.2**
	Adjustments	72.0	558.9	1,870.1	**2,501.0**
	Net exposure	64,639.8	16,504.9	2,142.5	**83,287.2**
	Coverage ratio	*0.1%*	*3.3%*	*46.6%*	***2.9%***
	% on Loans to customers measured at amortised cost	*77.6%*	*19.8%*	*2.6%*	***100.0%***

Non-performing exposures of loans to customers

Total Non-Performing Loans to Customers of the Group as at 30 September 2020 amounted to **EUR 11.4 bn** in terms of gross exposure, down compared to 30 June 2020 (equal to EUR 11.6 bn) and compared to 31 December 2019 (amounting to EUR 11.9 bn), thanks to disposals and collections during the period and the closure of several significant positions.

In particular, the gross exposure to Bad Loans was substantially stable compared to 30 June 2020 and down by EUR 137 mln compared to 31 December 2019, mainly due to disposals and collections during the period and the closure of several large positions, only in part offset by new positions transferred to that category during the period. The gross exposure of Unlikely to Pay also decreased by EUR 213 mln compared to 30 June 2020 and EUR 494 mln compared to 31 December 2019, mainly following transfers to bad loans, the cure rate and disposals only in part offset by positions transferred to this category. Gross non-performing past due loans increased compared to 30 June 2020 (EUR +71 mln) and 31 December 2019 (EUR +167 mln).

Net of positions belonging to the set of assets included in the Hydra transaction, gross exposure to Non-Performing Loans to Customers at 30 September 2020 would have been EUR 3.9 bn.

At 30 September 2020, the **net exposure in terms of Non-Performing Loans to Customers** of the Group stood at **EUR 5.8 bn**, stable compared to 30 June 2020 and down compared to 31 December 2019 (EUR -324 mln) thanks to the reduction of gross exposures accompanied by growth in the average coverage resulting from the increase in adjustments deriving from the changed macroeconomic scenario emerging with the spread of the pandemic, which influenced portfolio risk levels.

Net of positions belonging to the set of assets included in the Hydra transaction, net exposure to Non-Performing Loans to Customers at 30 September 2020 would have been EUR 2.1 bn.

The ratio between net Non-Performing Loans to Customers and total net Loans to Customers as at 30 September 2020 was 6.6%, down compared to June 2020 (equal to 7.1%) and compared to December 2019 (7.6%). In particular, during the period, the incidence of Unlikely to Pay decreased (from 3.8% in December 2019 and 3.4% in June 2020 to 3.1% in September 2020), as did that of Bad Loans (from 3.7% in December 2019 and 3.5% in June 2020 to 3.3% in September 2020). The incidence of non-performing past due loans instead rose from 0.1% in December 2019 to 0.2% in June 2020 and September 2020.

Net of positions belonging to the set of assets included in the Hydra transaction, net Non-Performing Loans to Customers over total net Loans to Customers at 30 September 2020 would have been 2.5%.

Loans to customers		Bad loans	Unlikely to pay	Non-performing Past due	**Total Non-performing loans to customers**	Perfoming loams	**Total**
30 09 2020	Gross exposure	6,286.5	4,891.9	265.6	**11,444.0**	81,947.4	**93,391.4**
	Adjustments	3,430.1	2,167.5	62.8	**5,660.4**	632.3	**6,292.7**
	Net exposure	2,856.4	2,724.4	202.8	**5,783.6**	81,315.1	**87,098.7**
	Coverage ratio	*54.6%*	*44.3%*	*23.6%*	***49.5%***	*0.8%*	***6.7%***
	% on Loans to customers	*3.3%*	*3.1%*	*0.2%*	***6.6%***	*93.4%*	***100.0%***
30 06 2020	Gross exposure	6,295.4	5,105.1	194.6	**11,595.1**	77,288.8	**88,883.9**
	Adjustments	3,433.6	2,260.1	46.4	**5,740.1**	633.2	**6,373.3**
	Net exposure	2,861.8	2,845.0	148.2	**5,855.0**	76,655.6	**82,510.6**
	Coverage ratio	*54.5%*	*44.3%*	*23.8%*	***49.5%***	*0.8%*	***7.2%***
	% on Loans to customers	*3.5%*	*3.4%*	*0.2%*	***7.1%***	*92.9%*	***100.0%***
31 12 2019	Gross exposure	6,423.5	5,386.1	98.3	**11,907.9**	74,501.0	**86,408.9**
	Adjustments	3,441.5	2,335.5	23.1	**5,800.1**	473.8	**6,273.9**
	Net exposure	2,982.0	3,050.6	75.2	**6,107.8**	74,027.2	**80,135.0**
	Coverage ratio	*53.6%*	*43.4%*	*23.5%*	***48.7%***	*0.6%*	***7.3%***
	% on Loans to customers	*3.7%*	*3.8%*	*0.1%*	***7.6%***	*92.4%*	***100.0%***
30 09 2019	Gross exposure	8,101.8	6,097.4	202.5	**14,401.7**	75,331.0	**89,732.7**
	Adjustments	4,988.5	2,571.0	47.7	**7,607.2**	483.4	**8,090.6**
	Net exposure	3,113.2	3,526.4	154.8	**6,794.5**	74,847.7	**81,642.1**
	Coverage ratio	*61.6%*	*42.2%*	*23.6%*	***52.8%***	*0.6%*	***9.0%***
	% on Loans to customers	*3.8%*	*4.3%*	*0.2%*	***8.3%***	*91.7%*	***100.0%***

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

Net of positions belonging to the set of assets included in the Hydra transaction, the percentage coverage of total Non-Performing Loans to Customers would have been 45.9%.

Change in gross exposures

abs/%		Bad loans	Unlikely to pay	Non performing past due	**Total Non-performing loans to customers**	Perfoming loams	**Total**
Q/Q	abs.	(8.9)	(213.2)	71.0	**(151.1)**	4,658.6	**4,507.5**
	%	-0.1%	-4.2%	36.5%	**-1.3%**	6.0%	**5.1%**
31.12	abs.	(137.0)	(494.2)	167.3	**(463.9)**	7,446.4	**6,982.5**
	%	-2.1%	-9.2%	170.2%	**-3.9%**	10.0%	**8.1%**
Y/Y	abs.	(1,815.3)	(1,205.5)	63.1	**(2,957.7)**	6,616.4	**3,658.7**
	%	-22.4%	-19.8%	31.1%	**-20.5%**	8.8%	**4.1%**

Changes in coverage ratios

	Bad loans	Ulikely to pay	Non performing past due	**Total Non-performing loans to customers**	Perfoming loams	**Total**
Q/Q	0.0%	0.0%	-0.2%	**0.0%**	0.0%	**-0.4%**
31.12	1.0%	0.9%	0.1%	**0.8%**	0.1%	**-0.5%**
Y/Y	-7.0%	2.1%	0.1%	**-3.4%**	0.1%	**-2.3%**

Trend of non-performing loans to customers	30 09 2020		3°Q 2020		2°Q 2020		30 09 2019		Chg. 3°Q 2020/2°Q2020 Non-performing loans to customers		Chg. Y/Y Non-performing loans to customers	
	Non performing loans to customers	*of which Bad loans*	Non performing loans to customers	*of which Bad loans*	Non performing loans to customers	*of which Bad loans*	Non performing loans to customers	*of which Bad loans*	Abs.	%	Abs.	%
Gross exposure, opening balance	**11,907.9**	***6,423.5***	**11,595.1**	***6,295.4***	**11,572.2**	***6,264.7***	**16,719.0**	***8,565.4***	**22.9**	**0.2%**	**(4,811.1)**	**-28.8%**
Increases from performing loans	739.9	*56.2*	174.4	*26.9*	277.4	*5.4*	829.8	*829.8*	(103.0)	-37.1%	(89.9)	-10.8%
Transfers to performing loans	(149.9)	*(0.4)*	(25.4)	-	(45.0)	*(0.2)*	(319.0)	*(319.0)*	19.6	-43.6%	169.1	-53.0%
Collections	(692.0)	*(295.1)*	(191.6)	*(80.2)*	(236.8)	*(105.9)*	(1,253.9)	*(1,253.9)*	45.2	-19.1%	561.9	-44.8%
Write-offs and loss on disposal	(195.3)	*(103.6)*	(49.5)	*(21.3)*	23.1	*53.0*	(605.3)	*(605.3)*	(72.6)	n.m.	410.0	-67.7%
+/- Other changes	(166.6)	*205.9*	(59.0)	*65.7*	4.2	*78.4*	(968.9)	*884.8*	(63.2)	n.m.	802.3	-82.8%
Gross exposure, closing balance	**11,444.0**	***6,286.5***	**11,444.0**	***6,286.5***	**11,595.1**	***6,295.4***	**14,401.7**	***8,101.8***	**(151.1)**	**-1.3%**	**(2,957.7)**	**-20.5%**
Opening balance of overall adjustments	**(5,800.1)**	***(3,441.5)***	**(5,740.1)**	***(3,433.6)***	**(5,739.2)**	***(3,412.2)***	**(8,906.1)**	***(5,341.4)***	**(0.9)**	**0.0%**	**3,106.0**	**-34.9%**
Adjustments / write-backs	(463.6)	*(244.1)*	(97.7)	*(114.7)*	(138.2)	*(1.0)*	(569.1)	*(313.6)*	40.5	-29.3%	105.5	-18.5%
+/- Other changes	603.3	*255.5*	177.4	*118.2*	137.3	*(20.4)*	1,867.9	*666.4*	40.1	29.2%	(1,264.6)	-67.7%
Closing balance of overall adjustments	**(5,660.4)**	***(3,430.1)***	**(5,660.4)**	***(3,430.1)***	**(5,740.1)**	***(3,433.6)***	**(7,607.2)**	***(4,988.5)***	**79.7**	**-1.4%**	**1,946.8**	**-25.6%**
Net exposure closing balance	**5,783.6**	***2,856.4***	**5,783.6**	***2,856.4***	**5,855.0**	***2,861.8***	**6,794.5**	***3,113.2***	**(71.4)**	**-1.2%**	**(1,010.9)**	**-14.9%**

Other financial assets/liabilities

As at 30 September 2020, the Group's **Securities assets** totalled **EUR 23.0 bn**, down by EUR 1.2 bn compared to 31 December 2019, as a result of the reduction in Financial assets held for trading (EUR -0.7 bn) attributable to the subsidiary MPS *Capital Services* and Financial assets measured at fair value through other comprehensive income (EUR -0.8 bn) referring, in particular, to the Parent Company against sales and maturities, only in part offset by acquisitions.

