Monte dei Paschi di Siena Bank

Annual Report 2019

MONTE DEI PASCHI DI SIENA
BANK SINCE 1472

Report on Operations and Separate Financial Statements as at 31 december 2019

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 no. 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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REPORT ON OPERATIONS

For more information on aspects not examined in this Report, please refer to the disclosure provided in the Consolidated Report on Operations.

Results in brief

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Highlights at 31/12/2019

INCOME STATEMENT AND BALANCE SHEET FIGURES

MONTE DEI PASCHI DI SIENA BANK

INCOME STATEMENT FIGURES	31/12/19	31/12/18*	Chg.
Net interest income	1,249.7	1,530.5	-18.3%
Net fee and commission income	1,388.7	1,473.5	-5.8%
Other operating income	228.2	9.8	n.s.
Total Revenues	2,866.6	3,013.8	-4.9%
Net impairment losses (reversals) on financial assets mesured at amortised cost and finanaicl assets measured at fair value through other comprehensive income	(627.1)	(562.5)	11.5%
Net operating income	137.0	235.9	-41.9%
Net profit (loss) for the year	(1,174.4)	(111.9)	n.s.
BALANCE SHEET FIGURES AND INDICATORS	**31/12/19**	**31/12/2018***	**Var.**
Total assets	125,576.0	124,857.6	0.6%
Loans to customers	74,890.1	72,766.5	2.9%
Direct funding	83,703.8	82,040.5	2.0%
Indirect funding	96,832.4	92,567.5	4.6%
of which: assets under management	54,459.4	51,265.3	6.2%
of which: assets under custody	42,373.0	41,302.2	2.6%
Group net equity	7,577.7	8,312.1	-8.8%
OPERATING STRUCTURE	**31/12/19**	**31/12/18**	**Var.**
Total head count - end of period	20,225	21,074	-849
Number of branches in Italy	1,422	1,529	-107

** The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 16.*

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

REPORT ON OPERATIONS
Highlights at 31/12/2019

ALTERNATIVE PERFORMANCE MEASURES

MONTE DEI PASCHI DI SIENA BANK

PROFITABILITY RATIOS (%)	31/12/19	31/12/2018*	Chg.
Cost/Income ratio	73.34	73.51	-0.2
R.O.E.	-14.78	-1.25	-13.6
Return on Assets (RoA) ratio	-0.94	-0.10	-0.80
ROTE (Return on tangible equity)	-14.78	-1.25	-13.6

**The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 16.*

KEY CREDIT QUALITY RATIOS (%)	31/12/19	31/12/2018*	Chg.
Net non-performing loans / Loans to Customers	6.3	8.0	-1.7
Gross NPL ratio	11.4	15.2	-3.8
Growth rate of gross NPL	-0.3	-0.6	n.s.
Coverage non-performing loans	47.9	51.6	-3.7
Bad loans / Loans to Customers	3.1	3.3	-0.2
Loans to Customers measured at amortised cost - Stage 2/Performing exposures measured at amortised cost	12.3	14.0	-1.7
Coverage bad loans	51.8	60.5	-8.7
Net impairment losses on loans measured at amortised cost/ Loans to Customers measured at amortised cost (Provisioning)	0.8	0.8	0.0
Texas Ratio	76.4	84.2	-7.8

**The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 16.*

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 the aggregate, see reclassified Income Statement)

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

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

Return On Tangible Equity (ROTE): ratio between the Net profit for the year and the average shareholders' equity (including Profit and Valuation Reserves, cleared of Goodwill) at the end of the previous year and the current year.

Gross NPL ratio: ratio between gross non-performing loans to customers and gross loans to customers.

Growth rate of gross NPL: represents the annual growth rate of gross non-performing exposures based on the difference between annual balances.

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

Texas Ratio: ratio between gross non-performing loans and the sum of tangible shareholders' equity and loan loss provisions.

REPORT ON OPERATIONS
Highlights at 31/12/2019

REGULATORY MEASURES

MONTE DEI PASCHI DI SIENA BANK

CAPITAL RATIOS (%)	31/12/19	31/12/2018*	Chg.
Common Equity Tier 1 (CET1) ratio	16.8	17.0	-0.2
Total Capital ratio	19.2	18.8	0.4

* *The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 16.*

Common equity Tier 1 (CET 1): ratio betwenn primary quality capital[1] and RWA (Risk Weighted Asset)[2]

Total Capital Ratio: ratio between Own Funds and overall RWA

[1] Defined by art. 4 of Regulation EU/2013/575 (Capital Requirements Regualtion, CRR). It's composed by computable elements and capital instruments, net of expected adjustments.

[2] Risk weighted activities: it is the results of the application of certain wighting ratio (risck weight) to the exposures determined according to the Supervisory rules.

Analysis of the key economic-financial indicators of Banca Monte dei Paschi di Siena

Reclassified accounts

Income statement and balance sheet reclassification principles

- Item "**Net interest income**" was cleared of the negative contribution (equal to EUR -7 mln) of the Purchase Price Allocation (PPA), referring to past business combinations, which was reclassified to a specific item.

- Item "**Net profit (loss) from trading and financial assets/liabilities measured at amortised cost and at fair value through profit and loss**" includes item 80 "Net profit (loss) from trading", item 100 "Gains (losses) on disposal/repurchase of: i) financial assets measured at amortised cost; ii) financial assets measured at fair value through other comprehensive income, and iii) financial liabilities" and item 110 "Net profit (loss) from financial assets and liabilities measured at fair value through profit and loss". The item was cleared of the loss on the exposure to the IDPF Voluntary Scheme (for the Carige intervention) for approximately EUR 7 mln, reclassified to "Risks and charges associated with SRF, DGS and similar schemes".

- The item "**Other operating income (expense)**" includes the balance of item 200 "Other operating expenses/income" net of stamp duties and other expenses recovered from customers, which are included in the reclassified item "Other administrative expenses" (EUR 251 mln) and net of other expenses recovered, which are posted to "Net value adjustments to property, plant and equipment" (EUR 16 mln). The item was also cleared of the amount relating to the recoveries of DTA fees collected by subsidiaries, reclassified to the item "DTA fee" (EUR 9 mln).

- The item "**Personnel expenses**" includes the balance of item 160a "Personnel expenses" reduced by EUR 22 mln, linked to recoveries from INPS relating to provisions recognised for Solidarity Fund departures in 2017, reclassified to "Restructuring costs/One-off charges".

- The item "**Other administrative expenses**" includes the balance of income statement item 160b "Other administrative expenses", reduced by the following cost items:

  - expenses, amounting to EUR 96 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, reclassified under "DTA fee" for EUR 71 mln, including the DTA fees relative to subsidiaries;

  - extraordinary charges, relating to project initiatives also aimed at complying with the commitments undertaken with DG Comp (also including the closure of domestic and foreign branches), for EUR 4 mln (stated under reclassified item "Restructuring costs/One-off charges").

  This item includes also the portion of stamp duty and other expenses recovered from customers (EUR 251 mln) posted under item 190 "Other operating expenses/income".

- Item "**Net value adjustments to property, plant and equipment and intangible assets**" includes the values of items 180 "Net value adjustments to (recoveries on) property, plant and equipment" and 190 "Net value adjustments to (recoveries on) intangible assets" and was cleared of the negative contribution (EUR -11 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 16 mln) that was recorded under item 200 "Other operating expenses/income".

- Item "**Net impairment (losses)/reversals on financial assets measured at amortised cost**" includes items 130a "Financial assets measured at amortised cost" and 140 "Modification gains/(losses)".

- Item "**Restructuring costs/One-off charges**" mainly includes the recoveries of EUR 22 mln, primarily recognised by INPS for previous early retirement/solidarity fund manoeuvres and recognised in the financial statements under item 160a "Personnel expenses", the charges relating to project initiatives, including for the implementation of the commitments undertaken with the DG Comp, amounting to EUR 4 mln recorded in the financial statements under item 160b "Other administrative expenses".

- Item "**Risks and charges associated with SRF, DGS and similar schemes**" includes the charges deriving from EU directives DGSD for deposit guarantee and BRRD for the resolution of bank crises, amounting to

EUR 96 mln, recognised in the financial statements under item 160b "Other administrative expenses", as well as the loss on the exposure to the IDPF Voluntary Scheme (for the Carige intervention) for approximately EUR 7 mln, recognised in the financial statements under item 110 "Net profit (loss) from financial assets and liabilities measured at fair value through profit and loss".

- The item "**DTA fee**" includes the expenses related to the fees paid on DTA, which 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, totalling EUR 61 mln and recognised in item 160b "Other administrative expenses" (EUR 71 mln), net of the share recovered from subsidiaries, accounted for under "Other operating income/expense" (EUR 9 mln).
- Item "**Tax expense (recovery)**" includes the balance of item 270 "Tax expense (recovery) on income from continuing operations" cleared of the theoretical tax component relating to the Purchase Price Allocation (PPA), which was reclassified to a specific item for an amount of EUR 6 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 -7 mln and "**Net value adjustments to property, plant and equipment and intangible assets**" for EUR -11 mln, net of a theoretical tax burden of EUR +6 mln which was added the item).

Balance sheet reclassification principles

- Asset item "**Financial assets measured at fair value**" includes balance sheet items 20 "Financial assets measured at fair value through profit and loss" and 30 "Financial assets measured at fair value through other comprehensive income".
- Asset item "**Other assets**", includes balance sheet items 50 "Hedging derivatives", 60 "Change in value of macro-hedged financial assets", 100 "Tax assets", 110 "Non-current assets held for sale and discontinued operations" and 120 "Other assets".
- The liability item "**Deposits from customers and debt securities issued**", includes items 10b "Financial liabilities measured at amortised cost - deposits from customers", 10c "Financial liabilities measured at amortised cost - Debt securities issued" and 30 "Financial liabilities measured at fair value".
- Liability item "**Other liabilities**" includes balance sheet items 40 "Hedging derivatives", 50 "Change in value of macro-hedged financial liabilities", 60 "Tax liabilities", 70 "Liabilities associated with discontinued operations" and 80 "Other liabilities".

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The reconciliation between the statutory accounts and the reclassified income statement and balance sheet is included in the "Annexes" section.

Reclassified income statement

Reclassified Income Statement				
	31/12/19	31 12 2018*	Change	
MONTE DEI PASCHI DI SIENA BANK			Abs.	%
Net interest income	1,249.7	1,530.5	(280.8)	-18.3%
Net fee and commission income	1,388.7	1,473.5	(84.8)	-5.8%
Income from banking activities	**2,638.4**	**3,004.0**	**(365.6)**	**-12.2%**
Dividends, similar income and gains (losses) on equity investments	69.4	99.2	(29.8)	-30.1%
Net profit (loss) from trading and financial assets/liabilities measured at amortised cost and maesured at fair value through profit and loss	226.0	(40.9)	266.9	n.s.
Net profit (loss) from hedging	(6.2)	(17.0)	10.8	-63.5%
Other operating income (expenses)	(60.9)	(31.5)	(29.4)	93.3%
Total Revenues	**2,866.6**	**3,013.8**	**(147.2)**	**-4.9%**
Administrative expenses:	(1,974.7)	(2,138.9)	164.3	-7.7%
a) personnel expenses	(1,313.6)	(1,336.6)	23.0	-1.7%
b) other administrative expenses	(661.1)	(802.3)	141.3	-17.6%
Net adjustments to (recoveries on) property, plant and equipment / Net adjustments to (recoveries on) intangible assets	(127.9)	(76.3)	(51.6)	67.6%
Operating expenses	**(2,102.5)**	**(2,215.3)**	**112.8**	**-5.1%**
Pre Provision Profit	**764.1**	**798.5**	**(34.4)**	**-4.3%**
Net impairment losses (reversals) on:	**(627.1)**	**(562.5)**	**(64.6)**	**11.5%**
a) financial assets measured at amortised cost	(621.5)	(567.6)	(53.9)	9.5%
b) Financial assets measured at fair value through other comprehensive income	*(5.6)*	*5.1*	(10.7)	n.s.
Net operating income	**137.0**	**235.9**	**(98.9)**	**-41.9%**
Net provisions for risks and charges	(69.4)	(70.5)	1.1	-1.6%
*of which commitments and guarantees issued***	*86.6*	*8.1*	*78.5*	*n.s.*
Gains (losses) on investments	(52.4)	(333.8)	281.4	-84.3%
Restructuring costs / One-off costs	17.7	(135.6)	153.3	n.s.
Risks and charges related to the SRF, DGS and similar schemes	(103.6)	(108.3)	4.7	-4.4%
DTA Fee	(61.4)	(61.7)	0.3	-0.5%
Gains (losses) on disposal of investments	2.8	0.5	2.3	n.s.
Profit (loss) before tax from continuing operations	**(129.3)**	**(473.3)**	**344.1**	**-72.7%**
Tax expense (recovery) on income from continuing operations	(1,033.2)	383.7	(1,416.9)	n.s.
Profit (loss) after tax from continuing operations	**(1,162.5)**	**(89.7)**	**(1,072.8)**	**n.s.**
Profit (loss) for the year before PPA	**(1,162.5)**	**(89.7)**	**(1,072.8)**	**n.s.**
PPA (Purchase Price Allocation)	(11.9)	(22.2)	10.3	-46.3%
Net profit (loss) for the year	**(1,174.4)**	**(111.9)**	**(1,062.5)**	**n.s.**

**The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 16.*

Revenue trends

In 2019, the Bank realised total **Revenues** of **EUR 2,867 mln**, down 4.9% compared to the previous year, in particular following the decline in Net interest income and Net fee and commission income as well as the deterioration in Other operating income and expenses, only partially offset by the improvement in other revenues from banking business, as a result of the positive effects recognised on the financial assets measured at fair value and higher gains from the disposal of securities.

Net interest income for 2019 amounted to **EUR 1,250 mln**, down 18.3% compared to 2018, reflecting the impact of activities undertaken to comply with certain commitments in the Restructuring Plan. These include: i) NPE reduction activities, continuing the programme to sell the non-performing loan portfolio which led to reaching the gross NPE ratio target set by the Restructuring Plan two years ahead of schedule but with a negative effect on net interest income, which was also influenced by the drop in interest income on impaired financial assets of approx. EUR 41 mln compared to 31 December 2018; and ii) the return on the market of institutional issues (with Subordinated Tier 2 issues for EUR 300 mln and Senior Preferred issues for EUR 1.2 bn) with a consequent additional cost for 2019 of EUR 30 mln.

Thus, the trend of net interest income is influenced by actions to improve the quality of the credit portfolio with the development of less risky customers in a highly competitive market context, resulting in a reduction in the rates applied, however with dynamics in line with the market. Finally, there was a reorganisation of commercial deposits toward less expensive components with a consequent reduction in the relative cost. The aggregate was also impacted by the introduction of IFRS 16, which entailed the recognition of around EUR 5.9 mln in interest expense as at 31 December 2019.

Items	31 12 2019	31 12 2018	Chg. Y/Y	
			Abs.	%
Loans to customers measured at amortised cost	1,359.8	1,518.0	(158.2)	-10.4%
Securiries issued	(257.8)	(263.5)	5.7	-2.2%
Net Differentials on hedging derivatives	5.9	22.7	(16.8)	-74.1%
Loans to Banks measured at amortised cost	39.3	74.1	(34.8)	-47.0%
Trading portfolios	2.3	18.2	(15.9)	-87.4%
Portfolios measured at fair value	17.4	32.5	(15.1)	-46.5%
Financial assets measured at fair value through other comprehensive income	80.0	129.7	(49.7)	-38.3%
Other net interest income	2.8	(1.2)	4.0	n.s.
Net interest income	**1,249.7**	**1,530.5**	**(280.9)**	**-18.3%**
*of which: interest income on impaired financial assets***	177.6	218.8	(41.2)	-18.8%

**The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 16.*

Net fee and commission income as at 31 December 2019, totalling **EUR 1,389 mln**, declined by 5.8% compared to the previous year. This trend was primarily impacted by the reduction in income from product placement and commissions on loans, the latter affected by the elimination of around EUR 15 mln in one-off income recognised in the first half of 2018 linked to the renewal of the Compass S.p.A. product distribution agreement and income from services; other net fees and commissions posted a decrease.