The aggregate was down compared to 30 June 2020 (EUR -2.5 bn) due to the reduction in the trading component referring to the subsidiary MPS Capital Services. The component at amortised cost is substantially stable against purchases of securities, essentially government, which offset sales. Note that the market value of the securities in Loans to customers at amortised cost is EUR 9,877.2 mln (with implicit capital gains of around EUR 271.1 mln).

At 30 September 2020, **On-balance-sheet financial liabilities held for trading** rose compared to the end of December 2019 (EUR +0.7 bn) and 30 June 2020 (EUR +0.9 bn).

As at 30 September 2020, the **Net position in derivatives** posted a drop compared to 31 December 2019 (EUR -0.5 bn) while it improved compared to 30 June 2020.

Items	30 09 2020	30 06 2020	31 12 2019	30 09 2019	Chg. Q/Q		Chg. 31.12		Chg. Y/Y	
					Abs.	%	Abs.	%	Abs.	%
Securities assets	23,024.6	25,569.4	24,185.1	24,646.6	(2,544.8)	-10.0%	(1,160.5)	-4.8%	(1,622.0)	-6.6%
Financial assets held for trading	*6,220.6*	*8,572.7*	*6,934.3*	*7,232.3*	*(2,352.1)*	-27.4%	*(713.7)*	-10.3%	*(1,011.7)*	-14.0%
Financial assets mandatorily measured at fair value	*491.8*	*511.0*	*440.2*	*274.7*	*(19.2)*	-3.8%	*51.6*	11.7%	*217.1*	79.0%
Financial assets measured at fair value through other comprehensive income	*5,933.0*	*6,067.8*	*6,726.8*	*7,036.2*	*(134.8)*	-2.2%	*(793.8)*	-11.8%	*(1,103.2)*	-15.7%
Financial assets held for sale	*1.3*	*0.0*	*0.0*	*0.0*	*1.3*	n.m	*1.3*	n.m	*1.3*	n.m
Loans to customers measured at amortised cost	*9,606.1*	*9,635.5*	*9,309.5*	*9,304.3*	*(29.4)*	-0.3%	*296.6*	3.2%	*301.8*	3.2%
Loans to banks measured at amortised cost	771.8	782.4	774.3	799.1	(10.6)	-1.4%	(2.5)	-0.3%	(27.3)	-3.4%
On-balance-sheet financial liabilities held for trading	(3,122.2)	(2,192.1)	(2,436.0)	(1,777.7)	(930.1)	42.4%	(686.2)	28.2%	(1,344.5)	75.6%
Net positions in Derivatives	(270.9)	(290.1)	278.7	27.5	19.2	-6.6%	(549.6)	n.m	(298.4)	n.m
Other financial assets and liabilities	**19,631.5**	**23,087.2**	**22,027.8**	**22,896.4**	**(3,455.7)**	**-15.0%**	**(868.6)**	**-3.8%**	**(3,264.9)**	**-14.3%**

Items	30 09 2020		30 06 2020		31 12 2019		30 09 2019	
	Securities assets	On-balance-sheet financial liabilities held for trading	Securities assets	On-balance-sheet financial liabilities held for trading	Securities assets	On-balance-sheet financial liabilities held for trading	Securities assets	On-balance-sheet financial liabilities held for trading
Debt securities	22,570.2	-	25,114.4	-	23,663.1	-	24,202.9	-
Equity instruments and Units of UCITS	454.4	-	455.0	-	522.0	-	443.7	-
Loans	-	3,122.2	-	2,192.1	-	2,436.0	-	1,777.7
Total	23,024.6	3,122.2	25,569.4	2,192.1	24,185.1	2,436.0	24,646.6	1,777.7

Interbank position

At 30 September 2020, the **net interbank position** of the Group stood at **EUR 5.1 bn** in funding, stable with respect to 30 June 2020 and the end of 2019. Growth in funding with the ECB, through access to the TLTRO3 auctions, was accompanied by higher deposits in the compulsory reserve account. At 30 September 2020, funding through TLTRO3 amounts to a total of EUR 24 bn, with the last access at the end of September carried out for EUR 3 bn, in addition to previous accesses in June 2020 for EUR 17 bn and December 2019 for EUR 4 bn.

Interbank balances										
					Change Q/Q		Change 31.12		Change Y/Y	
	30/09/20	30/06/20	31/12/19	30/09/19	Abs.	%	Abs.	%	Abs.	%
Loans to banks	4,934.9	5,757.3	5,542.7	5,577.2	(822.4)	-14.3%	(607.8)	-11.0%	(642.3)	-11.5%
Deposits from banks	4,733.6	4,853.9	4,136.6	4,484.9	(120.3)	-2.5%	597.0	14.4%	248.7	5.5%
Net position whit banks	**201.3**	**903.4**	**1,406.1**	**1,092.3**	**(702.1)**	**-77.7%**	**(1,204.8)**	**-85.7%**	**(891.0)**	**-81.6%**
Loans to Central banks	18,679.7	15,037.8	9,405.4	7,275.7	3,641.9	24.2%	9,274.3	98.6%	11,404.0	156.7%
Deposits from Central banks	23,994.9	21,330.6	16,041.5	16,561.7	2,664.3	12.5%	7,953.4	49.6%	7,433.2	44.9%
Net position whit Central banks	**(5,315.2)**	**(6,292.8)**	**(6,636.1)**	**(9,286.0)**	**977.6**	**-15.5%**	**1,320.9**	**-19.9%**	**3,970.8**	**-42.8%**
Net interbank position	**(5,113.9)**	**(5,389.4)**	**(5,230.0)**	**(8,193.7)**	**275.5**	**-5.1%**	**116.1**	**-2.2%**	**3,079.8**	**-37.6%**

As at 30 September 2020, the operational liquidity position showed an **unencumbered Counterbalancing Capacity of approx. EUR 28.3 bn**, up by EUR 3.2 bn compared with 30 June 2020 and by EUR 3.6 bn compared with 31 December 2019, thanks to higher commercial funding and the implementation of the initiatives laid out in the funding plan (institutional issues, access to the TLTRO3 and repayments of LTRO and TLTRO2), which made it possible to repay the guaranteed government bonds with no impacts on the Group's liquidity profile.

Shareholders' equity

As at 30 September 2020, the **Shareholders' equity of the Group and non-controlling interests** was roughly **EUR 6.8 bn**, down EUR 0.4 bn compared to 30 June 2020 mainly due to the loss for the year, partially offset by the change in valuation reserves.

It was also down compared to 31 December 2019 by EUR 1.5 bn, primarily due to the dynamic of the result for the period.

Reclassified Consolidated Balance Sheet										
Equity	30/09/20	30/06/20	31/12/19	30/09/19	Chg Q/Q		Chg 31/12		Chg Y/Y	
					Abs.	%	Abs.	%	Abs.	%
Group Net Equity	6,770.4	7,158.4	8,279.1	9,587.0	(388.0)	-5.4%	(1,508.7)	-18.2%	(2,816.6)	-29.4%
a) Valuation reserves	153.5	35.2	66.4	153.0	118.3	n.m	87.1	n.m	0.5	0.3%
d) Reserves	(1,858.6)	(1,803.0)	(769.2)	(767.8)	(55.6)	3.1%	(1,089.4)	n.m.	(1,090.8)	n.m.
f) Share capital	10,328.6	10,328.6	10,328.6	10,328.6	-	n.m	-	n.m	-	n.m
g) Treasury shares (-)	(313.7)	(313.7)	(313.7)	(313.7)	-	n.m.	-	n.m.	-	n.m.
h) Net profit (loss) for the period	(1,539.4)	(1,088.7)	(1,033.0)	186.9	(450.7)	41.4%	(506.4)	49.0%	(1,726.3)	n.m
Non-controlling interests	1.3	1.4	1.8	1.9	(0.1)	-7.1%	(0.5)	-27.8%	(0.6)	-31.6%
Shareholders' equity of the Group and Non-controlling interests	**6,771.7**	**7,159.8**	**8,280.9**	**9,588.9**	**(388.1)**	**-5.4%**	**(1,509.2)**	**-18.2%**	**(2,817.2)**	**-29.4%**

Please note that due to the loss recorded as at 30 September 2020 of EUR 1.7 bn, the Parent Company is now in the situation envisaged in art. 2446 of the Italian Civil Code.

Capital adequacy

Regulatory capital and statutory requirements

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

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

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

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

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

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

These ratios include, in addition to the P2R, 2.5% for the Capital Conservation Buffer, 0.13% for the O-SII Buffer, and 0.001% for the Countercyclical Capital Buffer.[21]

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

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

Categories / Values	30 09 2020	31 12 2019	Chg. 31 12 2019	
			Abs.	%
OWN FUNDS				
Common Equity Tier 1 (CET1)	7,225.9	8,620.3	(1,394.4)	-16.18%
Tier 1 (T1)	7,225.9	8,620.3	(1,394.4)	-16.18%
Tier 2 (T2)	1,840.2	1,154.3	685.9	59.42%
Total capital (TC)	9,066.1	9,774.6	(708.5)	-7.25%
RISK ASSETS				
Credit and Counterparty Risk	41,979.8	45,236.1	(3,256.3)	-7.20%
Credit valuation adjustment risk	403.1	356.4	46.7	13.10%
Market risks	2,414.6	2,646.3	(231.7)	-8.76%
Operational risk	11,328.4	10,320.3	1,008.1	9.77%
Risk-weighted assets	**56,125.9**	**58,559.1**	**(2,433.2)**	**-4.16%**
CAPITAL RATIOS				
CET1 capital ratio	**12.87%**	**14.72%**	**-1.85%**	
Tier1 capital ratio	**12.87%**	**14.72%**	**-1.85%**	
Total capital ratio	**16.15%**	**16.69%**	**-0.54%**	

Compared to 31 December 2019, CET1 decreased by a total of EUR -1,394 mln, essentially due to the following phenomena:

- loss for the period amounting to EUR -1,539 mln;
- improvement in the balance of the Other Comprehensive Income reserve for a total of EUR +31 mln;
- decrease in deductions associated with DTAs (EUR +220 mln) and deductions associated with prudential filters (EUR +16 mln, primarily due to the prudent valuation), partially offset by the increase in deductions associated with intangible assets (EUR -8 mln), as well as the increase in non-exempt deductions relating to significant financial investments (EUR -200 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 -104 mln, attributable to the transition of the filter from 85% to 70%;
- sterilisation of the capital impacts associated with the increase in credit value adjustments recognised in the period as at 30 September 2020 with respect to 1 January 2020 for stage 1 and 2 portfolios as set forth in Regulation (EU) 2020/873. This Regulation calls for the reintroduction within CET1 of a progressively decreasing share of the effect of higher adjustments, equal to 100% in 2020: as at 30 September, this positive effect amounts to EUR +214 mln;
- negative effect of EUR -24 mln deriving from the introduction of the prudential filter relating to the Other Comprehensive Income Reserve on government securities. This temporary treatment, applicable from 1 January 2020 to 31 December 2022, makes it possible to exclude from elements of CET1 the progressively decreasing amount (100% in 2020, 70% in 2021, 40% in 2022) of unrealised profits and losses accumulated starting from 31 December 2019, accounted for in the financial statement item "Changes in the fair value of debt instruments measured at fair value through other comprehensive income", with reference to exposures to central administrations, provided such exposures are not classified as non-performing financial assets.

Tier 2 marked an increase of EUR 686 mln compared to the end of December 2019, due to the equivalent value of the issues of subordinated T2 bonds (EUR 400 mln nominal value concluded in January 2020 and EUR 300 mln nominal value concluded in September 2020) and the reduction in the contribution to Tier 2 of the excess value adjustments over expected losses (EUR -14 mln).

Hence, the Total Capital Ratio reflects an overall decrease in own funds of EUR -709 mln.

The RWAs recorded an overall decrease of EUR 2,433 mln. In particular, there was a reduction in RWAs relating to credit and counterparty risk (EUR -3,256 mln) due to a significant extent to the application of the modifications introduced by Regulation (EU) 2020/873 of 24 June 2020, particularly with reference to the calculation of the supporting factor relating to loans to SMEs, as well as the effect of public guarantees on new disbursements. There was also a reduction in RWAs relating to market risks (EUR -232 mln) and an increase in relating to CVA risk (EUR +47 mln) and operational risk (EUR +1,008 mln).

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

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

Regarding to the prospective assessment of capital adequacy, following i) the significant provisions on legal risks made in the third quarter of 2020, ii) the prospective effects of the Hydra transaction, iii) the penalising impact of the COVID-19 pandemic on the macroeconomic scenario and iv) regulatory headwinds, a capital shortfall is expected with respect to SREP capital requirements. For that reason the Bank is reviewing its *capital plan* and evaluating capital strengthening measures with the full support of the controlling shareholder.

Disclosure on risks

Main risks and uncertainties

The information on the risks and uncertainties to which the Group is exposed are detailed in the Report on Operations and in the Notes to the Consolidated Financial Statements as at 31 December 2019 and in the Half-Year Financial Report at 30 June 2020, to which reference is made.

With regard to the risks and uncertainties resulting from the COVID-19 pandemic, the Group maintains that the macroeconomic scenario, also due to the resurgence under way, will lead to a deterioration in credit quality which, though obvious, is difficult to reliably anticipate.

The extreme criticality of the current situation, moreover substantially at global level, is expected to continue to cause a reduction in revenues for a large number of business customers, an increase in costs linked to the actions necessary to contain and prevent the spread of the virus, with repercussions on the payment capacity of the outstanding debt flows and on employment levels.

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

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

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

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

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

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

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

Exposure to sovereign debt risk

Below is a breakdown of the Group's exposure to sovereign debt risk in government bonds, loans and credit derivatives as at 30 September 2020.

The exposures are broken down by accounting categories.

COUNTRY	DEBT SECURITIES					LOANS	CREDIT DERIVATIVES
	Financial assets measured at fair value through profit and loss		Financial assets measured at fair value through other comprehensive income		Financial assets measured at amortised cost	Financial assets measured at amortised cost	Financial assets held for trading
	Nominal	Fair value=book value	Nominal	Fair value=book value	Book value	Book value	Nominal
Argentine	0.3	-	-	-	-	-	-
Azerbaijan	-	-	-	-	0.3	-	-
France	-	-	10.0	10.2	-	-	-
Italy	2,447.5	2,133.1	4,961.5	5,031.7	5,782.1	2,043.7	3,334.5
Portugal	-	-	15.0	17.7	-	-	-
Spain	24.4	29.7	10.0	10.2	1,406.4	-	5.0
Other Countries	0.1	0.1	-	-	0.1	-	-
Total 30 09 2020	**2,472.3**	**2,162.9**	**4,996.5**	**5,069.8**	**7,188.9**	**2,043.7**	**3,339.5**
Total 31 12 2019	**3,400.1**	**3,302.5**	**5,861.6**	**5,940.3**	**6,701.0**	**1,931.9**	**3,124.5**

As at 30 September 2020, the residual duration of the exposure to sovereign debt was 5.05 years.

Main types of legal risks

The health emergency deriving from the spread of COVID-19 resulted in the adoption of government measures as regards the management and organisation of civil and criminal justice.

Specifically, "Cura Italia" Law Decree 18/2020 and "Company Liquidity Decree" Law Decree 23/2020 were issued, providing for a generalised suspension (without prejudice to specific exceptions) of the procedural terms and hearings in the 9 March - 11 May 2020 period, leaving it up to the individual judicial offices to decide how to handle "phase 2". In this context, the proceedings involving the MPS Group also experienced slowdowns and deferments, with a generalised postponement of procedural expiries as well as hearings, scheduled, mostly electronically, in compliance with the rights of defence of the parties as established by each judicial office.

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

Legal disputes and out-of-court claims

The following were pending as at 30 September 2020:

- legal disputes with a total amount claimed, where quantified, of approximately EUR 5.4 bn. In particular:
  - approx. EUR 2.8 bn in claims regarding disputes for which there is a "probable" risk of losing the case, for which provisions of EUR 0.9 bn have been allocated;
  - approx. EUR 1.0 bn in claims attributable to disputes for which there is a "possible" risk of losing the case;
  - approx. EUR 1.6 bn in claims attributable to the remaining disputes, for which there is a "remote" risk of losing the case;
- out-of-court claims totalling, where quantified, approximately EUR 4.6 bn. In particular:
  - approx. EUR 4.6 bn in claims for which there is a "probable" risk of losing the case;
  - approx. EUR 0.02 bn in claims for which there is a "possible" risk of losing the case.

Disputes regarding compound interest, interest and conditions

For this type of dispute, provisions for risks of EUR 132.1 mln were allocated (against a total claim amount of EUR 305.3 mln), compared to EUR 133.8 mln recognised as at 31 December 2019 (against a claim of EUR 316.7 mln).

Dispute regarding bankruptcy rescindments

The provisions for risks recognised for this type of dispute as at 30 September 2020 amounted to EUR 28.1 mln (total claim of EUR 140.7 mln), compared to EUR 31.1 mln as at 31 December 2019 (against a claim of EUR 150.7 mln).

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

For this type of dispute, provisions for risks of EUR 8.1 mln were allocated (against a total claim amount of EUR 24.8 mln), compared to EUR 9.8 mln recognised as at 31 December 2019 (against a claim of EUR 27.4 mln).

Dispute with purchasers of subordinated bonds issued by Group companies

The total claim for these disputes is EUR 47.9 mln as at 30 September 2020, down compared to 31 December 2019 (EUR 49.4 mln). The focus of the opposing claims is concentrated on the lack of disclosure and/or in any case violations of specific regulations on financial intermediation.

As at 30 September 2020, the provisions recognised amounted to approx. EUR 28.3 mln (up by approx. EUR 1.9 mln compared to 31 December 2019).

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

As at 30 September 2020, the total claim for this type of dispute amounted to around EUR 5.6 bn, subdivided as follows (data in EUR mln):

Type of dispute	30/09/20	30/06/20	31/03/20	31/12/19
Civil dispute	**831**	830	795	883
Filed civil claim cp 29634/14	**137**	137	137	137
Filed civil claim cp 955/16 *	**177**	95	95	95
Out-of-court claims **	**4,461**	843	809	858
Total claims	**5,606**	**1,905**	**1,836**	**1,973**

(*) The increase in the relief with reference to the claims of the civil party in CP no. 955/16 with respect to 30 June 2020 is linked to the written conclusions provided at the hearings on 9 and 16 July 2020, in which the civil parties specified their demands for compensation, or quantified the demands that were previously not quantified.
(**) The increase that can be seen in the third quarter of 2020 in the relief sought with reference to out-of-court claims compared to the previous periods can be attributed to out-of-court claims received on 31 July 2020 from the MPS Foundation.