Services/value	31 12 2019	31 12 2018	Change Y/Y	
			abs.	%
Assets under management fee	**576.9**	**599.3**	**(22.4)**	**-3.7%**
Product placement	200.8	216.8	(16.0)	-7.4%
Continuing fees	298.6	301.1	(2.5)	-0.8%
Placement of securities	35.5	36.3	(0.8)	-2.2%
Sales of Protection	42.0	45.1	(3.1)	-6.9%
Fee and commisions from traditional activities	**946.4**	**999.8**	**(53.3)**	**-5.3%**
Credit fees	432.4	475.1	(42.6)	-9.0%
Fees from foreign service	49.8	53.1	(3.4)	-6.3%
Other services	464.2	471.6	(7.3)	-1.6%
Other fee and commission income	**(134.7)**	**(125.6)**	**(9.1)**	**7.2%**
Net fees and commission income	**1,388.7**	**1,473.5**	**(84.8)**	**-5.8%**

Dividends, similar income and gains (losses) on equity investments totalled **EUR 69 mln**, mainly represented by dividends distributed by MPS Tenimenti and the contribution from the joint venture with AXA-MPS.

Net profit (loss) from trading and financial assets/liabilities measured at amortised cost and at fair value through profit and loss in 2019 totalled **EUR 226 mln**, up from the previous year (EUR -41 mln). The analysis of the main aggregates shows the following:

- **Net profit (loss) from trading amounting to EUR +52 mln**, marking growth over 31 December 2018;
- **Net profit (loss) from financial assets/liabilities measured at fair value through profit and loss was positive for EUR 57 mln**, an improvement from the previous year (EUR -113 mln), in particular due to the revaluation of securities recognised in assets resulting from the debt restructuring transactions of Sorgenia and Tirreno Power Group in light of changes in these positions;
- **Gains on disposal/repurchase came to EUR 118 mln**, up compared to EUR 39 mln in the previous year, thanks to higher gains from the sale of securities carried out for the most part in 2Q19 and 3Q19.

Items	31 12 2019	31 12 2018	Chg. Y/Y	
			Abs.	%
Financial assets held for trading	2.4	1.0	1.4	n.s.
Exchange rate effects	23.9	16.0	7.9	49.4%
Derivatives	25.2	15.4	9.8	63.9%
Trading results	**51.5**	**32.4**	**19.1**	**59.0%**
Net profit (loss) from financial assets and liabilities measured at fair value through profit and loss	56.9	(112.6)	169.5	n.s.
Disposal / repurchase	117.6	39.3	78.3	n.s.
Net profit (loss) from trading and financial assets and liabilities measured amortised cost and measuerd at fair value through profit and loss	**226.0**	**(40.9)**	**266.9**	**n.s.**

The following items also make up Revenues:

- **Net profit (loss) from hedging amounting to EUR -6 mln**, an improvement compared to 31 December 2018;
- **Other operating income (expenses) was negative by EUR 61 mln**, a deterioration compared to the result at the end of 2018 (equal to EUR -31 mln) due to the recognition of the indemnity linked to the exercise of the right of withdrawal from the agreement with Juliet.

Operating expenses

Note that comparisons with 2018 figures are purely indicative, insofar as the data are inconsistent following the introduction of the new IFRS 16, which led to the recording of lower Other administrative expenses of EUR 36.5 mln and higher Net value adjustments to property, plant and equipment and intangible assets of EUR 28.6 mln.

Operating expenses totalled **EUR 2,103 mln** as at 31 December 2019, down 5.1% on the previous year. A closer look at the individual aggregates reveals the following:

- **Administrative expenses** were **EUR 1,975 mln**, down EUR 164 mln from the previous year. A breakdown of the aggregate shows:
  - **Personnel expenses**, totalling **EUR 1,314 mln**, were down 1.7% on a yearly basis. Compared to 31 December 2018, the expense trend also benefitted from the reduction in headcount, linked primarily to the early retirement procedure, whose effects were partially offset by contractual increases recorded since October 2018, the effects of the agreement on personnel costs as at 31 December 2018, and the renewal of the second-level bargaining agreement (12 July 2019).
  - **Other administrative expenses** amounted to **EUR 661 mln**, down by 17.6% compared to the previous year. As mentioned above, in comparison with 2018, this aggregate was impacted by the entry into force of IFRS 16, net of which there would have been a downward trend, including due to the effects from the merger by incorporation of the company Perimetro Gestione Proprietà Immobiliari.
- **Net value adjustments to property, plant and equipment and intangible assets** as at 31 December 2019 amounted to **EUR 128 mln**, up 67.6% compared to the previous year, including due to the effects of the entry into force of IFRS 16. Without these effects, the trend, in any case, would have increased by roughly EUR 23 mln, due to the effects from the aforementioned merger of the company Perimetro Gestione Proprietà Immobiliari.

Type of transaction	31 12 2019	31 12 2018	Chg Y/Y	
			Abs.	%
Wages and salaries	(982.3)	(1,008.6)	26.3	-2.6%
Social-welfare charges	(267.8)	(275.0)	7.2	-2.6%
Other personnel expenses	(63.5)	(53.0)	(10.5)	19.8%
Personnel expenses	**(1,313.6)**	**(1,336.6)**	**23.0**	**-1.7%**
Taxes	(216.2)	(202.2)	(14.0)	6.9%
Furnishing, real estate and security expenses	(68.5)	(222.6)	154.1	-69.2%
General operating expenses	(161.7)	(175.3)	13.6	-7.8%
Information technology expenses	(19.2)	(23.9)	4.7	-19.7%
Legal and professional expenses	(134.7)	(115.2)	(19.5)	16.9%
Indirect personnel costs	(9.3)	(9.4)	0.1	-1.1%
Insurance	(47.4)	(40.2)	(7.2)	17.9%
Advertising, sponsorship and promotions	(2.2)	(2.6)	0.4	-15.4%
Other	(252.7)	(280.3)	27.7	-9.9%
Expenses recovery	250.8	269.4	(18.6)	-6.9%
Other administrative expenses	**(661.1)**	**(802.3)**	**141.3**	**-17.6%**
Tangible assets	(127.8)	(76.2)	(51.6)	67.7%
Intangible assets	(0.1)	(0.1)	0.0	0.0%
Amortization and impairment losses	**(127.9)**	**(76.3)**	**(51.6)**	**67.6%**
Operating costs	**(2,102.5)**	**(2,215.3)**	**112.8**	**-5.1%**

As a result of these factors, the Bank's **Gross Operating Income** totalled **EUR 764 mln** (EUR 798 mln as at 31 December 2018).

Net impairment (losses)/reversals on financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income

As at 31 December 2019, the Bank recorded **Net impairment (losses)/reversals on financial assets measured at amortised cost and at fair value through other comprehensive income** amounting to **EUR 627 mln**, up by EUR 65 mln from the figure recorded in the previous year (EUR 562 mln).

The cost of credit includes the positive effects linked to the exercise of the right of withdrawal from the agreement with Juliet, which resulted in the elimination of forecasted costs for the servicing agreement reflected in value adjustments which on the loan portfolio

Instead, the simultaneous revision of the NPE reduction strategy, which entailed an acceleration in the 2019 disposal plan in order to further reduce the level of the NPE ratio, had a negative effect.

Moreover, compared with 31 December 2018, the aggregate was affected by the increases of hedges on positions already classified as non-performing, only partially offset by the benefits from lower default flows and fewer transfers to non-performing.

Lastly, the cost includes:

- the negative impact of the effects related to the annual update of the risk parameters used for the collective/statistical valuation of performing loans and non-performing loans below the threshold and to the downward revision of GDP growth estimates for 2019 incorporated in the forward-looking scenarios envisaged by IFRS;
- positive impact from write-backs on loans (subject to restructuring) to the Sorgenia and Tirreno Power Group and the effects associated with the changes in loan estimation criteria.

The ratio of net impairment losses on loans to Loans to Customers as at 31 December 2019 shows a **Provisioning Rate of 83 bps.**

	31 12 2019	31 12 2018	Chg. Y/Y	
			Abs.	%
Loans to banks measured at amortised cost	2.2	(1.5)	3.7	n.s.
- Loans	2.2	(2.0)	4.2	n.s.
- Debt securities	-	0.5	(0.5)	-100.0%
Loans to customers measured at amortised cost	(619.5)	(557.9)	(61.6)	11.0%
- Loans	(618.1)	(554.4)	(63.7)	11.5%
- Debt securities	(1.4)	(3.5)	2.1	n.s.
Gains (losses) due to modifications in contractual cash flows without derecognition	(4.2)	(8.2)	4.0	n.s.
Impairmet loss on loans measured at amortised cost	**(621.5)**	**(567.6)**	**(53.9)**	**9.5%**
Financial assets measured at fair value through comprehensive income	(5.6)	5.1	(10.7)	n.s.
Total adjustments due to credit risk	**(627.1)**	**(562.5)**	**(64.6)**	**11.5%**

The Bank's **Net Operating Income** in 2019 was **positive for approximately EUR 137 mln**, compared to a positive value of EUR 236 mln in the previous year.

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

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

- **Net provisions for risks and charges** of **EUR -69 mln**, mainly attributable to provisions for commitments assumed against the compensation relating to transactions in diamonds. These are in addition to the provisions for indemnity requests associated with the loan disposal transactions and for the estimate of the reimbursements related to operations with customers, even if there were no specific requests. These effects were only partially offset by the write-backs on guarantees given, also attributable to the release of guarantees on certain large positions. Instead, there were no significant changes for the dispute related to financial information. As at 31 December 2018, there was a negative balance of EUR 71 mln, linked to provisions for legal risks in part offset by the revaluation of the commitment assumed to cover hedging costs of the vehicle Siena NPL 2018 S.r.l. as part of the bad loan securitisation.

- **Losses on equity investments** amounted to **EUR -52 mln**, compared to a loss of EUR 334 mln in the previous year.

- **Restructuring costs/One-off charges**, equal to **EUR 18 mln**, include in particular costs linked to project expenses, the price adjustment for the disposal of BMP Belgio S.A., the effects linked to early retirement, and recoveries recognised by INPS for previous early retirement/solidarity fund procedures. As at 31 December 2018, the aggregate amounted to EUR 136 mln and mainly included the costs set aside for early retirement incentives/solidarity fund for EUR 147 mln, partially offset by recoveries recognised by INPS for previous early retirement/solidarity fund manoeuvres (EUR +35 mln) and the charges relating to projects, also seeking to implement the commitments made with DGComp (for a total of EUR -23 mln).

- **Risks and charges associated with SRF, DGS and similar schemes**, with a balance of **EUR -104 mln** consisting of the Banks's contribution due to the Single Resolution Fund (SRF) equivalent to EUR 42 mln, the additional amount due to the National Resolution Fund (NRF) of EUR 15 mln, the total amount recognised to IDPF (DGS) of EUR 39 mln, and the net loss on the exposure with the IDPF Voluntary Scheme (for the Carige intervention) amounting to EUR 7 mln at the end of 2019.

- **DTA fee**, amounting to **EUR -62 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 on DTA (Deferred Tax Assets) as at 31 December 2019 that can be converted into a tax credit, net of the portion recovered from subsidiaries (EUR 71 mln and EUR 9 mln, respectively).

- **Gains (losses) on disposal of investments** of **EUR 3 mln** related to the sale of property. This represents an increase (EUR +2.3 mln) compared to 2018.

Due to the changes discussed above, the Bank's **Loss before tax from continuing operations** was **EUR -129 mln**. In 2018, the Bank posted a loss of EUR -473 mln.

Tax expense (recovery) on income from continuing operations recorded a negative contribution of **EUR 1 bn**, essentially due to the partial reassessment of DTAs for tax losses, accrued and not recognised in previous years, to take into account the effects on future taxable income resulting from the reintroduction of the "ACE - Support for Economic Growth" tax benefit and changes in the macroeconomic scenario.

Considering the net effects of the PPA (EUR -12 mln), the **loss for the year of Banca Monte dei Paschi di Siena amounted to EUR -1 bn**, compared to a loss of EUR 112 mln in 2018.

Reclassified balance sheet

Reclassified Balance Sheet				
ASSETS	30 06 2018	31 12 2018*	Chg abs.	Chg %
Cash and cash equivalents	830.1	934.3	(104.2)	-11.2%
Financial assets measured at amortised cost :				0.0
a) Loans to customers	74,890.1	72,766.5	2,123.6	2.9%
b) Loans to banks	32,146.4	28,836.8	3,309.6	11.5%
Financial assets measured at fair value	7,908.2	13,085.3	(5,177.1)	-39.6%
Equity investments	2,763.2	2,653.3	109.9	4.1%
Property, plant and equipment / Intangible assets	2,534.4	1,040.3	1,494.1	n.s.
Other assets	4,503.6	5,541.1	(1,037.5)	-18.7%
Total assets	**125,576.0**	**124,857.6**	**718.4**	**0.6%**

LIABILITIES	30 06 2018	31 12 2018*	Chg abs.	Chg %
Payables				
a) Deposits from customers and securities issued	83,703.8	82,040.5	1,663.3	2.0%
b) Deposits from banks	28,030.6	28,063.4	(32.8)	-0.1%
Financial liabilities held for trading	583.5	623.0	(39.5)	-6.3%
Provisions for specific use	-	-	-	0.0%
a) Provisions for staff severance indemnities	172.8	185.5	(12.7)	-6.8%
b) Provisione related to guarantees and other commitments given	156.9	243.5	(86.6)	-35.6%
c) Pensions and other post employemnt benefit obligations	32.1	33.4	(1.3)	-3.9%
d) Other provisions	929.3	1,108.0	(178.7)	-16.1%
Other liabilities	4,389.3	4,248.2	141.1	3.3%
Bank net equity	7,577.7	8,312.1	(734.4)	-8.8%
a) Valuation reserves	(28.4)	(276.9)	248.5	-89.7%
c) Equity instruments	-	-	-	-
d) Reserves	(1,362.0)	(1,441.7)	79.7	-5.5%
e) Share premium	-	-	-	-
f) Share capital	10,328.6	10,328.6	-	-
g) Treasury shares (-)	(186.0)	(186.0)	-	-
h) Net profit (loss) for the year	(1,174.5)	(111.9)	(1,062.6)	n.s.
Total Liabilities and Shareholders' Equity	**125,576.0**	**124,857.6**	**718.4**	**0.6%**

**The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 16.*

Customer funding

As at 31 December 2019, the Bank's **Total Funding** volumes amounted to around **EUR 180.5 bn**, an increase compared to the values at the end of 2018 (+3.4%), due to the increase in both Indirect Funding and Direct Funding.

Customer Funding				
			Chg Y/Y	
	31/12/19	31/12/18	Abs.	%
Direct funding	83,703.8	82,040.5	1,663.3	2.0%
Indirect funding	96,832.4	92,567.5	4,264.8	4.6%
assets under management	*54,459.4*	*51,265.3*	3,194.0	*6.2%*
assets under custody	*42,373.0*	*41,302.2*	1,070.8	*2.6%*
Total funding	**180,536.2**	**174,608.0**	**5,928.1**	**3.4%**

Direct Funding volumes, which at the end of 2019 stood at **EUR 83.7 bn,** posted an increase of EUR 1.7 bn compared to the end of December 2018 despite the EUR 5.9 bn decrease in repurchase agreements, which was more than offset by growth in Current Accounts and Time Deposits (EUR +4.1 bn), Bonds (EUR +1.8 bn) and other forms of funding (EUR +1.7 bn).

Direct funding customers				
			Change Y/Y	
Type of transaction	31/12/19	31/12/18	Abs.	%
Current accounts	53,377.0	50,379.1	2,997.9	6.0%
Time deposits	8,190.7	7,136.5	1,054.2	14.8%
Reverse repurchase agreements	-	5,874.0	(5,874.0)	n.s.
Bonds	13,113.8	11,354.9	1,758.9	15.5%
Other types of direct funding	9,022.3	7,296.0	1,726.3	23.7%
Total	**83,703.8**	**82,040.5**	**1,663.3**	**2.0%**

Indirect Funding amounted to **EUR 96.8 bn**, up compared to 31 December 2018 (EUR +4.3 bn) thanks to a consistent positive market effect, which benefitted both the Assets under Management and the Assets under Custody components.