Criminal proceeding no. 955/16

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

In the last hearing on 15 October 2020, the Court issued a first instance ruling against Viola Fabrizio and Profumo Alessandro for false disclosure in relation to the half-yearly report as at 30 June 2015 and for market manipulation for press releases relating to the approval of the financial statements as at 31 December 2012, 31 December 2013 and 31 December 2014 and the half-yearly report as at 30 June 2015 as well as with respect to Salvadori Paolo for the sole offence of false disclosure in relation to the half-yearly report as at 30 June 2015. Again with regard to the offence of false disclosure, it was instead ruled that the case could not proceed with respect to the financial statements as at 31 December 2012 as the statute of limitations had been reached and all defendants were acquitted because there was no case to answer in relation to the financial statements as at 31 December 2013 and 31 December 2014.

The Issuer was declared liable for the administrative offences pursuant to Legislative Decree 231/01 and ordered to pay an administrative fine of EUR 800,000.00.

The Issuer, also in its capacity as civilly liable party, was also ordered jointly and severally with the defendants to provide compensation for damages to the civil parties admitted, to be settled in a separate civil case, as well as the payment of procedural expenses.

The relief sought, if stated, amounted to approximately EUR 177 mln as at 30 September 2020 with reference to the proceedings in question.

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

In relation to capital increases and the allegedly incorrect financial information contained in the prospectuses and/or in the financial statements and/or in the price sensitive information for the period 2008-2011, as at 30 September 2020, the Parent Company has received 1,210 out-of-court claims for a total of roughly EUR 611 mln in quantified claims. As at 30 September 2020, the residual claims of the plaintiffs who did not file civil suits amounted to around EUR 564 mln.

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

Another 578 out-of-court claims relating to the share capital increases in 2014-2015 must be added to the ones indicated above, for a claim amount of approximately EUR 294 mln (roughly EUR 279 mln considering only the plaintiffs who did not file civil suits).

Also considering the claims of the MPS Foundation received on 31 July 2020 for relief sought equal to EUR 3.6 bn, the total overall claim at 30 September 2020 is therefore equal to EUR 4.5 bn.

Settlement agreements for civil disputes related to share capital increases

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

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Generally speaking, and in application of the provisions of international accounting standard IAS 37, with regard to legal disputes, the civil action filed in the criminal proceedings 29634/14 and 955/2016 and out-of-court claims relating to disputes regarding the period 2008-2015, the Parent Company has assessed the risk of losing as "probable" and has therefore set aside provisions for risks and charges in the financial statements.

As regards the 2008-2011 period, the assessments made regarding the risk of losing the case reflect the decision of the Parent Company itself in March 2013 to initiate liability actions against the Chairman and General Manager at the time and the foreign banks involved, and they also take into account the positions taken on the subject - in addition to those of the Milan Public Prosecutor's Office - by the Supervisory Authorities, the relative decisions to bring civil action and the sanctions imposed by them.

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

Also for the disputes concerning the 2012-2015 period, starting from this interim report on operations, provisions for risks and charges were recognised following the ruling issued by the Court of Milan on 15 October 2020.

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 purely likely and conservative 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. Instead, with reference to out-of-court claims relating to the period 2008-2015, in order to take into account the probability of their transformation into real disputes, the funds were determined by applying an experiential factor to requests made by counterparties. In any case, the Parent Company has exercised the possibility granted by IAS 37 of not providing disclosures on the provisions allocated in the balance sheet if it believes that such information could seriously jeopardise its position in disputes and in potential settlement agreements.

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Compensation for transactions in diamonds

As at 30 September 2020, provisions for risks and charges recognised against the compensation initiative launched by the Parent Company amounted to EUR 35 mln. Transactions with customers were carried out during the first nine months of 2020 for an amount of EUR 64 mln.

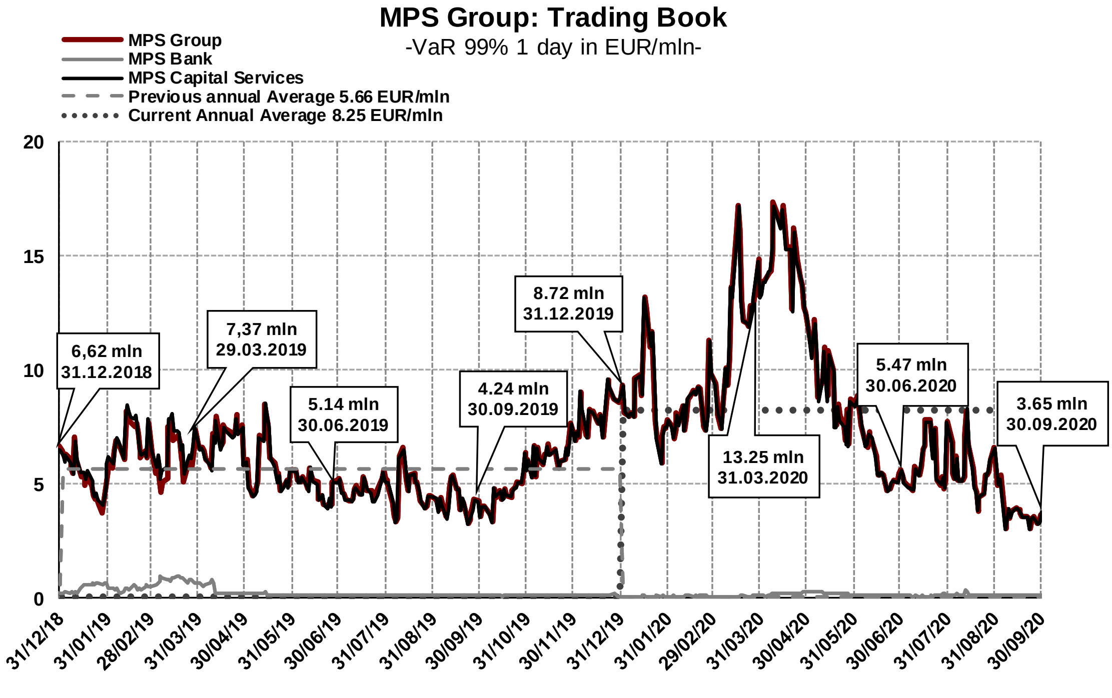
Market risks

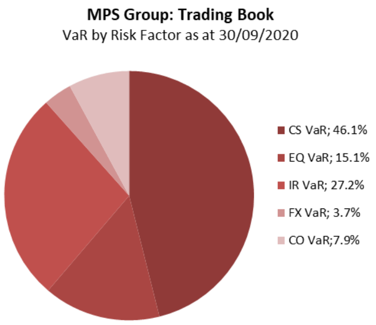
At 30 September 2020, the market risks of the Group's Regulatory Trading Book, measured as VaR, amounting to EUR 3.65 mln, have decreased significantly compared to the end of June (EUR 5.47 mln) as well as the yearly average (EUR 8.25 mln).

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

With the attenuation of tensions on market parameters triggered by the Covid-19 pandemic, the exposure to Italy credit spread risk by the subsidiary MPSCS reduced considerably, particularly in September.

Specifically, despite some temporary increases in exposure during the auctions for primarily dealer activities on Italian government securities of the subsidiary MPS Capital Services, the average Italian sovereign bonds held in the Group's trading portfolios in the third quarter (equal to roughly EUR 4 bn in nominal terms) declined considerably compared to the first half of the year (EUR -1.1 bn), reaching the lowest level since the start of the year in mid-September, just under EUR 2.2 bn, resulting in a contraction in the overall VaR at the end of the quarter to the lowest levels of 2020.





The breakdown of the VaR shows that the Credit Spread is the main risk factor, accounting for 46.1% of the TB Gross VaR of the Group, while IR factor accounts for 27.2%, EQ for 15.1%, CO for 7.9% and FX for 3.7%.

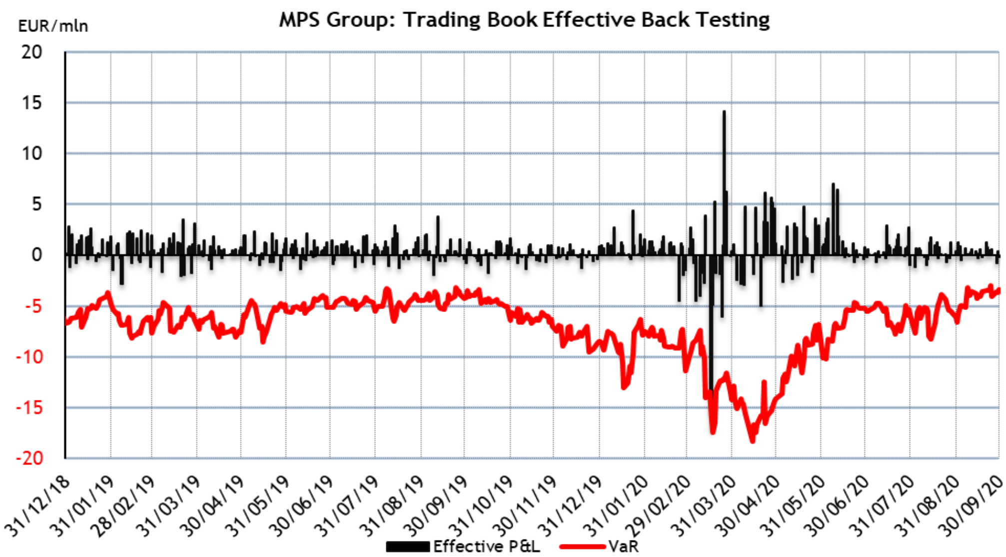
MPS Group: Trading Book
VaR 99% 1 day in EUR/mln

	VaR	Date
End of Period	3.65	30/09/2020
Min	3.02	23/09/2020
Max	17.32	09/04/2020
Average	8.25	

In the first nine months of 2020, the Group's VaR in the Regulatory Trading Book ranged between a low of EUR 3.02 mln recorded on 23 September 2020 and a high of EUR 17.32 mln on 9 April 2020 with an average value registered of EUR 8.25 mln. The Regulatory Trading Book VaR as at 30 September 2020 amounted to EUR 3.65 mln.

VaR model backtesting

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



No exceptions in the third quarter of 2020. Since the start of the year, only 2 exceptions were recorded, in the first quarter of 2020, referring entirely to the risk exposure of the subsidiary MPSCS. These exceptions were recorded on 16 and 17 March, as a result of the extreme increase in volatility on the markets following the health emergency linked to the spread of the COVID-19 pandemic. The days past due recorded simultaneous tension scenarios on all the main risk factors, with particular pressure in terms of P&L on the positions in Italian government securities (temporary widening of the Italian short-term credit spread, which for the most part had reversed by the end of the first quarter due to effect of the ECB's new Quantitative Easing programme to cope with the economic emergency triggered by the pandemic) and on corporate and financial securities.

Results by Operating Segment

Identification of Operating Segments

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

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

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

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

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

- the 2019 income statement data of the subsidiary BMP Belgio S.A. are included in the individual income statement items of the Corporate Banking operating segment, rather than in the item "Profit (loss) after tax from assets held for sale and discontinued operations", although it was sold on 14 June 2019.
- starting from 2020, the income statement and balance sheet are presented according to the new reclassification principles described in the sections "Income statement reclassification principles" and "Balance sheet reclassification principles". The values for 2019 have been restated, hence the comparison with the previous year is homogeneous.
- starting from 2020, the financial results of Banca Widiba SpA are included under Retail Banking. The values for the previous year have been restated so that the comparison is homogeneous.
- the results of the first nine months of 2020 were affected by the health emergency created by the spread of the COVID-19 virus, starting from the end of February. The aggregates that were most significantly affected were:
  - the Cost of Customer Credit was penalised by the effects deriving from the changed macroeconomic scenario due to the spread of the pandemic, which influenced the portfolio's risk levels,
  - Net fee and commission income was impacted by the reduction of Network operations during the months of the lockdown, with a recovery of full operations only starting from late June,
  - the results of trading activities and the contribution of AXA-MPS were impacted by financial market volatility, with negative effects in the first quarter of the year and a subsequent recovery in the second quarter.

Results in brief

The following table reports the main income statement and balance sheet items that characterised the Group's Operating Segments as at 30 September 2020:

SEGMENT REPORTING	Operating Segments									
Primary segment	**Retail banking**		**Wealth Management**		**Corporate banking**		**Corporate Center**		**Total MPS Group**	
(EUR mln)	30/09/20	Chg. % Y/Y	30/09/20	Chg. % Y/Y	30/09/20	Chg. % Y/Y	30/09/20	Chg. % Y/Y	30/09/20	Chg. % Y/Y
PROFIT AND LOSS AGGREGATES										
Total Revenues	1,516.2	-13.1%	98.7	-8.1%	562.3	-8.9%	23.0	n.m.	2,200.2	-9.3%
Operating expenses	(1,210.4)	-3.5%	(84.9)	15.3%	(288.7)	-13.1%	(46.5)	30.9%	(1,630.5)	-3.8%
Pre Provision operating Profit	305.8	-37.7%	13.8	-59.1%	273.6	-4.1%	(23.5)	-70.3%	569.7	-22.0%
Cost of customer loans/Net impairment (losses)-reversals on securities and loans to banks	(314.9)	99.1%	(0.5)	n.m.	(303.7)	38.8%	(8.5)	-55.4%	(627.6)	59.4%
Net Operating Income	(9.1)	n.m.	13.3	-62.9%	(30.1)	n.m.	(31.9)	-67.4%	(57.9)	n.m.
	30/09/20	Chg. % 31/12	30/09/20	Chg. % 31/12	30/09/20	Chg. % 31/12	30/09/20	Chg. % 31/12	30/09/20	Chg. % 31/12
BALANCE SHEET AGGREGATES										
Gross Interest-bearing loans to customers (*)	42,335.6	3.2%	536.3	7.5%	31,286.9	1.7%	12,946.2	67.7%	87,105.0	8.9%
Direct funding	48,470.5	7.7%	3,237.9	-7.4%	20,088.3	16.6%	26,621.4	-6.5%	98,418.1	4.5%
Indirect Funding	51,726.3	-2.0%	15,128.0	-1.3%	15,551.8	-7.6%	17,197.9	1.9%	99,604.0	-2.1%
Assets under management	*43,069.8*	*-1.7%*	*11,534.2*	*0.5%*	*1,306.8*	*-1.3%*	*2,573.4*	*-4.2%*	*58,484.1*	*-1.4%*
Assets under custody	*8,656.5*	*-3.2%*	*3,593.8*	*-6.6%*	*14,245.0*	*-8.1%*	*14,624.5*	*3.0%*	*41,119.8*	*-3.2%*

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

Retail Banking

Business areas

Retail MPS

- Funding and provision of insurance products.
- Lending.
- Financial advisory services.
- Electronic payment services.

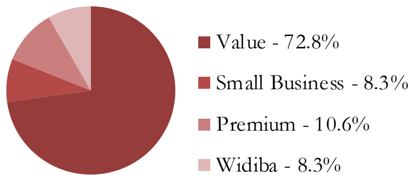
Widiba

- Banking products and services, deposit account, cards and advanced payment systems; customer self-service through the bank's digital channels or in assisted mode with the support of a Financial Advisor.
- Fully customisable online platform that relies on a network of 523 Financial Advisors present throughout the country.
- Funding and Global advisory services and financial planning through the advanced WISE platform and the skills of the Financial Advisor Network.
- Mortgage loans, credit facilities and personal loans.
- Innovative interaction through computers, smartphones, tablets, watches and TV.

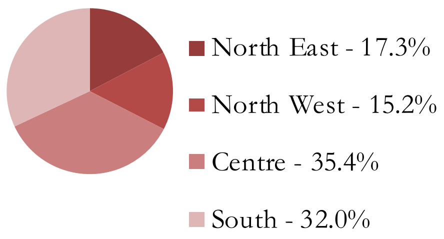
Customers

The number of Retail Banking customers was roughly 3.9 mln and includes 319,500 Widiba customers, of which around 158,300 in the Financial Advisor Network channel, 82,300 in the self-service channel, and 78,900 customers migrated from the MPS branch network.

Breakdown by type



Breakdown by geography

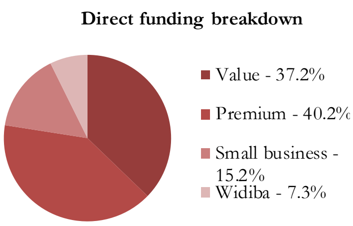


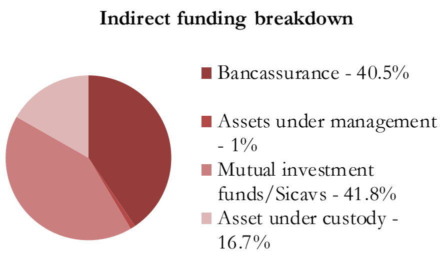
Income statement and balance sheet results

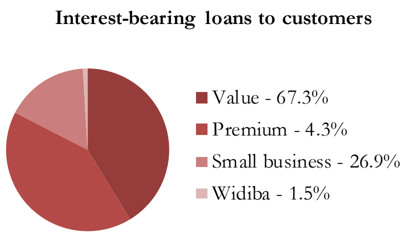
As at 30 September 2020, **Total Funding** for Retail Banking amounted to approximately **EUR 100.2 bn**, up by EUR 2.0 bn from June 2020 and by around EUR 2.4 bn compared to the end of 2019. More specifically:

- **Direct Funding** was **EUR 48.5 bn**, up by EUR 1.6 bn compared to 30 June 2020, particularly on the demand component (EUR +1.6 bn). In the comparison with 31 December 2019, the aggregate showed growth of approx. EUR 3.5 bn, mainly due to the demand component (EUR +3.8 bn), while the short-term (EUR -0.2 bn) and medium/long-term (EUR -0.1 bn) components decreased.
- **Indirect Funding**, amounting to approx. **EUR 51.7 bn**, increased slightly compared to June 2020 (EUR +0.4 bn), primarily on the asset management component (EUR +0.6 bn), which benefitted from the positive market effect linked to the recovery in the financial markets. The aggregate decreased compared to 31 December 2019 by EUR 1.0 bn, primarily in Assets under Management (EUR -0.7 bn) due to the negative market effect.
- **Gross interest-bearing loans to Retail Banking customers** were **EUR 42.3 bn**, an increase compared to June 2020 (EUR +1.1 bn) and December 2019 (EUR +1.3 bn).