In detail, **Assets under Management**, amounting to **EUR 54.5 bn**, grew by EUR 3.2 bn compared to December 2018, primarily in the bancassurance and funds segments.

Indirect Funding				
			Change Y/Y	
	31/12/19	31/12/18	Abs.	%
Assets under management	54,459.4	51,265.3	3,194.0	6.2%
Mutual Funds/Sicav	*24,087.0*	*23,394.9*	692.2	*3.0%*
Individual Portfolio under Management	*4,906.3*	*4,812.7*	93.5	*1.9%*
Insurance Products	*25,466.1*	*23,057.8*	2,408.4	*10.4%*
Assets under custody	42,373.0	41,302.2	1,070.8	2.6%
Total funding	**96,832.4**	**92,567.5**	**4,264.8**	**4.6%**

Loans to customers

As at 31 December 2019, **Loans to Customers** of the Bank came to **EUR 74.9 bn**, up by EUR +2.1 bn compared to the end of December 2018, primarily in Securities lending (EUR +2 bn), Mortgage loans (EUR +0.9 bn), and other loans (EUR +0.6 bn). By contrast, there was a drop in Current accounts (EUR -0.3 bn) and Non-performing loans (EUR -1.1 bn), impacted by disposals of UTP and bad loans.

Loans to customers

Type of transaction		31/12/19	31 12 2018	Change Y/Y	
				Abs.	%
Current accounts		4,624.6	4,957.7	(333.1)	-6.7%
Mortgages		43,678.0	42,738.2	939.8	2.2%
Other forms of lending		13,245.5	12,608.4	637.1	5.1%
Securities lending		8,781.8	6,795.6	1,986.2	29.2%
Non performing loans		4,560.2	5,666.6	(1,106.4)	-19.5%
Total		**74,890.1**	**72,766.5**	**2,123.6**	**2.9%**
	Stage 1	*61,673.0*	*57,687.1*	*3,985.9*	6.9%
	Stage 2	*8,656.8*	*9,412.8*	*(756.0)*	-8.0%
	Stage 3	*4,560.3*	*5,666.6*	*(1,106.3)*	-19.5%

Non-performing loans

As at 31 December 2019, the Bank's **exposure to gross non-performing loans** totalled **EUR 9.1 bn**, down compared to 31 December 2018 (EUR -3.2 bn) due to the disposals made over the year and other reductions linked to write-offs, conversions and payments. The gross exposure to Bad Loans was down compared to 31 December 2018 by EUR 1.2 bn primarily due to the above-mentioned disposals, in part offset by new positions transferred to that category. The exposure of Unlikely to Pay also fell by EUR 1.9 bn over December 2018, mainly following transfers/reductions, management, and deterioration to Bad Loans recorded during the period. Gross non-performing past due exposures were also down compared to December 2018.

As at 31 December 2019, the Bank's **net exposure in terms of non-performing loans** totalled **EUR 4.8 bn**, down compared to 31 December 2018 (EUR -1.2 bn). There was a decline in net exposure in Bad Loans (EUR -0.1 bn), Unlikely to Pay (EUR -1.1 bn), and Non-Performing Past Due Exposures (EUR -0.1 bn).

The ratio between net non-performing loans and net loans to customers as at 31 December 2019 was 6.3%, down compared to December 2018 (8%).

In the tables below, non-performing financial assets include all cash exposures regardless of the accounting portfolio they belong to, with the exception of equity instruments, UCITS, assets held for trading and hedging derivatives. Moreover, the gross value and the loss provisions of non-performing financial assets are shown net of interest on arrears and of the relative adjustments. Performing customer loan exposures are represented by loans at amortised cost and loans measured at fair value as per mandatory requirements.

Loans to customers		Bad loans	Unlikely to pay	Non-performing Past due	**Non-performing exposures**	Perfoming exposures	**Total**	*- of which forbone impaired*	*- of which forborne not impaired*
31 12 19	Gross exposure	4,928.9	4,142.1	61.4	**9,132.4**	71,114.0	**80,246.4**	*3,387.6*	*1,931.7*
	Provisions	2,550.9	1,807.7	16.0	**4,374.6**	374.4	**4,749.0**	*1,402.9*	*109.3*
	Net exposure	2,378.0	2,334.4	45.4	**4,757.8**	70,739.6	**75,497.4**	*1,984.7*	*1,822.4*
	Coverage ratio	*51.8%*	*43.6%*	*26.1%*	***47.9%***	*0.5%*	***5.9%***	*41.4%*	*5.7%*
	% on Loans to customers	*3.1%*	*3.1%*	*0.1%*	***6.3%***	*93.7%*	***100.0%***		
31 12 18	Gross exposure	6,165.6	6,051.3	134.9	**12,351.8**	68,862.9	**81,214.7**	*4,539.3*	*1,790.4*
	Provisions	3,729.8	2,620.9	26.6	**6,377.3**	489.3	**6,866.6**	*1,909.0*	*140.6*
	Net exposure	2,435.8	3,430.4	108.3	**5,974.5**	68,373.6	**74,348.1**	*2,630.3*	*1,649.8*
	Coverage ratio	*60.5%*	*43.3%*	*19.7%*	***51.6%***	*0.7%*	***8.5%***	*42.1%*	*7.9%*
	% on Loans to customers	*3.3%*	*4.6%*	*0.1%*	***8.0%***	*92.0%*	***100.0%***		

Capital adequacy

Regulatory capital and statutory requirements

Categories / Values	Risk Weighted Assets		Chg. 31 12 2018	
	31 12 2019	31 12 2018	Abs.	%
OWN FUNDS				
Common Equity Tier 1 (CET1)	7,933.5	7,736.0	197.5	2.55%
Tier 1 (T1)	7,933.5	7,736.0	197.5	2.55%
Tier 2 (T2)	1,119.1	819.2	299.9	n.s.
Total capital (TC)	**9,052.6**	**8,555.2**	**497.4**	**5.81%**
RISK ASSETS				
Credit and Counterparty Risk	37,683.1	36,755.1	928.0	2.52%
Credit valuation adjustment risk	134.9	168.1	(33.2)	-19.75%
Settlement risk	-	-	-	
Market risks	46.9	64.1	(17.2)	-26.79%
Operational risk	9,380.6	8,584.3	796.3	9.28%
Other prudential requirements	-	-	-	
Other calculation elements	-	-	-	
Risk-weighted assets	**47,245.5**	**45,571.6**	**1,673.9**	**3.67%**
CAPITAL RATIOS	**-**			
CET1 capital ratio	**16.79%**	**16.98%**	**-0.19%**	
Tier1 capital ratio	**16.79%**	**16.98%**	**-0.19%**	
Total capital ratio	**19.16%**	**18.77%**	**0.39%**	

Prospects and outlook on operations

Please refer to the paragraph of the same name in the Consolidated Report on Operations, the content and statements of which also apply to the Bank.

Annexes

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

Reconciliation between the reclassified income statement as at 31 December 2019 and related statutory accounts

Accounts in Reclassified Profit and Loss Statement - Montepaschi Bank	31/12/19	Accounts in the Profit and Loss Statement - Montepaschi Bank		31/12/19	Operating Reclassifications			31/12/19
Net interest income	1249.7	Interest income and similar revenues	Item 10	1,940.3	(+)	Economic effects from allocation of BAV acquisition costs to BMPS (PPA)		7.1
Net fee and commission income	1388.7	Fee and commission income	Item 40	1,578.1				0.0
Income from banking activities	**2638.4**			**2,631.3**				**7.1**
Dividends, similar income and gains (losses) on equity investments	69.4	Dividends and similar income	Item 70	69.4	(-)	Reclassification of dividends on treasury stock transactions	Item 70 - Partial	0.0
Net profit (loss) from trading and financial assets/liabilities measured at amortised cost and maesured at fair value through profit and loss	226.0	Net profit (loss) from trading	Item 80	51.5	(+)	Reclassification of dividends on treasury stock transactions	Item 70 - Partial	0.0
		Gains/losses on disposal/repurchase of:	Item 100	117.5				
		a) financial assets measured at amortised cost		58.6				
		b) financial assets measuerd at fair value through comprehensive income		52.5				
		c) financial liabilities		6.4				
		Net profit (loss) from financial assets and liabilities designated at fair value	Item 110	49.6				
		a) financial asset and liabilities measured at fair value		-11.2				
		b) other financial assets measured at fair value mandatory		60.8				
Net profit (loss) from hedging	-6.2	Net profit (loss) from hedging	Item 90	-6.2				
Other operating income (expenses)	-60.9	Other operating income (expenses)	Item 200	215.3	(-)	Recovery of stamp duty and customers' expenses	Item 200 - Partial	-276.2
Total Revenues	**2866.6**		0	**3,128.4**				**-261.8**
Administrative expenses:	-1974.7	Administrative expenses	Item 160	-2,374.6				0.0
a) personnel expenses	-1313.6	a) Personnel expenses	Item 160a	-1,291.9	(+)	Restructuring costs	Item 160a) - Partial	-21.7
b) other administrative expenses	-661.1	b) Other administrative expenses	Item 160b	-1,082.7	(+)	Reclassification provision to BRRD and DGSD funds	Item 160b - Partial	96.2
Net adjustments to (recoveries on) property, plant and equipment / Net adjustments to (recoveries on) intangible assets	-127.9	Net losses/reversal on impairment on property, plant and equipment	Item 180	-144.0		Real estate recovery		16.2
		Net adjustments to (recoveries on) intangible assets	Item 190	-10.8		Economic effects from allocation of BAV acquisition costs to BMPS (PPA)		10.7
Operating expenses	**-2102.5**			-2,529.4				426.8
Pre Provision Profit	**764.1**			**599.0**				**165.1**
Net impairment losses (reversals) on:	-627.1	Net impairment losses(reversals) on	Item 130	**-622.9**				**0.0**
a) financial assets measured at amortised cost	-621.5	a) financial assets measured at amortised cost	Item 130a	-617.3	(-)	Modification gains/(losses)	Item 140	-4.2
b) Financial assets measured at fair value through other comprehensive income	-5.6	b) financial assets measured at fair value through other comprehensive income	Item 130b	-5.6				
	0.0	Modification gains/(losses)	Item 140	-4.2	(+)	Modification gains/(losses)	Item 140	4.2
Net operating income	**137.0**			**-28.1**				**165.1**
Net provisions for risks and charges	**-69.4**	**Net provisions for risks and charges**	**Item 170**	**-69.4**				
a) financial guarantees and other commitments	86.6	a) financial guarantees and other commitments	Item 170a	86.6	(+)	Securitization, Recapitalization and Commitment Costs	Item 170a) - Partial	0.0
b) other provisions	-156.0	b) other provisions	Item 170b	-156.0	(+)	Securitization, Recapitalization and Commitment Costs	Item 170b) - Partial	0.0
Gains (losses) on investments	**-52.4**	**Gains (losses) on investments**	**Item 250**	**-52.4**				
Restructuring costs / One-off costs	17.7			0.0	(-)	Restructuring costs	Item 160b) and 170b	17.7
Risks and charges related to the SRF, DGS and similar schemes	-103.6			0.0	(-)	Provision to BRRD and DGSD funds	Item 160b - Partial	-103.6
DTA fee	-61.4			0.0	(-)	DTA fee	Item 160b - Partial	-61.4
Gains (losses) on disposal of investments	2.8	Gains (losses) on disposal of investments	Item 250	2.8				0.0
Profit (loss) before tax from continuing operations	**-129.3**			**-147.1**				**17.8**
Tax expense (recovery) on income from continuing operations	-1033.2	Tax expense (recovery) on income from continuing operations	Item 290	-1,027.3	(-)	Economic effects from allocation of BAV acquisition costs to BMPS (PPA)		-5.9
Profit (loss) after tax from continuing operations	**-1162.5**			**-1,174.4**				**11.9**
Profit (loss) after tax from groups of assets held for sale and discontinued operations	0.0	Net Gains (Losses) on discontinued operations		0.0				
Profit (loss) for the year before PPA	**-1162.5**			**-1,174.4**				**11.9**
PPA (Purchase Price Allocation)	-11.9			0.0	(-)	Economic effects from allocation of BAV acquisition costs to BMPS (PPA)		-11.9
Net profit (loss) for the year	**-1174.4**	**Net profit (loss) for the year**		**-1,174.4**		**Total**		**0.0**

Reconciliation between the reclassified income statement as at 31 December 2018 and related statutory accounts

Accounts in Reclassified Profit and Loss Statement Montepaschi Bank	31 12 2018*	Accounts in the Profit and Loss Statement Montepaschi Bank		31 12 2018*	Operating Reclassifications			31 12 2018*
Net interest income	1530.5	Interest income and similar revenues	Item 10	2186.6	(+)	Economic effects from allocation of BAV acquisition costs to BMPS (PPA)		8.6
		Interest expense and similar charges	Item 20	-664.7				
Net fee and commission income	1473.5	Fee and commission income	Item 40	1661.3				
		Fee and commission expense	Item 50	-187.8				
Income from banking activities	**3004.0**			**2995.4**				**8.6**
Dividends, similar income and gains (losses) on equity investments	99.2	Dividends and similar income	Item 70	99.3	(-)	Reclassification of dividends on treasury stock transactions	Item 70 - Partial	-0.1
Net profit (loss) from trading and financial assets/liabilities measured at amortised cost and maesured at fair value through profit and loss	-40.9	Net profit (loss) from trading	Item 80	32.3	(+)	Reclassification of dividends on treasury stock transactions	Item 70 - Partial	0.1
		Gains/losses on disposal/repurchase of:	Item 100	39.3				
		a) financial assets measured at amortised cost		4.3				
		b) financial assets measuerd at fair value through comprehensive income		24.5				
		c) financial liabilities		10.5				
		Net profit (loss) from financial assets and liabilities designated at fair value	Item 110	-112.6				
		a) financial asset and liabilities measured at fair value		4.0				
		b) other financial assets measured at fair value mandatory		-116.6				
Net profit (loss) from hedging	-17.0	Net profit (loss) from hedging	Item 90	-17.0				
Other operating income (expenses)	-31.5	Other income/expenses (net) from insurance activities	Item 230	247.1	(-)	Recovery of stamp duty and customers' expenses	Item 200 - Partial	-278.6
Total Revenues	**3013.8**			**3283.8**				**-270.0**
Administrative expenses:	-2139.0	Administrative expenses	Item 190	-2717.9				0.0
a) personnel expenses	-1336.6	a) Personnel expenses	Item 190a	-1452.6	(+)	Restructuring costs	Item 160a)- Partial	116.0
b) other administrative expenses	-802.3	b) Other administrative expenses	Item 190b	-1265.3	(+)	Reclassification provision to BRRD and DGSD funds	Item 160b - Partial	108.3
					(+)	Recovery of stamp duty and customers' expenses	Item 200b - Partial	278.6
					(+)	Cost for securitizations, recapitalization and Commitment	Item 160b)- Partial	14.4
					(+)	DTA Fess	Item 160b - Partial	61.7
Net adjustments to (recoveries on) property, plant and equipment / Net adjustments to (recoveries on) intangible assets	-76.3	Net losses/reversal on impairment on property, plant and equipment	Item 180	-76.2				
	0.0	Net adjustments to (recoveries on) intangible assets	Item 190	-24.7	(+)	Economic effects from allocation of BAV acquisition costs to BMPS (PPA)		24.6
Operating expenses	**-2215.3**			**-2818.8**				**603.5**
Pre Provision Profit	**798.5**			**465.0**				**333.5**
Net impairment losses (reversals) on:	-562.5	Net impairment losses(reversals) on	Item 130	-554.3				
a) financial assets measured at amortised cost	-567.6	a) financial assets measured at amortised cost	Item 130a	-559.4	(-)	Modification gains/losses	Item 140	-8.2
b) Financial assets measured at fair value through other comprehensive income	5.1	b) financial assets measured at fair value through other comprehensive income	Item 130b	5.1				
		Modifications gains/losses	Item 140	-8.2	(+)	Modification gains/losses	item 140	8.2
Net operating income	**236.0**			**-97.5**				**333.5**
Net provisions for risks and charges	-70.5	Net provisions for risks and charges	Item 170	-75.7				
a) financial guarantees and other commitments	8.1	a) financial guarantees and other commitments	Item 170a	2.9	(+)	Cost for securitizations, recapitalization and Commitment	Item 170a)-Partial	5.2
b) other provisions	-78.6	b) other provisions	item 170b	-78.6	(+)	Cost for securitizations, recapitalization and Commitment	Item 170b)-Partial	
Gains (losses) on investments	-333.8	Gains (losses) on investments	Item 220	-333.8				
Restructuring costs / One-off costs	-135.6				(-)	Restructuring costs	Item 160a-170b - Partial	-135.6
Risks and charges related to the SRF, DGS and similar schemes	-108.3				(-)	Provision to BRRD and DGSD funds	Item 160b - Partial	-108.3
DTA Fee	-61.7				(-)	DTA Fee	Item 160b - Partial	-61.7
Gains (losses) on disposal of investments	0.5	Gains (losses) on disposal of investments	Item 250	0.5				0.0
Profit (loss) before tax from continuing operations	**-473.4**			**-506.6**				**33.2**
Tax expense (recovery) on income from continuing operations	383.7	Tax expense (recovery) on income from continuing operations	Item 2700	394.7	(-)	Economic effects from allocation of BAV acquisition costs to BMPS (PPA)		-11.0
Profit (loss) after tax from continuing operations	**-89.7**			**-111.9**				**22.2**
Profit (loss) after tax from groups of assets held for sale and discontinued operations	-89.7	Net Gains (Losses) on discontinued operations	Item 290	0.0				
Profit (loss) for the year before PPA	**-89.7**			**-111.9**				**22.2**
PPA (Purchase Price Allocation)	-22.2				(-)	Economic effects from allocation of BAV acquisition costs to BMPS (PPA)		-22.2
Net profit (loss) for the year	**-111.9**	**Net profit (loss) for the year**		**-111.9**		**Total**		**0.0**

**The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 16.*

Reconciliation between the reclassified balance sheet and related statutory accounts

Balance-sheet Items - Assets	31 12 2019	31 12 2018*	Reclassified balance-sheet items - Assets
	830.1	**934.3**	**Cash and cash equivalents**
Item 10 – Cash and cash equivalents	830.1	934.3	
Financial assets measured at amortised cost:			**Receivables**
	74,890.1	**72,766.5**	**a) Loans to customers**
Item 40 – Loans to customers	74,890.1	72,766.5	
	32,146.4	**28,836.8**	**b) Loans to banks**
Item 40 – Loans to banks	32,146.4	28,836.8	
	7,908.2	**13,085.3**	**Financial assets measuerd at fair value**
Item 20 – Financial assets measured at fair value through profit and loss	1,343.9	2,552.1	
Item 30 – Financial assets measured at fair value through other comprehensive income	6,564.3	10,533.2	
	2,763.2	**2,653.3**	**Equity investments**
Item 70 – Equity investments	2,763.2	2,653.3	
	2,534.4	**1,040.3**	**Property, plant and equipment / Intangible assets**
Item 80 – Property, plant and equipment	2,531.2	1,026.3	
Item 90 – Intangible assets	3.2	14.0	
	4,503.6	**5,541.1**	**Other assets**
Item 50 – Hedging Derivatives	71.4	257.7	
Item 60 – Change in value of macro-hedged financial assets (+/-)	617.3	165.7	
Item 100 – Tax assets	2,101.7	3,319.2	
Item 110 – Non-current assets held for sale and discontinued operations	75.2	71.7	
Item 120 – Other assets	1,638.0	1,726.8	
Total Assets	**125,576.0**	**124,857.6**	**Total Assets**

**The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 16.*

Balance-sheet Items - Liabilities	31 12 2019	31 12 2018*	Reclassified balance-sheet items - Liabilities
			Payables
	83,703.8	**82,040.5**	**a) Deposits from customers and securities issued**
Item10 – Deposits from customers	67,053.6	68,343.9	
Item 10 – Debt securities issued	16,277.4	13,326.4	
Item 30 – Financial liabilities designated at fair value	372.8	370.2	
	28,030.6	**28,063.4**	**b) Deposits from banks**
Item 10 – Deposits from banks	28,030.6	28,063.4	
	583.5	**623.0**	**Financial liabilities held for trading**
Item 40 – Financial liabilities held for trading	583.5	623.0	
		-	**Provisions for specific use**
Item 90 – Provision for employee severance pay	172.8	185.5	a) Provision for employee severance pay
Item 100 - Provisions for risks and charges - a) financial guarantees and other commitments	156.9	243.5	b) Provision for pension
Item 100 - Provisions for risks and charges - a) pension and similar obligations	32.1		
Item 100 - Provisions for risks and charges - b) other provisions	929.3	1,108.0	c) Other provisions
	4,389.3	**4,248.2**	**Other liabilities**
Item 40 – Hedging Derivatives	1,315.9	907.6	
Item 50 – Change in value of macro-hedged financial liabilities (+/-)	31.4	18.1	
Item 60 – Tax liabilities	0.3	-	
Item 70 – Liabilities associated to disposal groups held for sale	-	-	
Item 80 – Other liabilities	3,041.7	3,322.5	
	7,577.7	**8,312.1**	**Bank net equity**
Item 110 – Valuation reserves	(28.4)	(276.9)	a) Valuation reserves
Item 140 – Reserves	(1,362.0)	(1,441.7)	d) Reserves
Item 150 – Share premium reserve	-	-	e) Share premium reserve
Item 160 – Share Capital	10,328.6	10,328.6	f) Share Capital
Item 170 – Share premium reserve	-	-	e) Share premium reserves
Item 180 – Profit (loss) for the year (+/-)	(1,174.5)	(111.9)	h) Profit (loss) for the year
Total liabilities and shareholders' equity	**125,576.0**	**124,857.6**	**Total liabilities and shareholders' equity**

**The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 16.*

SEPARATE FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

Balance Sheet

(euro unit)

	Assets	31 12 2019	31 12 2018*
10.	Cash and cash equivalents	830,134,881	934,343,468
20.	Financial assets measured at fair value through profit and loss	1,343,880,429	2,552,063,507
	a) financial assets held for trading	680,150,203	800,567,990
	c) other financial assets measured at fair value mandatory	663,730,226	1,751,495,516
30.	Financial assets measured at fair value through other comprehensive income	6,564,298,174	10,533,159,628
40.	Financial assets measured at amortised cost	107,036,499,311	101,603,299,471
	a) Loans to banks	32,146,409,597	28,836,807,852
	b) Loans to customers	74,890,089,714	72,766,491,619
50.	Hedging derivatives	71,391,521	257,675,737
60.	Change in value of macro-hedged financial assets (+/-)	617,259,653	165,689,537
70.	Equity investments	2,763,249,390	2,653,300,592
80.	Property, plant and equipment	2,531,178,213	1,026,254,912
90.	Intangible assets	3,180,618	13,991,121
100.	Tax assets	2,101,675,899	3,319,249,166
	a) current	576,055,810	583,878,179
	b) deferred	1,525,620,089	2,735,370,987
110.	Non-current assets and groups of assets held for sale and discontinued operations	75,232,663	71,682,737
120.	Other assets	1,637,985,422	1,726,899,432
	Tatal assets	**125,575,966,174**	**124,857,609,308**

** The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 16.*

continued: **Balance Sheet**

(euro unit)

Total Liabilities and Shareholders' Equity		31 12 2019	31 12 2018*
10.	Financial liabilities measured at amortised cost	111,361,586,334	109,733,724,900
	a) loans to banks	28,030,615,350	28,063,446,258
	b) loans to customers	67,053,575,991	68,343,924,860
	c) debts securities issued	16,277,394,993	13,326,353,782
20.	Financial liabilities held for trading	583,506,664	623,032,334
30.	Financial liabilities designated at fair value	372,836,995	370,199,542
40.	Hedging derivatives	1,315,904,617	907,617,281
50.	Fair value change of financial liabilities in hedged portfolio (+/-)	31,390,345	18,145,090
60.	Tax liabilities	303,939	-
	a) current	303,939	-
80.	Other liabilities	3,041,615,605	3,322,426,667
90.	Provision for employees severance pay	172,756,088	185,483,335
100.	Provisions for risks and charges:	1,118,333,376	1,384,836,669
	a) financial guarantees and other commitments	156,891,174	243,454,586
	b) post-employment benefits	32,093,170	33,392,233
	c) other provisions	929,349,031	1,107,989,850
110.	Valuation reserves	(28,398,878)	(276,918,630)
140.	Reserves	(1,361,989,957)	(1,441,676,532)
160.	Share capital	10,328,618,260	10,328,618,260
170.	Treasury shares (-)	(185,957,994)	(185,957,994)
180.	Profit (loss) (+/-)	(1,174,539,220)	(111,921,614)
	Total Liabilities and Shareholders' Equity	**125,575,966,174**	**124,857,609,308**

** The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 16.*

Income Statement

(euro unit)

Items		31 12 2019	31 12 2018*
10.	Interest income and similar revenues	1,940,270,072	2,186,632,336
	of which interest income calculated applying the effective interest rate method	*1,917,374,319*	*2,101,311,797*
20.	Interest expense and similar charges	(697,741,760)	(664,705,411)
30.	**Net interest income**	**1,242,528,312**	**1,521,926,925**
40.	Fee and commission income	1,578,140,576	1,661,259,978
50.	Fee and commission expense	(189,445,203)	(187,843,875)
60.	**Net fee and commission income**	**1,388,695,373**	**1,473,416,103**
70.	Dividends and similar income	69,404,846	99,282,738
80.	Net profit (loss) from trading	51,519,000	32,296,958
90.	Net profit (loss) from hedging	(6,205,763)	(16,999,867)
100.	Gains/(losses) on disposal/repurchase of:	117,456,137	39,305,237
	a) financial assets measured at amortised cost	*58,619,728*	*4,331,226*
	b) Financial assets measured at fair value through other comprehensive income	*52,450,793*	*24,502,652*
	c) financial liabilities	*6,385,616*	*10,471,359*
110.	Net profit (loss) form financial assets and liabilities measured at fair value through other comprehensive income	49,579,057	(112,641,530)
	a) financial assets and liabilities measured at fair value	*(11,201,079)*	*3,958,608*
	b) other financial assets mandatorily at fair value through profit or loss	*60,780,136*	*(116,600,138)*
120.	**Net interest and other banking income**	**2,912,976,962**	**3,036,586,564**
130.	Net impairment (losses)/reversals on	(622,894,380)	(554,325,478)
	a) financial assets measured at amortised cost	(617,309,315)	(559,426,018)
	b) financial assets measured at fair value through other comprehensive income	(5,585,065)	5,100,540
140.	Modification gains/(losses)	(4,226,664)	(8,184,379)
150.	**Net income from banking activities**	**2,285,855,918**	**2,474,076,707**
160.	Administrative expenses:	(2,374,587,986)	(2,717,915,547)
	a) personnel expenses	*(1,291,894,883)*	*(1,452,567,532)*
	b) other administrative expenses	*(1,082,693,103)*	*(1,265,348,015)*
170.	Net provision for risks and charges:	(69,444,279)	(75,699,768)
	a) commitments and guarantees issued	*86,563,412*	*2,891,057*
	b) other net provisions	*(156,007,691)*	*(78,590,825)*
180.	Net adjustments to/recoveries on property, plant and equipment	(143,964,972)	(76,224,401)
190.	Net adjustments to/recoveries on intangible assets	(10,822,208)	(24,672,423)
200.	Other operating expenses/income	215,294,166	247,059,078
210.	**Operating expenses**	(2,383,525,279)	**(2,647,453,061)**
220.	Gains (losses) on investments	(52,380,641)	(333,753,633)
250.	Gains (losses) on disposal of investments	2,827,100	482,430
260.	**Profit (loss) before tax from continuing operations**	(147,222,902)	**(506,647,557)**
270.	Tax (expense)/recovery on income from continuing operations	(1,027,316,318)	394,725,943
280.	**Profit (loss) after tax from continuing operations**	(1,174,539,220)	(111,921,614)
300.	**Profit (loss)**	**(1,174,539,220)**	**(111,921,614)**

** The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 16.*

Statement of Comprehensive Income

(euro unit)

	Items	31 12 2019	31 12 2018
10.	**Profit (loss)**	**(1,174,539,220)**	**(111,921,614)**
	Other comprehensive income after tax not recycled to profit and loss	**(385,126)**	**19,140,628**
20.	Equity instruments measured at fair value through other comprehensive income	9,611,450	7,100,916
30.	Financial liabilities measured at fair value through other comprehensive income	(4,128,882)	6,332,985
70.	Actuarial gains (losses) on defined benefit plans	(5,867,694)	5,706,727
	Other comprehensive income after tax recycled to profit and loss	**248,904,879**	**(230,915,535)**
110.	Exchange differences	(2,177,770)	2,887,515
120.	Cash flow hedges	106,857,274	(17,402,286)
140.	Fair value changes of debt instruments measured at fair value through other comprehensive income	144,225,375	(216,400,764)
170.	**Total other comprehensive income after tax**	**248,519,753**	**(211,774,907)**
180.	**Total comprehensive income (Item 10+170)**	**(926,019,467)**	**(323,696,521)**

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Statement of changes in equity - 2019

	Balance as at 31 12 2018	Change in opening balances	Balance as at 01 01 2019	Allocation of profit from prior year		Changes during the year									Total equity as at 31 12 2019
							Shareolders'equity transactions								
				Reserves	Dividends and other payout	Changes in reserves	Issue of new share	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Treasury shares derivatives	Stock options	Changes in equity investments	Total comprehensive income for 31 12 2019	
Share capital:	10,328,618,260	-	10,328,618,260	-	-	-	-	-	-	-	-	-	-	-	10,328,618,260
a) ordinary shares	10,328,618,260	-	10,328,618,260	-	-	-	-	-	-	-	-	-	-	-	10,328,618,260
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reserves:	(1,441,676,532)	-	(1,441,676,532)	(111,921,614)	-	191,608,189	-	-	-	-	-	-	-	-	(1,361,989,957)
a) from profits	(1,359,980,352)	-	(1,359,980,352)	(111,921,614)	-	(14,965,193)	-	-	-	-	-	-	-	-	(1,486,867,159)
b) other	(81,696,180)	-	(81,696,180)	-	-	206,573,382	-	-	-	-	-	-	-	-	124,877,202
Valuation reserves	(276,918,630)	-	(276,918,630)	-	-	-	-	-	-	-	-	-	-	248,519,753	(28,398,877)
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	(185,957,994)	-	(185,957,994)	-	-	-	-	-	-	-	-	-	-	-	(185,957,994)
Net profit (loss)	(111,921,614)	-	(111,921,614)	111,921,614	-	-	-	-	-	-	-	-	-	(1,174,539,220)	(1,174,539,220)
Total equity	8,312,143,490	-	8,312,143,490	-	-	191,608,189	-	-	-	-	-	-	-	(926,019,467)	7,577,732,212

As at 31 December 2019, the Bank's net equity amounts to EUR 7,577.7 mln, as compared to EUR 8,312.1 mln as at 31 December 2018, with a total net decrease of EUR 734.4 mln.

The most significant phenomena impacting net equity, in addition to the EUR 1,174.5 mln loss for the year, were:

1. the "Changes in reserve" column includes:
   a. "Reserves a) from profits", amounting to EUR 15.0 mln, the reversal of the negative OCI reserve due to the sale of certain securities;
   b. "Reserves - b) other", equal to EUR 206.6 mln:
      - the reclassification from financial liabilities at amortised cost of EUR 76 mln referring to the indemnity issued to the Bank of New York on 10 March 2009, as the ten-year term had been completed;
      - the amount of EUR 130.6 mln due to the effects of the extraordinary transaction (business combination under common control) concluded in May 2019 and relating to the merger by incorporation of the subsidiary Perimetro Gestione Proprietà Immobiliari S.p.A.