RETAIL BANKING - BALANCE SHEET AGGREGATES										
(Eur mln)	30/09/20	30/06/20	31/12/19	30/09/19	Chg. Abs. Q/Q	Chg. % Q/Q	Chg. Abs. 31/12	Chg. % 31/12	Chg. Abs. Y/Y	Chg. % Y/Y
Direct funding	**48,471**	**46,868**	**45,016**	**44,478**	**1,602**	**3.4%**	**3,455**	**7.7%**	**3,992**	**9.0%**
Assets under management	*43,070*	*42,477*	*43,810*	*43,198*	*592*	*1.4%*	*-741*	*-1.7%*	*-129*	*-0.3%*
Assets under custody	*8,657*	*8,816*	*8,945*	*9,432*	*-160*	*-1.8%*	*-289*	*-3.2%*	*-776*	*-8.2%*
Indirect Funding	**51,726**	**51,293**	**52,755**	**52,630**	**433**	**0.8%**	**-1,029**	**-2.0%**	**-904**	**-1.7%**
Total Funding	**100,197**	**98,162**	**97,771**	**97,109**	**2,035**	**2.1%**	**2,426**	**2.5%**	**3,088**	**3.2%**
Gross Interest-bearing loans to customers	**42,336**	**41,273**	**41,011**	**40,683**	**1,063**	**2.6%**	**1,325**	**3.2%**	**1,652**	**4.1%**







With regard to profit and loss, as at 30 September 2020 Retail Banking achieved total **Revenues** of approx. **EUR 1,516 mln**, down 13.1% compared to the same period of last year. A breakdown of the aggregate shows:

- Net Interest Income was approximately EUR 665 mln, down 15.9% on an annual basis due mainly to the lower contribution from deposits and the drop in yields on commercial assets;
- Net Fee and Commission Income totalled approximately EUR 801 mln, down 9.7% from the previous year's level, principally due to the effect of the reduction in commissions on utilised credit lines; product and service commissions were down as well.

Considering the impact of Operating Expenses, which decreased by 3.5% Y/Y, Retail Banking generated **Gross Operating Income** of about **EUR 306 mln** (-37.7% Y/Y). Cost of credit totalled **EUR -315 mln** (EUR -158 mln compared to 30 September 2019), penalised by additional adjustments due to the COVID-19 emergency.

The **Net Operating Income** for the year is **negative for approximately EUR 9 mln**.

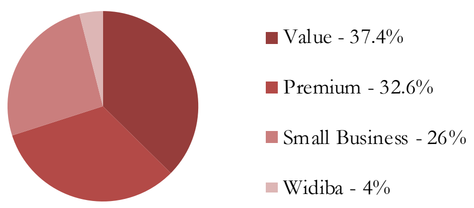
The non-operating components amounted to roughly EUR -33 mln, an improvement compared to the same period of the previous year (EUR -64 mln) due mainly to the reduction in Other net provisions.

The **Result before tax from continuing operations** was **EUR -42 mln** (EUR +268 mln as at 30 September 2019).

The ***cost-income ratio*** of the Operating Segment is **79.8%** (71.9% at the end of September 2019).

RETAIL BANKING - PROFIT AND LOSS AGGREGATES				
			Chg. Y/Y	
(EUR mln)	**30/09/20**	**30/09/19**	**Abs.**	**%**
Net interest income	*664.8*	*790.3*	*-125.6*	*-15.9%*
Net fee and commission income	*801.0*	*887.3*	*-86.4*	*-9.7%*
Other Revenues from Banking and Insurance Business	*40.1*	*58.3*	*-18.2*	*-31.2%*
Other operating expenses/income	*10.4*	*9.1*	*1.2*	*13.3%*
Total Revenues	**1,516.2**	**1,745.1**	**-228.9**	**-13.1%**
Operating expenses	*(1,210.4)*	*(1,254.2)*	*43.8*	*-3.5%*
Pre Provision Operating Profit	**305.8**	**490.9**	**-185.1**	**-37.7%**
Cost of customer loans/Net impairment (losses)-reversals on securities and loans to banks	(314.9)	(158.2)	-156.7	99.1%
Net Operating Income	**(9.1)**	**332.8**	**-341.9**	**n.m.**
Non-operating components	**(32.7)**	**(64.3)**	**31.6**	**-49.1%**
Profit (loss) before tax from continuing operations	**(41.9)**	**268.5**	**-310.3**	**n.m.**

Breakdown of revenues



Results for the subsidiary

Banca Widiba SpA: at 30 September 2020**, Total Funding** of Banca Widiba came to roughly **EUR 8.6 bn**, up by EUR +0.4 bn compared to 31 December 2019 and EUR +0.3 bn compared to 30 June 2020, benefitting from positive net funding flows in the first nine months, amounting to EUR 522 mln (of which EUR 147 mln in 3Q20) and the recovery in the financial markets starting from April, although not fully absorbing the particularly negative stock exchange trends recorded at the end of February and in the course of March due to the COVID-19 scenario.

With regard to profit and loss, as at 30 September 2020 Banca Widiba achieved total **Revenues** of approx. **EUR 60.8 mln** (of which EUR 19.9 mln in 3Q20), up EUR +9.0 mln (+17.4%) compared to the first nine months of the previous year, thanks to the increase in Net interest income (EUR +3.9 mln) and Net fee and commission income (EUR +5.1 mln).

The **Gross Operating Income** therefore amounted to **EUR 15.4 mln** (of which EUR 6.0 mln in 3Q20), with a notable increase from the same period in the previous year (increase of EUR +10.1 mln) and, due to the Cost of credit that was up EUR 1.9 mln compared to the first nine months of 2019, the **Net Operating Income** was **EUR 13.2 mln** (of which EUR 5.4 mln in 3Q20), with an increase of EUR +8.2 mln compared to 30 September 2019.

As a result of the lower incidence of the non-operating components (EUR -2.8 mln at 30 September 2020 compared to EUR -4.6 mln in the previous year), the **Result before tax from continuing operations** was **EUR 10.4 mln**, with an increase of EUR +9.9 mln compared to 30 September 2019.

Wealth Management

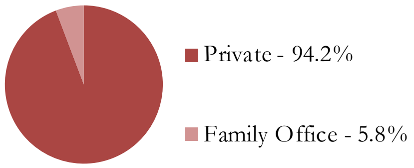
Business areas

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

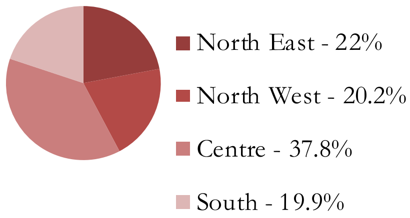
Customers

There are around 36.2 thousand private customers.

Breakdown by type



Breakdown by geography



Income statement and balance sheet results

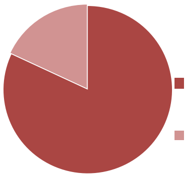
As at 30 September 2020, **Total Funding** for Wealth Management amounted to approximately **EUR 18.4 bn**, up by roughly EUR 0.2 bn compared to 30 June 2020 and down against the end of the year (EUR -0.5 bn). More specifically:

- **Direct Funding** came to **EUR 3.2 bn**, a slight increase from June 2020 (EUR +0.1 bn) and a decline compared to 31 December 2019 (EUR -0.3 bn);
- **Indirect Funding**, amounting to about **EUR 15.1 bn**, was up by EUR 0.1 bn compared to 30 June 2020 thanks to a positive market effect linked to the recovery in the financial markets and down by EUR 0.2 bn compared to the end of the previous year.
- **Gross interest-bearing loans to Wealth Management customers** were essentially in line with both 30 June 2020 and December 2019, amounting to roughly **EUR 0.5 bn**.

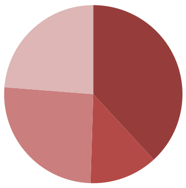
WEALTH MANAGEMENT - BALANCE SHEET AGGREGATES

(EUR mln)	30/09/20	30/06/20	31/12/19	30/09/19	Chg. Abs. Q/Q	Chg. % Q/Q	Chg. Abs. 31/12	Chg. % 31/12	Chg. Abs. Y/Y	Chg. % Y/Y
Direct funding	**3,238**	**3,103**	**3,496**	**3,598**	**135**	**4.3%**	**-259**	**-7.4%**	**-360**	**-10.0%**
Assets under management	*11,534*	*11,359*	*11,482*	*11,308*	*175*	*1.5%*	*52*	*0.5%*	*226*	*2.0%*
Assets under custody	*3,594*	*3,656*	*3,846*	*4,018*	*-62*	*-1.7%*	*-252*	*-6.6%*	*-425*	*-10.6%*
Indirect Funding	**15,128**	**15,014**	**15,328**	**15,326**	**114**	**0.8%**	**-200**	**-1.3%**	**-198**	**-1.3%**
Total Funding	**18,366**	**18,118**	**18,824**	**18,924**	**248**	**1.4%**	**-459**	**-2.4%**	**-558**	**-2.9%**
Gross Interest-bearing loans to customers	**536**	**536**	**499**	**492**	**0**	**0.0%**	**38**	**7.5%**	**44**	**9.0%**

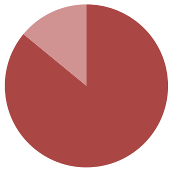
Direct funding breakdown



Indirect funding breakdown



Interest-bearing loans to customers



With regard to profit and loss in the first nine months of 2020, Wealth Management achieved total **Revenues** of approx. **EUR 99 mln**, down 8.1% compared to the same period of last year. A breakdown of the aggregate shows:

- Net Interest Income amounted to approx. EUR 6 mln, down EUR 5 mln compared to the same period of the previous year, impacted by the lower contribution from Direct Funding;
- Net Fee and Commission income totalled approximately EUR 82 mln, up slightly compared to the first nine months of 2019.

Considering the impact of Operating Expenses, which were up by 15.3% Y/Y, Wealth Management generated **Gross Operating Income** of about **EUR 14 mln** (EUR -20 mln Y/Y). Including Cost of credit equal to EUR -0.5 mln, the **Net Operating Income** totalled roughly **EUR 13 mln**.