2. valuation reserves posted a total increase of EUR 248.5 mln (the detailed components of which are shown in the statement of comprehensive income), almost fully attributable to debt securities measured at fair value through other comprehensive income, essentially due to the trends in the spread on Italian government securities.

Statement of changes in equity - 2018

	Balance as at 31 12 2017	Change in opening balances	Balance as at 01 01 2018	Allocation of profit from prior year		Changes during the year									Total equity as at 31 12 2018
							Shareolders'equity transactions								
				Reserves	Dividends and other payout	Changes in reserves	Issue of new share	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Treasury shares derivatives	Stock options	Changes in equity investments	Total comprehensive income for 31 12 2018	
Share capital:	10,328,618,260	-	10,328,618,260	-	-	-	-	-	-	-	-	-	-	-	10,328,618,260
a) ordinary shares	10,328,618,260	-	10,328,618,260	-	-	-	-	-	-	-	-	-	-	-	10,328,618,260
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reserves:	2,423,788,969	(978,422,817)	1,445,366,152	(2,857,440,195)	-	(29,602,489)	-	-	-	-	-	-	-	-	(1,441,676,532)
a) from profits	(3,730,254)	(978,422,817)	(982,153,071)	(351,409,271)	-	(26,418,010)	-	-	-	-	-	-	-	-	(1,359,980,352)
b) other	2,427,519,223	-	2,427,519,223	-2,506,030,924	-	(3,184,479)	-	-	-	-	-	-	-	-	(81,696,180)
Valuation reserves	(61,469,886)	-3,673,837	(65,143,723)	-	-	-	-	-	-	-	-	-	-	(211,774,907)	(276,918,630)
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	(185,957,994)	-	(185,957,994)	-	-	-	-	-	-	-	-	-	-	-	(185,957,994)
Net profit (loss)	(2,857,440,195)	-	(2,857,440,195)	2,857,440,195	-	-	-	-	-	-	-	-	-	(111,921,614)	(111,921,614)
Total equity	9,647,539,154	(982,096,654)	8,665,442,500	-	-	(29,602,489)	-	-	-	-	-	-	-	(323,696,521)	8,312,143,490

**The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9.*

As at 31 December 2018, the Bank's net equity amounted to EUR 8,312.1 mln, as compared to EUR 9,647.5 mln as at 31 December 2017, with a total net decrease of EUR 1,335.4 mln.

Note that the column "Changes in opening balances" represents the effects of First-Time Adoption (FTA) in applying the IFRS 9 and IFRS 15 accounting standards, as described in further detail in section 2 "General accounting standards" of the Notes to the financial statements, under the chapters "Disclosure on first-time adoption of IFRS 15 'Revenue from Contracts with Customers'" and "Disclosure on first-time adoption of IFRS 9 'Financial Instruments'".

The most significant phenomena impacting net equity, in addition to the EUR 111.9 mln loss for the year, were:

1. in the column "Changes in reserves", the item "Reserves a) from profits" includes the reversal of the OCI reserve due to the sale of certain securities, totalling EUR 26.4 mln;

2. "Valuation reserves" show an overall negative change amounting to EUR 211.8 mln, the details of which are available in the statement of comprehensive income.

Cash Flow Statement - indirect method

(euro unit)

A. OPERATING ACTIVITIES	31 12 2019	31 12 2018*
1. Cash flow from operations	**872,494,153**	**774,554,268**
profit (loss) (+/-)	(1,174,539,220)	(111,921,614)
capital gains/losses on financial assets held for trading and on assets/liabilities designated at fair value (+/-)	(37,393,021)	108,976,603
net profit (loss) from hedging	6,205,763	16,999,867
net impairment losses/reversals	772,845,825	843,964,500
net losses/reversal on impairment on property, plant and equipment and on intangible assets (+/-)	154,787,180	104,027,667
net provisions for risks and charges and other costs/revenues (+/-)	77,883,196	360,474,460
tax espense (recovery) on income from continuing operations	1,027,316,318	(394,067,648)
other adjustments	45,388,112	(153,899,567)
2. Cash flow from (used in) financial assets	**(715,635,330)**	**271,096,380**
financial assets held for trading	101,147,474	83,293,070
other financial assets measured at fair value mandatory	1,156,440,746	(619,488,375)
Financial assets measured at fair value through other comprehensive income	4,229,633,712	3,280,729,842
Financial assets measured at amortised cost	(6,368,215,257)	(3,445,010,512)
other assets	165,357,995	971,572,355
3. Cash flow from (used in) financial liabilities	**(307,801,108)**	**(4,305,566,885)**
Financial liabilities measured at amortised cost	1,891,197,714	(3,606,978,642)
Financial liabilities held for trading	(39,525,670)	(179,474,352)
Financial liabilities designated at fair value	(15,292,087)	(45,015,871)
other liabilities	(2,144,181,065)	(474,098,020)
Net cash flow from (used in) operating activities	**(150,942,285)**	**(3,259,916,237)**
B. INVESTMENT ACTIVITIES		
1. Cash flow from	**115,551,464**	**158,455,847**
sales of equity investments	43,508,000	55,815,909
dividends collected on equity investments	59,886,050	89,239,823
sales of property, plant and equipment	12,157,414	13,400,115
sales of subsidiaries and undertakings	-	-
2. Cash flow used in	**(68,817,764)**	**(48,144,550)**
purchase of equity investments	(46,575)	-
purchase of property, plant and equipment	(68,771,189)	(48,144,550)
Net cash flow from (used in) investment activities	**46,733,700**	**110,311,297**
C. FUNDING ACTIVITIES		
issue/purchase of treasury shares	-	-
dividend distribution and other	-	-
Net cash flow from (used in) funding activities	**-**	**-**
NET CASH FLOW FROM (USED IN) OPERATING, INVESTMENT AND FUNDING ACTIVITIES DURING THE YEAR	**(104,208,585)**	**(3,149,604,940)**

Reconciliation

Accounts	31 12 2018	31 12 2018*
Cash and cash equivalents at beginning of period	934,343,468	4,083,948,406
Net increase (decrease) in cash and cash equivalents	(104,208,585)	(3,149,604,938)
Cash and cash equivalents: foreign exchange effects	-	-
Cash and cash equivalents at end of period	830,134,883	934,343,468

** The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 16.*

For further information on the net cash flow generated/absorbed during the year, please refer to the section "Liquidity Risk" in Part E "Information on risks and hedging policies".

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

Part A - Accounting policies

A.1 - General

Section 1 - Statement of compliance with international accounting principles

Pursuant to Legislative Decree no. 38 of 28 February 2005, these separate financial statements were prepared in accordance with the international accounting principles issued by the International Accounting Standards Board (IASB) including interpretations by the IFRS Interpretations Committee, as endorsed by the European Commission, pursuant to EC Regulation no. 1606 of 19 July 2002 which was effective as at 31 December 2019.

The international accounting principles were applied following the indications set forth in the "Framework for the preparation and presentation of financial statements" (the Framework).

For an overview of the standards endorsed during 2019 or those endorsed in previous years, whose application is scheduled for 2019 (or future years), please refer to "Section 5 - Other Aspects" below, which also describes the main impacts for the Bank.

All information required by the international accounting standards and Supervisory Authorities (Bank of Italy, Consob and ESMA) have been provided in the report on operations and the notes to the financial statements, in addition to other non-mandatory information deemed necessary to provide a true and fair, relevant, reliable, comparable and meaningful view of the Bank's performance.

Section 2 - General accounting standards

The Separate Financial Statements consist of the balance sheet, income statement, statement of comprehensive income, statement of changes in equity, and the notes to the separate financial statements, and is accompanied by the directors' report on operations, financial results achieved, and the Bank's financial situation.

The Separate Financial Statements as at 31 December 2019 have been prepared based on the provisions contained in Circular no. 262 of 22 December 2005 issued by the Bank of Italy "Bank financial statements: layout and rules for compilation", as amended by the sixth update of 30 November 2018.

The Financial Statements have been prepared based on a going concern assumption, according to the generally accepted principles of accrual accounting, relevance and materiality of information, priority of substance over form and with a view to encouraging consistency with future statements.

The Separate Financial Statements are prepared with transparency and provide a true and fair view of the balance sheet, financial position and income statement for the year, the changes in shareholders' equity and cash flows.

If the information required by international accounting standards and provisions contained in aforementioned circular were deemed insufficient for providing a true and fair representation, the notes to the financial statements contain supplemental information necessary for that purpose.

If - in exceptional cases - the application of a provision set forth in the international accounting standards proved to be incompatible with a true and fair view of the Group's financial situation, then such provision would not be applied. The reasons for deviation and its impact on the representation of the financial situation would, in such a case, be explained in the notes to the financial statements.

Each item in the balance sheet, income statement and statement of comprehensive income also indicates the amount for the prior year, unless an accounting standard or interpretation allows or provides otherwise. The latter circumstance occurred upon first-time adoption of the IFRS 16 accounting standard; in particular, the Bank chose the option of applying the standard according to the modified retrospective option, on the basis of which the comparative information does not have to be restated for the 2018 financial statements. Therefore, with specific reference to lease contracts, the balance sheet and income statement balances of the line items for the previous year, drafted in compliance with the previously applicable IAS 17 standard (that is, the accounting standard in effect as at 31 December 2018 and used to prepare the related financial statements, to which reference should be made), are not entirely comparable with those line items as at 31 December 2019. Note that, upon first-time adoption of IFRS 16, an increase in balance sheet assets and liabilities of EUR 269.0 mln was recognised, while there was no impact on the opening balances of shareholders' equity at 1 January 2019.

The chapter "Transition to the new IFRS 16" contains the reconciliation schedules that provide details of the reconciliation between the balance sheet balances as at 31 December 2018 (pursuant to IAS 17) and the balances as at 1 January 2019 (pursuant to IFRS 16) as well as the reconciliation of the scope of future commitments for leases pursuant to IAS 17 with the lease liabilities recognised in the financial statements pursuant to IFRS 16 as at 1 January 2019.

Assets and liabilities, expenses and income cannot be mutually offset, unless this is permitted or required by the international accounting standards or the provisions set forth in Circular no. 262 of the Bank of Italy.

The balance sheet, income statement, and statement of comprehensive income do not include items which did not have balances for the reference year or prior year. If an item of the assets or liabilities is part of several items of the balance sheet, the notes to the financial statements indicate - whenever this is necessary for the purpose of intelligibility - that this component may also be referred to items other than the one it is posted to.

Revenue is posted with no sign in the income statement, statement of comprehensive income, and the respective section of the notes, whereas expenses are indicated in brackets.

The statement of comprehensive income, beginning with profit (loss) for the year, shows the income items recognised as contra-entries of valuation reserves, net of the related tax effect, in compliance with international accounting standards. Consolidated comprehensive income is shown by separating income items that will not be transferred to the income statement in the future and those that may be subsequently classified to profit and loss when specific conditions are met.

The statement of changes in equity shows the breakdown and changes in net equity accounts during the year and the previous year, broken down between share capital (ordinary shares), capital reserves, profit reserves and reserves from the valuation of assets or liabilities, equity instruments and profit and loss. Treasury shares in the portfolio are deducted from equity.

The cash flow statement has been prepared according to the indirect method, based on which cash flows from operations are represented by the income for the year adjusted to take into account the effects of non-monetary transactions. Cash flows are broken down amongst those deriving from operations, those deriving from investment activities and those generated by funding activities. In the statement, cash flows generated during the year have no sign, while those absorbed are shown between brackets.

In compliance with the provisions of art. 5 of Legislative Decree no. 38 of 28 February 2005, the financial statements have been prepared using the Euro as the accounting currency: the financial statements are denominated in Euro units and the notes are denominated in thousands of Euro.

Items of a different nature or with different allocation were recognised separately, unless they were considered irrelevant. All amounts shown in the financial statements were adjusted so as to reflect any events subsequent to the date of closing for which an adjustment is mandatory, according to IAS 10 (adjusting events). Non-adjusting events reflecting circumstances that occurred after the reporting date are disclosed as part of the notes to the financial statements, Part A, Section 4, if they are material and may affect the ability of users to make proper evaluations and decisions.

Transition to the new IFRS 16

Foreword

The international accounting standard IFRS 16 “Leases” was published by the IASB on 13 January 2016, and was approved at EU level, through the publication in the Official Journal of the European Union of Regulation (EU) no. 2017/1986 of 9 November 2017. Starting from 1 January 2019, the standard shall replace the pre-existing suite of accounting standards and interpretations regarding lease contracts:

- IAS 17 “Leases”;
- IFRIC 4 “Determining Whether an Arrangement Contains a Lease”;
- SIC 15 “Operating Leases - Incentives”;
- SIC 27 “Evaluating the Substance of Transactions in the Legal Form of a Lease”.

That section has been drawn up to illustrate the process of transition from the international accounting standard IAS 17 “Leases” and its interpretations, whose provisions were applied up to 31 December 2018, to the international accounting standard IFRS 16.

Regulatory provisions

IFRS 16 provides a new definition of lease based on control (right of use) of an identified asset (underlying) for a fixed period of time in exchange for consideration, establishing the following discriminating factors: identification of the asset, lack of entitlement of the lessor to replace the asset, the right to substantially obtain all economic benefits originating from the use of the asset and the right to direct the use of the asset underlying the agreement.

In addition to lease contracts termed as such, this category includes, for example, rental, lease and gratuitous lease contracts for valuable consideration.

Exclusions from the standard’s scope of application include:

- intellectual property licenses granted by the lessor pursuant to IFRS 15 “Revenue from Contracts with Customers”;
- rights held by the lessee as a result of licensing agreements pursuant to IAS 38 “Intangible Assets”.

For a contract that contains a lease component and additional non-lease components (such as, in the case of leasing an asset and providing maintenance service), the standard provides for separate accounting for each lease component in relation to the non-lease components. Therefore, the compensation due must be allocated to the various components based on the relative stand-alone prices, following the IFRS 15 approach for service contracts. Nonetheless, in the cases where it is not easy to separate the non-lease components from the lease components, as a practical expedient, a lessee can still choose, for each class of underlying asset, not to separate them and to account for all components as a lease.

The standard introduces for the lessee a single model for recording lease contracts in financial statements, regardless of whether they are operating or finance leases, generally requiring the recognition of the following in the balance sheet liabilities and assets, respectively:

- a right of use (for the asset, hereinafter “RoU”), equivalent to the lease liability plus initial direct costs and estimated dismantling costs, net of incentives,
- a lease liability, equivalent to the present value of future payments, calculated using the discount rate defined at the commencement date of the lease contract.

The lessee must assess the assets comprising the RoU by applying the cost model. The income statement is essentially impacted by the amortisation charge for the right of use, recognised under operating expenses, and for interest accrued on the lease liability, recognised in net interest income.

The exceptions to those rules are represented by short-term leases, with a contractual duration equal to or less than 12 months, and leases where the underlying asset is a low value asset, for which it is possible to essentially maintain the accounting treatment envisaged by IAS 17 for operating leases, with the lease payments charged to the income statement in compliance with the accrual principle.

For the lessor, the new provisions substantially confirm the accounting treatment of the lease envisaged by IAS 17, maintaining the distinction between finance leases and operating leases.

The plan for transition to IFRS 16

During 2018, the Bank carried out a specific project to analyse the scope of the contracts to be subjected to the regulations of IFRS 16, to define their accounting treatment - on first-time adoption and full implementation - as well as to identify the necessary IT and organisational measures to be implemented. The project, headed by the Reporting function, was participated in by the company structures involved, for various reasons, in managing the contracts, defining the company processes and selecting IT solutions.

Specifically, regarding the aspect of the project concerning the management of contracts, actions focused on defining and recognising the scope of the contracts containing a lease component and defining and locating the set of information necessary to calculate the right of use and the related liability.

With regard to company processes, the introduction of IFRS 16 required the revision of expenditure management (accounts payable), to ensure i) correct identification of lease contracts at the time they are entered into, ii) correct input of the necessary information by the IT procedure assigned to calculate the right of use and the related liability and, lastly, iii) correct management of accounting for the invoices received based on the new accounting rules.

Application decisions made by the Bank

For the first-time adoption of IFRS 16, the Bank made the following planning decisions:

- not to exercise the right to apply grandfathering, resulting in the redetermination of the scope of the lease transactions to be subjected to the new standard;
- to recognise the effects of the initial application of the standard in accordance with the modified retrospective option permitted by the temporary provisions contained in paragraphs C5(b) and C8(b)(ii) of said standard, therefore, not recognising the effects of applying the standard retrospectively in application of IAS 8. Based on that approach:
  - the right of use is set as equal to the lease liability, i.e., equal to the present value of remaining lease payments for the expected duration of the lease and attributable to the lease component, net of VAT, discounted at the incremental borrowing rate at the date of first-time adoption;
  - the comparative data from the 2018 financial statements do not have to be recalculated;
- lease contracts on intangible assets are not subject to the standard, pursuant to IFRS 16.4;
- the scope of application of IFRS 16 does not apply to software programs based on the requirements of the standard and the IFRIC clarifications ("Cloud Computing Arrangements" document of September 2018).

Moreover, the rules and practical expedients used by the Bank during the transition for contracts classified as operating leases in accordance with IAS 17 are summarised below:

- for lessees, applying the modified retrospective option that does not entail the restatement of 2018 comparative data, the right of use value is calculated as the value of the lease liability adjusted for the amount of any accrued or deferred income relative to the lease;

- the low-value contract exemption (the value identified is consistent with the limit of EUR 5 thousand set out in IFRS 16) was applied on a lease-by-lease basis. In particular, this includes mobile telephones that are not owned;

- the short-term contract exemption was applied to contracts that expire within 12 months of the date of initial application. Specifically, these contracts include property with natural expiry (including the first renewal) by 31 December 2019 or with an expected release date within said term;

- the practical expedient not to separate service components from lease components was not applied, and thus, the entire contract was not accounted for as a lease;

- for the recognition and measurement of the lease liability as at 1 January 2019:

  - the discount rate used was defined, by applying the standard's practical expedient, as the range of values of the incremental borrowing rate based on the contract's duration as at 1 January 2019. The incremental borrowing rate was calculated as the weighted average of the funding curves plus a base rate linked to funding for corresponding durations;

  - the duration of the lease was determined by applying the principle of reasonable certainty. Specifically, the Group decided to consider, at the date of first-time adoption (and on full implementation for new contracts) only the initial renewal period as reasonably certain, unless there are specific contractual clauses, facts or circumstances that suggest the termination of the lease or additional renewals.

Impacts of first-time adoption of IFRS 16

The provisions introduced by IFRS 16 entailed, upon first-time adoption, the recognition of the rights of use and the corresponding financial liabilities for property leases and car rental contracts. For those categories of contracts, the non-lease component is separated out and its accounting recognition is subject to the provisions of IFRS 15.

With regard to the discounting rate, as shown above, the lease liabilities were discounted at the rate as at 1 January 2019, referring to the maturity of the individual contracts. Specifically, the weighted average of the weighted marginal borrowing rate of the lessee applied to the lease liabilities recognised in the statement of financial position at the date of first-time adoption amounts to 2.80%.

The quantitative effects recorded upon first-time adoption of the standard as at 1 January 2019, are almost fully attributable to the property lease contracts, and arose at Bank level, resulting in an increase in balance sheet assets and liabilities of EUR 269.0 mln, on the whole not significant with respect to either total assets/liabilities or CET1.

Therefore, on the basis of what is described above, at the transition date, there was no impact on the book value of shareholders' equity. Specifically, starting from 1 January 2019, the new accounting standard resulted in an increase in assets recognised in the financial statement (the leased assets), an increase in liabilities (the lease liabilities), a reduction in administrative expenses (the lease payments), and a simultaneous increase in financial costs (remuneration of the recognised liability) and amortisation (relating to the right of use).

With reference to the income statement, considering the entire duration of the contracts, the impact does not change over the time horizon of the lease, either applying the IAS 17 previously in force or applying the new IFRS 16, but arises at different times. It will reasonably be greater at the start of the contract due to the higher interest expense accrued on the lease liability, decreasing over the duration thereof as the lease payments are made.

A statement of reconciliation between the balance sheet balances as at 31 December 2018 (former IAS 17) and the balance sheet balances as at 1 January 2019 (current IFRS 16) is shown below (value in thousand of euros):

	Assets	31 12 2018 Total	Transfer from prepaid expenses to Right of Use	Transfer form Lease liabilities to Right of Use	Reclassifications and adjustmens	01 01 2019 Total
40	Financial assets measured at amortised cost	101,603,299			-	101,603,299
	a) Loans to banks	*28,836,808*			-	*28,836,808*
	b) Loans to customers	*72,766,492*			-	*72,766,492*
80	Property, plant and equipment	1,026,255	1,640	269,013	270,653	1,296,908
	Property, plant and equipment used in the business	781,055	1,640	269,013	270,653	1,051,708
	a) Land	*275,181*			-	*275,181*
	b) Builiding	*249,078*	*1,640*	*267,490*	*269,130*	*518,208*
	c) Furniture and furnishings	*139,153*			-	*139,153*
	d) Electronic systems	*59,322*			-	*59,322*
	d) Others	*58,321*		*1,523*	*1,523*	*59,844*
	Property, plant and equipment held for investments	219,660			-	219,660
	a) Land	*120,176*			-	*120,176*
	b) Building	*99,484*			-	*99,484*
100	Tax assets	3,319,249			-	3,319,249
	a) current	*583,878*			-	*583,878*
	b) deferred	*2,735,371*			-	*2,735,371*
120	Other assets	1,726,899	(1,640)		(1,640)	1,725,259
			-	**269,013**	**269,013**	

	Liabilities and Shareholder's Equity	31 12 2018 Total	Lease liability	Reclassifications and adjustmens	01 01 2019 Total
10	Financial liabilities measured at amortised cost	*109,733,725*	269,013	269,013	110,002,738
	a) loans to banks	*28,063,446*	573	573	28,064,019
	b) loans to customers	*68,343,925*	268,440	268,440	68,612,365
	c) debts securities issued	*13,326,354*		-	13,326,354
60	Tax liabilities	-		-	-
80	Other liabilities	*3,322,427*		-	3,322,427
100	Provision for risks and charges:	*1,384,837*		-	1,384,837
	a) financial guarantees and other commitments	*243,455*		-	243,455
	b) post-employment benefits	*33,392*		-	33,392
	c) other provisions	*1,107,990*		-	1,107,990
180	Profit (loss) (+/-)	*(111,922)*		-	(111,922)
			269,013	**269,013**	

The increase in property, plant and equipment by a total of EUR 269.0 mln is almost fully attributable to the recognition of the rights of use for properties.

Section 3 - Events after the Reporting Period

On 10 January 2020, the Moody's rating agency revised the Bank'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 Bank successfully concluded the placement of 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 400 mln, with an annual yield of 8%.

On 21 January 2020, the Bank 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 with a yield of 2.7%.

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 Bank 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.

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 2020, the Bank 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 expected for most of the properties by the second half of 2020.

The accounting estimates at 31 December 2019 were made on the basis of a series of macroeconomic and financial indicators at that date. In early January 2020, the new coronavirus epidemic (Covid-19) spread across mainland China and, subsequently, also in other countries including Italy, locally causing the slowdown or interruption of certain economic and commercial activities. The Bank considers this epidemic an event that occurred after the reporting date which does not entail adjustment. Since the situation is developing and quickly evolving, it is not possible to provide a quantitative estimate of the potential impact of this event on the Bank's financial situation. Therefore, the impact will be considered in the Bank's accounting estimates during 2020, including those relating to loan impairments.

Section 4 - Other Matters

Going concern

This Annual Report was prepared based on a going concern assumption.

With regard to the indications contained in Document no. 4 of 3 March 2010, issued jointly by the Bank of Italy, Consob and IVASS, and subsequent amendments, the Bank reasonably expects to continue operating in the foreseeable future and has therefore prepared the financial statements under the going concern assumption.

In this regard, note that, with reference to the 2017-2021 Restructuring Plan approved by the competent authorities in July 2017, the Bank continues the process of relaunching the commercial business and implementing the various operating guidelines. Moreover, consistent with the Plan's provisions, initiatives continued aimed at improving the risk profile of the loan portfolio, performing and non-performing, as well as the managerial actions envisaged in the Plan. For more details on these initiatives, please refer to the "Strategy" section in the Consolidated Report on Operations.

Additionally, the Bank has updated the long-term projections (2020-2024) for the balance sheet and income statement, in order to take into account both the change in the macroeconomic scenario that occurred in the second half of the year (in particular, expected developments in interest rates, industrial output and household consumption indicators, and consensus on GDP growth estimates), as well as the effects associated with the approval of the 2020 Budget Law (Law 160/2019), in particular, the effects from the introduction of "ACE - Support for Economic Growth" tax benefit on future taxable income. Although these forecasts are lower than those envisaged in the Restructuring Plan, the values of capital ratios remain above the 2019 SREP Decision regulatory requirements, received on 11 December 2019 and essentially aligned with the quantitative prudential requirements and guidelines envisaged in the 2018 SREP Decision.

Therefore, in light of the above, as it is deemed reasonable that the Bank will continue operating in the foreseeable future, the financial statements have been prepared, considering that the going concern basis is appropriate.

List of key IAS/IFRS international accounting principles and related SIC/IFRIC interpretations for mandatory application as of the 2019 financial statements

The **IFRS 16 "Leases"** accounting standard, issued by IASB in January 2016 and approved by the European Commission with Regulation (EU) 2017/1986 of 31 October 2017, replaced the previous standard, IAS 17 - Leases effective 1 January 2019, as well as the interpretations **IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC-15 "Operating Leases - Incentives" and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease"**.

IFRS 16 provides a new definition of lease based on control (right of use), that is, the ability to decide the methods of using an identified asset (underlying) for a fixed period of time in exchange for consideration, establishing the following discriminating factors: identification of the asset, lack of entitlement of the lessor to replace the asset, the right to substantially obtain all economic benefits originating from the use of the asset and the right to direct the use of the asset underlying the agreement.

Based on this definition, all contracts that include a right to use an asset, regardless of the contract's legal classification, fall within the scope of IFRS 16, therefore including rental, lease or loan contracts previously not included under leasing. Taking into consideration the requirements established by IFRS 16 and the clarifications provided by the IFRIC in September 2018, intangible assets represented by software, acquired through user licenses or based on "cloud computing" agreements, are excluded from the IFRS 16 scope of application, as they are subject to the provisions of IAS 38, where the conditions are met.

The main change concerns the representation of lease contracts in the lessee's financial statements, introducing a single model for the recognition of lease contracts in the financial statements without distinguishing between operating and financial leases. More specifically, the accounting model envisages the recognition in balance sheet assets and liabilities of:

- a right of use ("RoU"), equivalent to the lease liability plus initial direct costs, estimated dismantling costs or refurbishment of the underlying, net of incentives,
- a lease liability, equivalent to the present value of future payments, calculated using the discount rate defined at the commencement date of the lease contract.

After initial recognition, the lessee must assess the assets comprising the RoU by applying the cost model. The income statement is essentially impacted by the amortisation charge for the right of use, recognised under operating expenses, and for interest accrued on the lease liability, recognised in net interest income.

The exceptions to those rules are represented by short-term leases, with a contractual duration equal to or less than 12 months, and leases where the underlying asset is a low value asset, for which it is possible to essentially maintain the accounting treatment envisaged by IAS 17 for operating leases, with the lease payments charged to the income statement in compliance with the accrual principle.

The distinction between operating and finance leases continues for the lessor, for which the IFRS 16 approach does not introduce substantial changes with respect to IAS 17, other than greater disclosure.

The interpretation "**IFRIC 23 - Uncertainty over Income Tax Treatments**", published with Regulation (EU) no. 2018/1595 of 24 October 2018, clarifies how to apply the measurement and recognition requirements of IAS 12 when there is uncertainty with respect to the treatment to be applied to income taxes.

In these circumstances, an entity must recognise and measure its current or deferred tax assets/liabilities by applying the IAS 12 requirements, based on taxable income (tax loss), values for tax purposes, unused tax losses, unused tax credits and tax rates, and determined based on the interpretation provided in IFRIC 23.

The entity is required to use judgement in determining whether an uncertain tax treatment should be considered independently or jointly with other tax treatments impacted by the uncertainty. The decision must be based on the approach that provides the greatest guarantee of resolving the uncertainty.

The entity must also consider in its assessments if the relevant tax authority, in examining the data submitted to it, may or may not accept application of the tax treatment or set of tax treatments proposed by the entity.

If it is deemed probable that a specific tax treatment will be accepted by the relevant tax authority, the entity must determine the taxable income (tax loss), values for tax purposes, unused tax losses, unused tax credits and tax rates consistently with the tax treatment included in the tax return.

Conversely, if it is assumed that the tax authority is unlikely to accept the uncertain tax treatment, the entity must report the effect of this uncertainty in calculating taxable income (tax loss), values for tax purposes, unused tax losses, unused tax credits or tax rates associated with this treatment. For this purpose, an entity may use one of the following methods:

- the most likely amount, which identifies the amount that has the greatest likelihood of being used within a range of possible results;
- the expected value, which is based on the sum of different amounts of a range of possible results, weighted by the probability of their occurrence.

The decision between the two methods must be based on the method that provides greater guarantee of resolving the uncertainty. Moreover, the entity must review the judgements and estimates if the facts and circumstances change.

IFRIC 23 was endorsed by the European Commission on 24 October 2018 with Regulation no. 2018/1595 and shall apply as of 1 January 2019. Early application is permitted.

The document "**Amendments to IFRS 9 - Prepayment features with negative compensation**", published with Regulation (EU) no. 2018/498 on 26 March 2018, clarifies the classification of specific prepayable financial assets when IFRS 9 applies. In particular:

- for financial assets, they consider the possibility of measurement at amortised cost, including for those loans that, in the event of early repayment, assume a payment by the lender;
- for financial liabilities, in the event of a change in contractual terms which does not result in derecognition, the amendments provide that the effect of the change on amortised cost must be recognised in the income statement on the date of the change.

These cases are not relevant for the Bank, as they are not present.

The document "**Annual Improvements to International Financial Reporting Standards 2015-2017 Cycle**", published with Regulation (EU) no. 2019/412 of 14 March 2019, introduces some marginal amendments to IAS 12 "Income taxes", IAS 23 "Borrowing costs", IFRS 3 "Business combinations" and IFRS 11 "Joint arrangements". In particular:

- the entity is required to recognise the tax effects of dividends for income tax purposes in profit (loss) for the year, in other comprehensive income or in shareholders' equity, depending on the recognition of the transactions or the past events that originated the distributable profits (IAS 12);
- if a specific loan remains outstanding after the corresponding asset is ready for use or sale, the loan becomes part of the funds considered for the purpose of calculating the capitalisation rate in relation to general loans (IAS 23);
- when the entity obtains control of a business, already a joint operation, it recalculates the stake held in that business (IFRS 3);
- when an entity obtains joint control of a business, already a joint operation, it does not recalculate the stake held in that business (IFRS 11).

On 13 March 2019, the document "**Amendments to IAS 19 - Plan Amendment, Curtailment or Settlement**" was published with Regulation (EU) no. 2019/402. This document clarifies that, after the amendment, the curtailment or settlement of the defined benefit plan, the entity must apply the updated assumptions for the determination of its net liability (asset) for defined benefits for the rest of the reference period.

The document "**Amendments to IAS 28 - Long-term interests in Associates and Joint Ventures**", published with Regulation (EU) no. 2019/237 of 8 February 2019, clarifies that the provisions on reduction of value of IFRS 9 apply to long-term receivables from an associate or joint venture which, in essence, are part of the net investment in the associate or joint venture (for which the entity does not use the equity method).