The non-operating components amounted to roughly EUR -0.7 mln, an improvement of EUR 10 mln compared to the same period of the previous year due mainly to the lower Other net provisions.

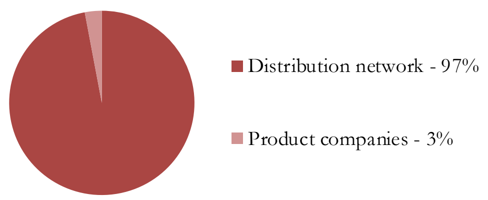
The **Result before tax from continuing operations** was **EUR 13 mln** (EUR +26 mln as at 30 September 2019).

The ***cost-income ratio*** of the Operating Segment is **86.0%** (68.5% at the end of September 2019).

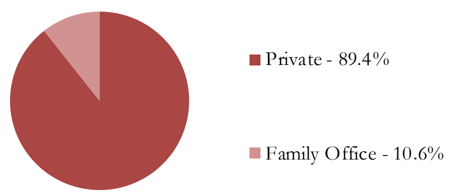
WEALTH MANAGEMENT - PROFIT AND LOSS AGGREGATES

			Chg. Y/Y	
(EUR mln)	30/09/20	30/09/19	Abs.	%
Net interest income	*6.1*	*10.6*	*-4.5*	*-42.6%*
Net fee and commission income	*82.1*	*80.9*	*1.2*	*1.4%*
Other Revenues from Banking and Insurance Business	*10.9*	*15.7*	*-4.8*	*-30.7%*
Other operating expenses/income	*(0.4)*	*0.2*	*-0.5*	*n.m.*
Total Revenues	**98.7**	**107.4**	**-8.7**	**-8.1%**
Operating expenses	*(84.9)*	*(73.6)*	*-11.3*	*15.3%*
Pre Provision Operating Profit	**13.8**	**33.8**	**-20.0**	**-59.1%**
Cost of customer loans/Net impairment (losses)-reversals on securities and loans to banks	(0.5)	2.1	-2.6	n.m.
Net Operating Income	**13.3**	**35.9**	**-22.6**	**-62.9%**
Non-operating components	**(0.7)**	**(10.2)**	**9.5**	**-92.9%**
Profit (loss) before tax from continuing operations	**12.6**	**25.7**	**-13.1**	**-50.9%**

Breakdown of revenues



Breakdown of revenues



Results for the subsidiary

- **MP Fiduciaria**: profit for the period of EUR 0.5 mln compared to profit of EUR 0.4 mln at 30 September 2019.

Corporate Banking

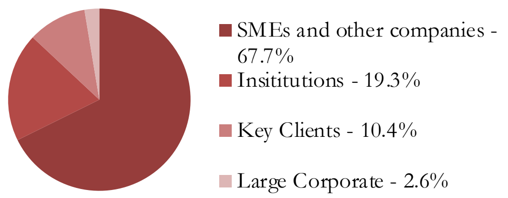
Business areas

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

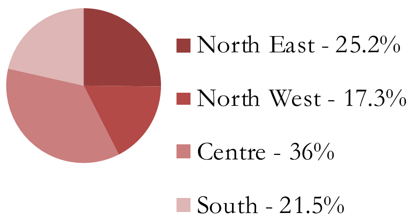
Customers

About 41,100 Corporate and Large Group customers of the Parent Company, directly followed by Corporate Banking.

Breakdown by type



Breakdown by geography

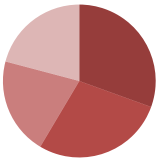


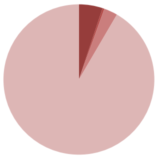
Income statement and balance sheet results

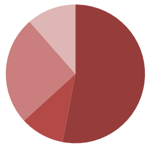
The **total funding** from Corporate Banking as at 30 September 2020 amounted to **EUR 35.6 bn**, up by EUR 1.3 bn with respect to 30 June 2020 mainly due to the increase in Indirect Funding (EUR +1.3 bn). The aggregate was up compared to the end of December 2019 by around EUR 1.6 bn thanks to the increase in Direct Funding (EUR +2.9 bn), which offset the decline in Indirect Funding (EUR -1.3 bn) recorded on assets under custody.

With regard to lending, as at 30 September 2020, **Gross interest-bearing loans to Corporate Banking customers** stood at approximately **EUR 31.3 bn** (in line with 30 June 2020 and up EUR 0.5 bn compared to 31 December 2019).

CORPORATE BANKING - BALANCE SHEET AGGREGATES										
(EUR mln)	30/09/20	30/06/20	31/12/19	30/09/19	Chg. Abs. Q/Q	Chg. % Q/Q	Chg. Abs. 31/12	Chg. % 31/12	Chg. Abs. Y/Y	Chg. % Y/Y
Direct funding	**20,088**	**18,779**	**17,230**	**17,339**	**1,310**	**7.0%**	**2,858**	**16.6%**	**2,749**	**15.9%**
Assets under management	*1,307*	*1,361*	*1,324*	*1,402*	*-54*	*-4.0%*	*-17*	*-1.3%*	*-96*	*-6.8%*
Assets under custody	*14,245*	*14,214*	*15,500*	*15,044*	*31*	*0.2%*	*-1,255*	*-8.1%*	*-799*	*-5.3%*
Indirect Funding	**15,552**	**15,575**	**16,824**	**16,446**	**-23**	**-0.1%**	**-1,272**	**-7.6%**	**-894**	**-5.4%**
Total Funding	**35,640**	**34,354**	**34,054**	**33,785**	**1,286**	**3.7%**	**1,586**	**4.7%**	**1,855**	**5.5%**
Gross Interest-bearing loans to customers	**31,287**	**31,289**	**30,758**	**32,076**	**-2**	**0.0%**	**529**	**1.7%**	**-789**	**-2.5%**







For profit and loss aggregates, in the first nine months of 2020, Corporate Banking **Revenues** came to approximately **EUR 562 mln** (-8.9% Y/Y). A breakdown of the aggregate shows:

- Net Interest Income was approximately EUR 311 mln, down 13.3% annually due to the decrease in returns on commercial assets and the lower contribution of direct funding;
- Net Fee and Commission income was down 1.8% compared to the same period of the previous year to around EUR 216 mln;
- Other Revenues from Banking and Insurance Business amounted to approx. EUR +41 mln compared to EUR 52 mln in the first nine months of 2019.

Considering the impact of Operating Expenses, down by 13.1% compared to 30 September 2019, the **Gross Operating Income** came to about **EUR 274 mln** (-4.1% Y/Y).

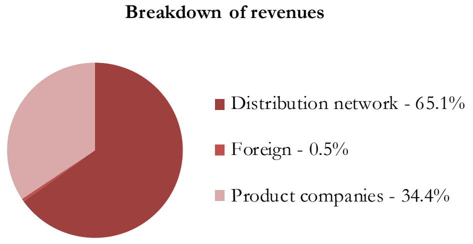
Net Operating Income amounted to **EUR -30 mln** (EUR 66 mln in the same period of the previous year), taking into account a Cost of credit of EUR -304 mln, penalised by additional adjustments due to the COVID-19 emergency.

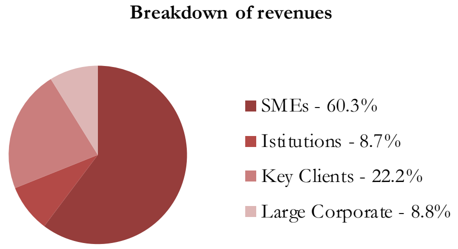
The non-operating components amounted to roughly EUR -164 mln, an increase compared to EUR -23 mln in the same period of the previous year due to the item Other net provisions, which primarily includes provisions for legal risks and risks linked to contractual agreements.

The **Result before tax from continuing operations** was **EUR -194 mln** (EUR +43 mln as at 30 September 2019).

The ***Corporate Banking cost-income ratio*** stands at **51.3%** (53.8% as at 30 September 2019).

CORPORATE BANKING - PROFIT AND LOSS AGGREGATES				
			Chg. Y/Y	
(EUR mln)	30/09/20	30/09/19	Abs.	%
Net interest income	*310.7*	*358.5*	*-47.8*	*-13.3%*
Net fee and commission income	*216.1*	*220.0*	*-3.9*	*-1.8%*
Other Revenues from Banking and Insurance Business	*41.4*	*51.7*	*-10.3*	*-19.9%*
Other operating expenses/income	*(5.9)*	*(12.7)*	*6.8*	*-53.5%*
Total Revenues	**562.3**	**617.4**	**-55.1**	**-8.9%**
Operating expenses	*(288.7)*	*(332.3)*	*43.6*	*-13.1%*
Pre Provision Operating Profit	**273.6**	**285.2**	**-11.6**	**-4.1%**
Cost of customer loans/Net impairment (losses)-reversals on securities and loans to banks	(303.7)	(218.7)	-85.0	38.8%
Net Operating Income	**(30.1)**	**66.4**	**-96.5**	**n.m.**
Non-operating components	**(163.9)**	**(23.4)**	**-140.6**	**n.m.**
Profit (loss) before tax from continuing operations	**(194.1)**	**43.0**	**-237.1**	**n.m.**





Results of the main subsidiaries

- **MPS Capital Services**: result before tax of EUR 38 mln, down by EUR 87 mln compared to 30 September 2019, especially due to the reduction in Other revenues from banking business and the trend in the Cost of Credit, penalised by additional adjustments due to the COVID-19 emergency. The profit for the period was EUR +21 mln compared to a profit of EUR 144 mln as at 30 September 2019 due to the trends described above, in addition to the negative effect of taxes.
- **MPS Leasing & Factoring**: result before tax of EUR -34 mln, down by EUR 49 mln compared to 30 September 2019, especially due to the trend in the Cost of Credit, penalised by additional adjustments due to the COVID-19 emergency. The loss for the period was EUR 42 mln compared to a profit for the period as at 30 September 2019 of EUR 16 mln due to the trends described above, in addition to the negative effect of taxes.
- **MP Banque[22]:** loss for the period of EUR 3 mln compared to a basically null profit for the period in the same period of the previous year.