Notwithstanding the first application of IFRS 16, for which reference should be made to the specific section "Transition to the new IFRS 16", the other changes or interpretations had no material impact on the Bank's financial situation.

List of IAS/IFRS international accounting standards and related SIC/IFRIC interpretations whose application is mandatory as at 31 December 2019

On 29 March 2018, IASB issued the document "**Changes to the Conceptual Framework**", published with Regulation (EU) 2019/2075 of 29 November 2019, which has the objective of updating the existing references to the previous Conceptual Framework in various accounting standards and interpretations, 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 31 October 2018, IASB issued the document "**Amendments to IAS 1 and IAS 8 - Definition of Material**", published with Regulation (EU) 2019/2104 on 10 December 2019 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 26 September 2019, the document "**IBOR Reform**" was issued, published with Regulation (EU) 2020/34 of 16 January 2020, which amends IFRS 9, IAS 39 and IFRS 7. The document regulates the period preceding the replacement of the benchmark as a result of the interest rate reform and introduces a series of simplifications applicable to all the hedging relationships affected by the reform. The key points of the document are provided below:

- highly probable requirement for cash flow hedges (IFRS 9 and IAS 39): if the hedged item is a scheduled transaction, the entity must determine if the scheduled transaction is highly probable, assuming that the benchmark interest rate, on which the hedged cash flows are based, is not changed following the reform;
- measurement of the relationship between the hedged item and the hedging instrument (IFRS 9): an entity must assume that the benchmark interest rate, on which the hedged cash flows and/or hedged risk are based, or the benchmark interest rate on which the cash flows of the hedging instrument are based, are not changed following the reform of the interest rate benchmark;
- prospective and retrospective measurement (IAS 39): an entity must assume that the benchmark interest rate, on which the hedged cash flows and/or hedged risk are based, or the benchmark interest rate on which the cash flows of the hedging instrument are based, are not changed following the reform; An entity is not required to suspend a hedging relationship during the period of uncertainty resulting from the reform solely because the actual results of the hedge are not highly effective, i.e. if they are positioned outside the 80-125% range upon retrospective measurement. In this situation, to assess whether or not the hedging relationship should be suspended, the entity must apply the other conditions (paragraph 88 of IAS 39) pertaining to hedging relationships, including the prospective evaluation;
- designation of a risk component as a hedged item (IFRS 9 and IAS 39): to hedge a risk component, which is affected by the reform, an entity must apply the specific provisions of IFRS 9 or IAS 39 to determine if this risk component is separately identifiable only at the beginning of the hedging relationship. If the hedge is dynamic, i.e. if the entity frequently resets the hedge relationship, the risk component must be separately identifiable only upon initial designation of the hedged item. Therefore, it is not necessary to re-measure or re-designate for this hedging relationship.

The simplifications are not intended to mitigate other impacts deriving from the benchmark reform; therefore, if a hedging relationship no longer meets the requirements for hedge accounting for reasons other than those specified by the changes, it must be suspended. Moreover, adequate disclosure must be provided on the extent to which hedging relationships are affected by the changes.

The amendments apply as of 1 January 2020 with retroactive application. The Bank exercised the option of an early application.

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

The document "**Amendments to IFRS 3 - Definition of a Business**" issued by IASB on 22 October 2018 in order to assist in determining whether a transaction is an acquisition of a business or a group of assets that do not meet the definition of a business of IFRS 3. The amendments shall apply to acquisitions after 1 January 2020. Early application is permitted.

In September 2019, IASB initiated the discussion relating to the second phase of the project on the "Interest rate reform".

Lastly, on 18 May 2017 the IASB issued the new accounting standard IFRS 17, which governs policies issued by insurance companies, which shall be applied from 1 January 2021. On 14 November 2018 the IASB decided to defer it for one year, i.e. to 2022. It also decided to propose extending to 2022 the temporary exception from the application of IFRS 9 granted to insurance companies, so that IFRS 9 and IFRS 17 may be applied at the same time. These proposals are still in the consulting stage. No direct impacts on the Bank's operations are expected, as the Bank does not perform insurance activities.

A.2 - The main items of the accounts

Accounting standards

This chapter contains the accounting standards in relation to the main assets and liabilities in the balance sheet, which were adopted for the preparation of the financial statements as at 31 December 2019.

1 Financial assets measured at fair value through profit and loss (FVTPL)

a) classification criteria

These assets include financial assets other than those classified under "Financial assets measured at fair value through other comprehensive income" and "Financial assets measured at amortised cost". The category comprises:

- debt securities or loans that are included in an "Other" Business Model, i.e., a procedure for managing financial assets that does not have the objective of collecting contractual cash flows ("Held to Collect" business model) or collecting contractual cash flows and selling financial assets ("Held to Collect and Sell" business model);
- debt securities, loans and units of UCITS whose contractual terms do not provide exclusively for repayments of principal and interest payments on the principal to be repaid (i.e., that do not pass the "SPPI test");
- equity instruments that cannot be classified as representing control, affiliation, or joint control, held for trading purposes or for which, upon initial recognition, the fair value through other comprehensive income option was not chosen;
- derivative contracts, recognised in financial assets held for trading, that are recognised as assets if the fair value is positive, or liabilities if the fair value is negative.

With reference to the latter, it is possible to offset current positive and negative values deriving from outstanding transactions with the same counterparty only if the legal right to offset the amounts recognised is currently in place and the entity intends to proceed with the net settlement of offsetting positions.

More detailed information is provided below on the three sub-items that comprise this category, represented by: "Financial assets held for trading", "Financial assets measured at fair value"; and "Other financial assets measured at fair value as per mandatory requirements".

<u>Financial assets held for trading</u>

Financial assets (debt securities, equity securities, loans, units of UCITS) are classified as held for trading purposes if they are managed with the objective of generating cash flows through their sale, as they are:

- acquired or incurred primarily for the purpose of selling or repurchasing them in the short-term;
- part of a portfolio of financial instruments that are managed on an individual basis and for which there is proven existence of a strategy targeted at earning a profit in the short term;

It also includes derivatives with a positive fair value not designated as having an accounting hedge relationship. Derivative contracts include those embedded in combined financial instruments, in which the primary contract is a financial liability, which were subject to separate accounting.

- their economic characteristics and risks are not strictly related to the characteristics of the underlying contract;
- the embedded instruments, even if separate, satisfy the definition of derivative;
- hybrid instruments to which they belong are not recognised at fair value with the relative changes posted in profit and loss.

<u>Financial assets measured at fair value</u>

Assets (debt securities and loans) can be irrevocably designated at fair value at the time of initial recognition only when this designation eliminates or significantly reduces a measurement inconsistency (known as an accounting mismatch); This category is not used by the Bank at present;

<u>Other financial assets measured at fair value as per mandatory requirements</u>

Other financial assets measured at fair value as per mandatory requirements represent a residual category and include:

- debt securities and loans, when: i) the relative contractual cash flows do not represent solely payments of principal and interest on the residual capital (Solely Payment of Principal and Interest - SPPI test failed), or ii) are not held as part of a business model whose objective is the ownership of assets for purposes of collecting contractual cash flows ("Held to Collect" business model) or those whose objective is achieved either by collecting contractual cash flows or by selling financial assets ("Held to Collect and Sell" business model);
- units of UCITS;
- equity securities held for purposes other than trading for which the option of classification at fair value through other comprehensive income is not exercised.

b) recognition criteria

Initial recognition of financial assets occurs at settlement date for debt securities, equities and units of UCITS, at disbursement date for loans, and at trade date for derivative contracts. Upon initial recognition, financial assets measured at fair value through profit and loss are recognised at fair value, which usually corresponds to the amount paid, without considering transaction costs or revenues directly attributable to the instrument, which are directly recognised in the income statement.

c) measurement criteria

After initial recognition, financial assets measured at fair value through profit and loss are recorded at fair value, with changes recognised as an offsetting entry in the income statement.

Market prices are used to determine the fair value of financial instruments listed in active markets. In the absence of an active market, commonly adopted estimation methods and measurement models are used, which take into account all the risk factors associated with the instruments and which are based on market data, such as: value of listed instruments that have similar characteristics, calculations of discounted cash flows, models for determining the option prices, values recorded in recent comparable transactions, etc. For equity securities and derivatives on equity securities that are not listed on an active market, the cost criterion is used as an estimate of the fair value only on a residual basis and limited to rare circumstances, i.e., if none of the above measurement models can be applied, or if there is a wide range of possible fair value measurements, in which case the cost represents the most meaningful estimate.

For more information on the criteria for determining fair value, please refer to Section "A.4 Information on Fair Value" of Part A of the Notes to the financial statements.

d) revenue recognition criteria

The interest of the three sub-items that comprise this category is recorded under item "10 - Interest income and similar revenues".

Realised gains and losses, the gains and losses from measurements for "Financial assets held for trading", including derivatives associated with financial assets/liabilities measured at fair value, are recognised in profit and loss under item "80 - Net trading income (expenses)".

These income effects pertaining to "Financial liabilities measured at fair value" as well as "Other financial assets measured at fair value as per mandatory requirements" are booked to the income statement under item "110 - Net profit/loss from financial assets and liabilities measured at fair value through profit and loss", in the sub-items "a) financial assets and liabilities measured at fair value" and "b) other financial assets measured at fair value as per mandatory requirements", respectively.

e) derecognition criteria

Financial assets are derecognised from financial statements: i) upon expiration of the contractual rights on the cash flows resulting from the assets or ii) when the financial assets are sold and all related risks/benefits are transferred. However, if a relevant portion of the risks and rewards associated with disposed financial receivables have been maintained, they continue to be posted in the balance sheet, even if legal ownership of the asset has been effectively transferred.

If it is not possible to ascertain a substantial transfer of risks and rewards, the financial assets are derecognised when control of the assets has been surrendered. If such control has been maintained, even partly, the assets should continue to be recognised to the extent of residual involvement, as measured by the exposure to the changes in value of the assets disposed and to the changes in their cash flows.

Finally, disposed financial assets are derecognised if the contractual rights to receive the cash flows are maintained and a contractual obligation is simultaneously undertaken to pay only said flows, without a significant delay, to third parties.

f) reclassification criteria

According to the general rules established by IFRS 9 on reclassifying financial assets (with the exception of equity securities, for which reclassification is not permitted), reclassifications to other categories of financial assets are not permitted unless the entity changes its business model for managing financial assets. In these cases, which are expected to be highly infrequent, financial assets may be reclassified from the category 'measured at fair value through profit and loss' to one of the other two categories envisaged by IFRS 9 (financial assets measured at amortised cost or financial assets measured at fair value through other comprehensive income). The transfer value is represented by the fair value at the time of the reclassification and the effects of the reclassification apply prospectively from the reclassification date. In this case, the effective interest rate of the reclassified financial asset is calculated based on its fair value at the reclassification date and this date is considered as the initial recognition date in assigning it to the various credit risk stages (stage assignment) for purposes of impairment.

For more information on classification criteria for financial instruments, please refer to the section "Classification criteria for financial assets" below.

2 Financial assets measured at fair value through other comprehensive income (FVTOCI)

a) classification criteria

This category includes:

- financial assets represented by debt instruments, managed under a "Held to Collect and Sell[3]" business model, whose contractual flows represent solely payments of principal and interest on the residual capital (Solely Payment of Principal and Interest - SPPI - test passed);
- financial assets represented by equity instruments, held under a non-trading business model, for which, on first-time recognition, the option for the recognition in the statement of comprehensive income of changes in fair value after first-time recognition in the financial statements (OCI election) has been irrevocably exercised.

In particular, the following are included in this item:

- debt securities that are attributable to a "Held to Collect and Sell" business model and that passed the SPPI test;
- equity stakes, which cannot be classified as representing control, an affiliation, or joint control and are not held for trading purposes, for which the fair value through other comprehensive income option was chosen;
- loans that are attributable to a "Held to Collect and Sell" business model and that passed the SPPI test; The Bank does not have assets of this type.

[3] Financial instruments held within the framework of a business model whose objective is ownership of said instruments for the purpose of collecting cash flows and through sales transactions can be associated with the "Held to Collect and Sell" business model.

b) recognition criteria

Financial assets are initially recognised on the date of settlement, with reference to debt or equity instruments, and on the date of disbursement, with reference to loans.

On initial recognition, the assets are measured at their fair value, which normally corresponds to the price paid, inclusive of transaction costs or income directly attributable to the instrument.

c) measurement criteria

Financial instruments represented by debt securities and loans, following initial recognition, continue to be measured at fair value, with recognition in the income statement of interest (based on the effective interest rate method), expected credit losses (for more details please refer to the paragraph "Impairment" in this section), and any exchange rate changes. Fair value changes, net of expected credit losses, are booked to the appropriate equity reserve net of the associated tax effect (item "120 - Valuation reserves"). Upon full or partial disposal, the cumulative gain or loss in the valuation reserve is reversed, all or in part, to the income statement.

Financial assets represented by equity instruments, following initial recognition, continue to be measured at fair value, with changes booked to the appropriate equity reserve net of the associated tax effect (item "120 - Valuation reserves"). The amount recognised as an offsetting entry in shareholders' equity (Statement of Comprehensive Income) cannot subsequently be transferred to the income statement, even following a sale; in this case, the amount is reclassified in another equity item (item "150 - Reserves"). Furthermore, no write-down to the income statement is envisaged for these assets as they are not subject to any impairment process. The only component of these equity securities that is recognised in the income statement is represented by the related dividends.

For equity securities included in this category, which are not listed on an active market, the cost criterion is used as an estimate of the fair value only on a residual basis and limited to rare circumstances, i.e., if none of the measurement models previously mentioned can be applied, or if there is a wide range of possible fair value measurements, in which case the cost represents the most meaningful estimate.

For more information on the criteria for determining fair value, please refer to Section "A.4 Information on Fair Value" of Part A of the Notes to the financial statements.

Financial assets measured at fair value through other comprehensive income - both in the form of debt securities and loans - are subject to verification of the significant increase in credit risk (impairment) as required by IFRS 9, similar to assets measured at amortised cost, with the consequent recognition in the income statement of a value adjustment to cover expected losses. In summary, an estimated loss at one year is recognised, at the initial recognition date and at every subsequent reporting date, on instruments classified in stage 1 (i.e., on financial assets at the origination date, if not impaired, and on instruments for which there has not been a significant increase in credit risk compared to the initial recognition date). Instead, for instruments classified in stage 2 (performing, for which there has been a significant increase in credit risk compared to the initial recognition date) and stage 3 (non-performing exposures) an expected loss is recorded for the entire residual life of the financial instrument. Conversely, equity securities are not subject to the impairment test.

For more detailed information, please refer to the subsequent paragraph "Use of estimates and assumptions when preparing financial statements - Methods for calculating impairment on IFRS 9 financial instruments".

d) revenue recognition criteria

As regards financial instruments represented by debt instruments:

- interest is recorded under item "10 - Interest income and similar revenues".
- expected credit losses recognised for the year are accounted for in item "130 - "Net impairment (losses)/reversals for credit risk of: b) financial assets measured at fair value through other comprehensive income"; the same applies for partial or full reversals of write-downs recorded in previous years;
- at the moment of derecognition, valuations accumulated in the specific equity reserve are reversed to the income statement under item "100 - Gains/losses from sale/repurchase of: b) financial assets measured at fair value through other comprehensive income".

As regards financial instruments represented by equity instruments, for which the "OCI election" was exercised, only dividends are booked to the income statement (item "70. Dividends and similar income"). Changes in fair value subsequent to initial recognition are recorded in a specific valuation reserve under shareholders' equity (item "110 - Valuation reserves"); in the event of derecognition of the asset, the cumulative balance of this reserve is not reversed to the income statement but is reclassified under earnings reserves of equity (item "140 - Reserves).

e) derecognition criteria

Financial assets are derecognised from financial statements: i) upon expiration of the contractual rights on the cash flows resulting from the assets or ii) when the financial assets are sold and all related risks/benefits are transferred. However, if a relevant portion of the risks and rewards associated with disposed financial receivables have been maintained, they continue to be posted in the balance sheet, even if legal ownership of the asset has been effectively transferred.