Corporate Centre

The Corporate Centre includes:

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

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

With regard to Finance activities, note that in the third quarter of 2020 securities in the Parent Company's portfolio were sold, in particular the Italian government bonds, which generated profits of roughly EUR 52 mln (more than EUR 123 mln in profits generated since the start of the year).

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

Prospects and outlook on operations

The impact of the pandemic on international growth will be highly significant this year, with global GDP possibly experiencing a contraction of 4.4% according to estimates by the International Monetary Fund[23]. While waiting for an effective cure or a vaccine, the current phase of living with COVID-19 is still characterised by great uncertainty concerning outlooks: the recent deterioration of the health situation in many advanced economies, the introduction of new limits on circulation (curfews) and limited lockdowns, impacts recovery trends which are turning out to be uneven, incomplete and uncertain. The positive effects deriving from the economic support measures undertaken by the Monetary, Supranational (in Europe, the agreement on Next Generation EU was decisive) and National Governmental Authorities, which should be seen starting in 2021, are expected to provide an important boost to the rebound.

The difficult containment of the COVID-19 epidemic will entail the most serious recession since World War II for Italy, with an expected decline in GDP which could reach double digits, also in light of the recent re-introduction of restrictive measures to stem the flow of the virus. The opportunity for a sustained recovery in the medium term derives from the stimulus of expansionary policies, with fundamental recourse to the Next Generation EU (NGEU) and its launch with the expected timing: more than EUR 200 billion has been set aside for Italy between loans and subsidies starting in 2021. To obtain the funds, detailed, credible plans which meet the requirements laid out by European Commission guidelines will need to be drafted, entailing a much faster than normal pace of activities for the public administration, requiring profound changes in the public machine; the planned structural reforms will be able to reignite investments as well as productivity. However, a renewed uptick in the circulation of the virus is looming over this challenging scenario for Italy, entailing the introduction of new stringent restrictive measures: from the introduction of limits on free circulation at night, to partial sector-based lockdowns and the delimitation of local red zones in the areas most impacted.

The liquidity crisis that struck Italian businesses following the pandemic was responded to by Italian banks which boosted loans to sectors and companies of various sizes to a significant extent. However, the exceptional nature of the pandemic and strong economic uncertainty concerning the recovery are impacting outlooks and the operations of intermediaries. Over the next few years, it will be fundamental to carefully evaluate customer risk and continue to effectively manage non-performing loans, to prevent them from accumulating in the financial statements, hindering reinforcement actions and fracturing market and investor confidence. It will be crucial to preserve adequate levels of capitalisation to meet the higher capital requirements connected to the adoption of new rules and the phase-in of those already approved. It will be important to continue with actions to recover adequate levels of profitability, also by investing in skills and technology, efficiency, streamlining and reorganisation.

On the supply side, support measures (loans guaranteed by the Central Guarantee Fund (CGF)/SACE, moratoria) will continue to favour growth in lending to businesses in 2020; this demand for greater liquidity primarily meets the need to replace working capital for companies having difficulty during the health crisis, rather than being used for investments. As regards households, loan trends are expected to slow due to the sudden drop in consumer credit. The expected improvement in economic trends and the arrival of funds set aside as part of European plans will allow for a recovery in investments and consumption in the medium term, resulting in a significant increase in loans to households. Those to businesses may be impacted by the likely effect of an anticipation in demand for loans between the end of 2020 and the beginning of 2021, but also the considerable availability of liquidity deposited at banks, which may be used to finance production/investments, reducing loan requirements. Lending policies will remain relaxed thanks to the monetary measures adopted, which will maintain ample availability of liquidity and a low funding cost contributing, in the presence of stable policy rates, to keeping interest rates on loans at current levels for quite some time.

In 2020, funding is expected to increase, driven by deposits. The high uncertainty linked to the crisis indeed caused, on one hand, businesses to demand guaranteed loans which, pending investment decisions, remain deposited at banks and, on the other hand, households to increase their share of savings and direct it towards liquid assets. The contribution of bond issues will be negative in relation to the ample availability of liquidity guaranteed by the ECB. In the medium term, the deposits component will leave room for restricted forms and issues of bonds, primarily in the wholesale segment, for the most part subordinated, also to meet the MREL requirement. The ECB's ultra-accommodating monetary policy is confirmed with the possibility for additional interventions: in this context no changes in the deposit rate with the monetary authority are expected in the medium term; the fundamentally flat market rate curve is accompanied by a similar one in both rates on loans

[23] World Economic Outlook, International Monetary Fund, October 2020

(for households and businesses) and in the average rate on deposits; the rate on bonds should increase at a quicker pace in line with the slight rise in Italian government bonds.

Despite the higher credit volumes expected for 2020 thanks to government measures to support households and businesses, and the effects of European measures, the margin on traditional credit brokerage and savings activities will continue to be penalised by the banking spread, which remains compressed, in the presence of long-term negative money market rates. Overall net interest income between this year and the next will in any event remain sustained by ECB measures, thanks to the exceptional conditions of the TLTRO auctions. The caution of savers, within a context of uncertainty concerning the evolution of the health crisis, will keep the preference for liquidity and forms of low-risk investment high, confirming limited profitability of asset management in 2020. Once the acute phase of the crisis has passed, in 2021 still very low interest rates will support demand for asset management, with investors seeking out more attractive returns.

The most significant impacts of the COVID-19 crisis for the banking system will arise in terms of an increase in the cost of risk: in 2021, non-performing positions will increase due to the recession, the possible return to normal from credit support measures and also the higher flows of loans disbursed. After overcoming the most acute phase of the crisis, the de-risking process will resume, with additional disposal transactions that will make it possible to limit the stock of gross bad loans. The system ROE is expected to remain below 5% for quite some time still.

The deterioration in the scenario arising in the first nine months of the year and worsened by the newfound vigour of the epidemic throughout Italy may have economic and financial consequences for the Group despite the measures adopted by the government and European institutions. It is realistic to assume, with the discontinuation of economic support measures, an increase in the stock of non-performing loans due to the under performing cases that will be reflected in cure rates for loans classified as past due and unlikely to pay, with a resulting increase in the cost of credit (also affected by higher default flows).

The COVID situation may have significant effects on the Group's liquidity position. In order to deal with the potential impact on the liquidity position, the Parent Company has benefitted from the important extraordinary monetary policy measures announced by the ECB (LTRO/PELTRO/TLTRO III), accessing a total amount of TLTRO III of EUR 24 bn (of which EUR 3 bn in September 2020) against a maximum available amount of roughly EUR 27 bn. Any additional recourse to the TLTRO III may be used to handle potential future requirements to support the economic fabric, with respect for the overall maximum.

As regards institutional funding, the changed context has slowed the implementation of the Group's issue plans for 2020; in the second and third quarter of the year, access to the primary market of public bonds was limited only to the Tier 2 issue of EUR 300 mln.

On 1 December 2020 is expected to be completed the partial demerger of a set of non-performing loans ("Hydra"). The demerger falls within the broader context of the de-risking project approved by the competent Authorities as part of the 2017-2021 Group Restructuring Plan in compliance with the commitments undertaken with respect to the Directorate-General for Competition (DG Comp) which envisage, among other things, that the MEF will need to divest its shareholding in the Bank by the end of the 2017-2021 Restructuring Plan. For the Parent Company, the demerger constitutes a significant occasion to considerably reduce the Group's credit risk, aligning it with the best standards of the Italian market while also taking advantage of the opportunity to provide concrete outlooks for a return to profitability. In particular, the demerger will entail for the Group:

- a significant improvement in the risk profile, with a Gross NPL ratio that will drop from 11.3% at 31 December 2019 to 3.5%, coming in below the average of the Italian banking system and the threshold of 5% laid out in the EBA guidelines; an improvement in the Texas Ratio as well, which will fall from 85.6% at 31 December 2019 to 46.7%[24];
- a reduction of about 140 bps in some capital ratios, in particular CET1 *phase-in* and CET1 *fully loaded*.

Following the provisions on legal risks made in the third quarter of 2020 and the updated estimates of the impacts of regulatory headwings and of the persisting pandemic, the Parent Company updated the capital adequacy projections prepared in the context of the application to the ECB for the Hydra transaction.. From this update, a prospective shortfall with respect to SREP capital requirements emerged, with respect to which capital strengthening initiatives are being evaluated.

In this context, the MEF, as the controlling shareholder, reiterated its support for the Hydra transaction; its intention to respect the commitments undertaken by the Italian Republic towards the European Union and to

[24] Without taking into account the equity component of the demerger compendium.

carry out a market transaction identifying an anchor investor and/or banking partner of adequate standing, in order to restore and ensure the Bank's competitiveness; any capital support that may become necessary in the future to ensure compliance with minimum capital requirements.

DECLARATION OF THE FINANCIAL REPORTING OFFICER

Pursuant to para. 2, article 154-bis of the Consolidated Law on Finance, the Financial Reporting Officer, Mr. Nicola Massimo Clarelli, declares that the accounting information contained in this Interim Report on Operations as at 30 September 2020 corresponds to the underlying documentary evidence and accounting records.

Siena, 5 November 2020

Signed by

the Financial Reporting Officer

Nicola Massimo Clarelli