If it is not possible to ascertain a substantial transfer of risks and rewards, the financial assets are derecognised when control of the assets has been surrendered. If such control has been maintained, even partly, the assets should continue to be recognised to the extent of residual involvement, as measured by the exposure to the changes in value of the assets disposed and to the changes in their cash flows.

Finally, disposed financial assets are derecognised if the contractual rights to receive the cash flows are maintained and a contractual obligation is simultaneously undertaken to pay only said flows, without a significant delay, to third parties.

f) reclassification criteria

According to the general rules established by IFRS 9 on reclassifying financial assets (with the exception of equity securities, for which reclassification is not permitted), reclassifications to other categories of financial assets are not permitted unless the entity changes its business model for managing financial assets. In these cases, which are expected to be highly infrequent, financial assets may be reclassified from the category 'measured at fair value through other comprehensive income' to one of the other two categories envisaged by IFRS 9 (financial assets measured at amortised cost or financial assets measured at fair value through profit and loss). The transfer value is represented by the fair value at the time of the reclassification and the effects of the reclassification apply prospectively from the reclassification date. If assets are reclassified from this category to the amortised cost category, the cumulative gain (loss) recorded in the valuation reserve is adjusted to the fair value of the financial asset at the reclassification date. If, instead, assets are reclassified to the fair value through profit and loss category, the cumulative gain (loss) recorded previously in the valuation reserve is reclassified from shareholders' equity to profit (loss) for the year.

For more information on classification criteria for financial instruments, please refer to the section "Classification criteria for financial assets" below.

3 Financial assets measured at amortised cost

a) classification criteria

Financial assets represented by loans and debt securities, managed under a "Held to Collect[4]" business model, whose contractual flows represent solely payments of principal and interest on the residual capital (Solely Payment of Principal and Interest - SPPI test passed) are included in this category.

The portfolio of financial assets measured at amortised cost includes:

- the entire portfolio of loans in the various technical forms that satisfy the above requirements (including repurchase agreements), stipulated with both banks and customers;
- debt securities, mainly government bonds, which satisfy the above requirements;
- operating receivables connected with providing financial assets and services as defined in the Consolidated Law on Banking and the Consolidated Law on Finance (e.g., for distribution of financial products and servicing activities);
- receivables originating from financial lease transactions which, in accordance with IFRS 16, are recognised according to the "financial method", including the values referring to assets pending financial leasing, such as properties under construction.

[4] Financial instruments held within the framework of a business model whose objective is ownership of said instruments for the purpose of collecting cash flows can be associated with the "Held to Collect" business model.

b) recognition criteria

Financial assets are initially recognised on the settlement date for debt instruments and on the disbursement date for loans; the following are included in said item:

- loans to banks;
- loans to customers.

The initial recognition is based on the fair value of the financial instrument (which is normally equal to the amount disbursed or price of underwriting), inclusive of the expenses/income directly related to the individual instruments and determinable as of the transaction date, even if such expenses/income are settled at a later date. This does not include costs which have these characteristics but are subject to repayment by the debtor or which can be encompassed in ordinary internal administrative expenses.

Repurchase agreement transactions with the obligation to repurchase are posted as lending transactions for the spot amounts collected.

c) measurement criteria and revenue recognition criteria

Following initial recognition, financial assets booked to this category are measured at amortised cost using the effective interest rate criterion. This interest is recorded under item "10 - Interest income and similar revenues".

The gross book value is equal to the first-time recognition value, decreased/increased by:

- principal repayments;
- amortisation - calculated using the effective interest rate method - of the difference between the amount disbursed and the amount repayable upon maturity, typically attributable to the costs/income directly charged to each receivable;

The amortised cost method is not used for short-term receivables, for which the effect of applying a discounting approach is negligible, for loans without a defined maturity, and for revocation loans.

For more detailed information on amortised cost, please refer to the following section "Other significant accounting practices - amortised cost".

The book value of financial assets measured at amortised cost is adjusted to take into account any provision to cover expected losses (expected credit losses). For each reporting period, the aforementioned assets are subject to impairment testing with the aim of estimating expected losses in value for credit risk (ECL - Expected Credit Losses). These losses are recorded in the income statement under item "130 - Net impairment (losses)/reversals for credit risk". More specifically and as better explained in the paragraph "Use of estimates and assumptions when preparing financial statements - Methods for calculating impairment on IFRS 9 financial instruments", the impairment model classifies the assets into three separate stages (stage 1, stage 2, stage 3), according to trends in the borrower's creditworthiness, each of which has different criteria for measuring expected losses:

- stage 1: includes performing financial assets for which there has been no significant increase in credit risk with respect to the initial recognition date, or for which credit risk is considered low. Impairment is based on an estimate of expected loss over a one-year time horizon (expected loss that would result from default events on financial assets that are deemed possible within one year of the reference date);

- stage 2: includes performing financial assets that have incurred a significant increase in credit risk with respect to the initial recognition date; Impairment is assessed according to an estimate of expected loss over the entire residual life of the financial asset;

- stage 3: represents non-performing financial assets (probability of default equal to 100%), to be assessed based on an estimate of expected loss over instrument's life.

For performing assets, expected losses are calculated according to a collective process based on certain risk parameters represented by the probability of default (PD), loss rate in the event of default (LGD), and the exposure value (EAD), deriving from the internal models for calculating regulatory credit risk, appropriately adjusted to take into account the specific requirements envisaged by accounting regulations.

For non-performing assets, i.e., assets for which, in addition to a significant increase in credit risk, objective evidence of impairment has been found, impairment losses are quantified based on an analytical or lump-sum measurement process by homogeneous risk categories - aimed at determining the present value of expected future recoverable cash flows, discounted using the original effective interest rate or a reasonable approximation thereof, if the original interest rate cannot be directly determined.

The non-performing asset category includes exposures assigned the status of bad loan, unlikely to pay, or past-due/overdrawn for more than ninety days, in accordance with the definitions established by supervisory regulations in effect (Bank of Italy Circular no. 272 "Accounts Matrix") and referred to in Bank of Italy Circular no. 262, as these definitions are deemed consistent with accounting regulations envisaged in IFRS 9 for objective evidence of impairment.

In the event of sale scenarios, the cash flows are calculated based not only on the forecast of the recoverable amounts through internal management activity, but also on the basis of the flows that can be obtained from any sale on the market, according to the approach described in the subsequent paragraph "Use of estimates and assumptions when preparing financial statements - Methods for calculating impairment on IFRS 9 financial instruments".

In addition, the expected cash flows include forecasts for collection timing and the presumed net realisable value of any guarantees as well as the costs connected with obtaining and selling the guarantee. In this regard, in the event that the Bank uses a third party to collect non-performing loans, the fees paid to the outsourcer for activities strictly related to collection are considered for the purpose of estimating impairment losses. These costs are considered for both non-performing and performing exposures, if for the latter it is probable that in the event of a transfer to bad loans, the collection activities will be assigned to third parties.

For fixed-rate positions, the original effective rate used to discount the expected cash flows from collection, calculated as described above, remains unchanged over time even if there is a change in the contractual rate due to the borrower's financial difficulties. For floating-rate positions, the rate used to discount cash flows is updated for the indexing parameter (e.g., Euribor), while keeping the fixed spread at the original level.

The financial asset's original value is restored in subsequent years when there is an improvement in the exposure's creditworthiness compared to that which had led to the previous write-down. The reversal is posted to the same item in the income statement ("130 - Net impairment (losses)/reversals for credit risk") and may not, in any case, exceed the amortised cost that the asset would have had without prior adjustments.

For more detailed information on the impairment model, please refer to the subsequent paragraph "Use of estimates and assumptions when preparing financial statements - Methods for calculating impairment on IFRS 9 financial instruments".

For non-performing exposures, accrued interest is calculated based on amortised cost, i.e., using the value of the exposure - calculated with the effective interest rate - adjusted for expected losses. In case of management of non-performing exposures, or of transfer from stage 3 to stage 2, interest will once again be calculated based on the gross exposure value; the positive difference is recognised, as the recovery of previous impairment losses, as an offsetting entry to item "130. Net impairment (losses)/reversals for credit risk". The same accounting entry is made in the event that the interest collected is greater than the expected cash flows.

Finally, for non-performing exposures that do not accrue contractual interest, such as bad loans, this interest corresponds to the progressive release of the discounting of collection forecasts, as the effect of the simple passage of time.

d) derecognition criteria

The financial assets are derecognised in the event one of the following cases is verified:

- the contractual rights on the cash flows deriving from the same expire;
- the financial asset is sold with the substantial transfer of all risks and benefits resulting from ownership;
- if it is not possible to ascertain a substantial transfer of risks and benefits, the financial assets are derecognised when control of the assets has been surrendered;
- the entity retains the contractual right to receive cash flows from the financial assets, but simultaneously assumes the contractual obligation to pay said flows to a third party (pass-through arrangements) without delay and only to the extent of the amount received;
- the asset is subject to "substantial" changes, as more extensively described in the section "Renegotiations".

With regard to non-performing financial assets, the asset may be derecognised following the acknowledgement of the non-recoverability of the exposure and the resulting closure of the collection process (definitive derecognition), and entails the reduction of the nominal value and of the gross book value of the loan. This case occurs when settlement agreements have been reached with the borrower that entail a reduction in the loan (resolution agreement) or in the presence of specific situations such as, for example:

- a judgement has been handed down by the court that declares the loan all or partially settled;
- the conclusion of bankruptcy or enforcement proceedings against both the principal borrowers and guarantors;
- the conclusion of all possible judicial and extra-judicial actions for credit collection;
- the completion of a mortgage lien on an asset under guarantee, with the resulting derecognition of the loan guaranteed by the property under lien, in the absence of further specific guarantees or other actions that can be taken to recover the exposure.

These specific situations may result in a full or partial derecognition of the exposure but do not necessarily imply a waiver of the legal right to collect the loan.

In addition, non-performing financial assets may be derecognised following their "write-off", upon acknowledgement that there are no reasonable expectations of collection, while continuing with actions aimed at their recovery. This write-off is carried out in the year in which the loan, or part of it, is considered non-recoverable - despite not closing the legal procedure - and can take place before the legal actions taken against the borrower and guarantors for credit collection. It does not imply the waiver of the legal right to collect the loan and is made if the loan documentation contains reasonable financial information indicating that the borrower will be unable to repay the loan amount. In this case, the gross nominal value of the loan remains unchanged, but the gross book value is reduced by an amount equal to the amount to be written off, which may represent the full exposure or a portion of it. The write-off amount cannot be subjected to subsequent write-backs following an improvement in collection forecasts, rather only as the result of amounts effectively collected.

In the event of derecognition, the difference between the book value of the asset at the derecognition date and consideration received, inclusive of any assets received net of any liabilities assumed, must be recognised in the income statement, under item "100. a) Profits/(Losses) from disposal or repurchase of: financial assets measured at amortised cost" in the event of sale and, in all other cases, under item "130 - Net impairment (losses)/reversals for credit risk".

e) reclassification criteria

According to the general rules established by IFRS 9 on reclassifying financial assets, reclassifications to other categories of financial assets are not permitted unless the entity changes its business model for managing financial assets. In these cases, which are expected to be highly infrequent, financial assets may be reclassified from the category 'measured at amortised cost' to one of the other two categories envisaged by IFRS 9 (financial assets measured at fair value through other comprehensive income or financial assets measured at fair value through profit and loss). The transfer value is represented by the fair value at the time of the reclassification and the effects of the reclassification apply prospectively from the reclassification date. Gains or losses resulting from the difference between the amortised cost of the financial asset and the associated fair value are booked to the income statement in the case of reclassification under "Financial assets measured at fair value through profit and loss" and, under equity, in the appropriate valuation reserve, in the case of the reclassification under "Financial assets measured at fair value through other comprehensive income".

For more information on classification criteria for financial instruments, please refer to the section "Classification criteria for financial assets" below.

4 Hedging transactions

The Bank availed itself of the possibility, envisaged on first-time application of IFRS 9, to continue to use all of the provisions of IAS 39 (carved out version endorsed by the European Commission) as regards hedge accounting for all types of hedge (both micro and macro hedges).

a) classification criteria - types of hedging

Risk-hedging transactions are aimed at offsetting any potential losses on a certain financial instrument or group of financial instruments that may arise from a specific risk should it occur.

The following types of hedging are included:

- fair value hedges, which are intended to hedge the exposure to changes in fair value of a recognised asset or liability that are attributable to a particular risk; These include generic fair value hedges (macro-hedges) having the objective of reducing fluctuations in fair value due to interest rate risk, of a monetary amount, arising from a portfolio of financial assets and liabilities (including core deposits). Generic hedges cannot be used to cover net amounts resulting from the offsetting of assets and liabilities;

- cash flow hedges, which are intended to hedge the exposure from variability in future cash flows attributable to particular risks associated with a recognised asset or liability or a transaction that is deemed highly likely;
- hedges of a net investment in a foreign operation, which refers to hedging the risks of an investment in a foreign operation denominated in a foreign currency.

In order for a derivative to be designated as a hedging instrument, there must be formal documentation of the relationship between the hedged item and the hedging instrument, showing that the hedging relationship is - and is expected to be - effective both at inception and, prospectively, throughout its life. Furthermore, a hedging transaction should be reflective of a pre-determined risk management strategy and consistent with risk management policies in use.

b) recognition criteria

Financial hedging derivatives, just as for all derivatives, are initially recognised at fair value on the date the contract is stipulated and are classified, as a function of their positive or negative value, in the asset item "50. Hedging derivatives" or in the liability item "40. Hedging derivatives".

c) measurement criteria and revenue recognition criteria

Hedging derivatives are measured at fair value. In particular:

Fair value hedging

In the case of specific fair value hedging, the change in the fair value of the hedged element (for changes generated by the underlying risk factor) adjusts the book value of the hedged element and is immediately recognised, regardless of the category to which the hedged asset or liability belongs, along with the change in the fair value of the hedging instrument, in income statement item "90 - Net profit (loss) from hedging". Any difference, i.e. partial ineffectiveness of the hedging derivatives, reflects their net P&L impact; If the hedging relationship is suspended, the hedged instrument, if not derecognised from financial statements, is returned to the original valuation criterion of the class to which it belongs. Specifically, for instruments measured at amortised cost, the cumulative revaluations/write-downs recorded as a result of changes in the fair value of the hedged risk are recognised in the income statement in interest income and expense over the residual life of the hedged item, based on the effective interest rate. Instead, if the suspension of the hedge is accompanied by the derecognition from financial statements of the hedged item (e.g., sale or early repayment), the fair value portion not yet amortised is immediately recognised in the income statement under the item "90 - Net profit (loss) from hedging".

With regard to generic fair value hedging transactions (macro-hedges), changes in fair value of the hedged risk of assets and liabilities subject to hedging are recorded in the balance sheet, respectively, under item "60 - Change in value of macro-hedged financial assets" or "50 - Change in value of macro-hedged financial liabilities". The offsetting item for changes in value in both the hedged element and the hedging instrument, similar to specific fair value hedges, is item "90 - Net profit (loss) from hedging" in the income statement. If a generic fair value hedging relationship is suspended, the cumulative revaluations/write-downs recorded in the aforementioned balance sheet items are charged to the income statement in interest income or expense over the residual life of the original hedging relationship, provided that the base assumptions are satisfied and verified.

Cash flow hedging:

The changes in fair value of the hedging instrument are posted to a specific shareholders' equity reserve (item "110 - Valuation reserves") with reference to the effective portion of the hedge, while fair value changes of the hedging instrument that are not offset by changes in the hedged item's cash flows are posted to the income statement under item "90 "Net profit (loss) from hedging". If the hedging of cash flows is no longer considered effective, or the hedging relationship is terminated, any amounts accumulated in cash flow hedge reserves are charged to the income statement when the hedged item, which is still in place, affects profit or loss. Conversely, if the hedged item is derecognised, cancelled or expires the reserve is charged to the income statement at the same time as the hedged item is derecognised.

Hedges of foreign currency investments

Hedges of foreign currency investments are accounted for similarly to cash flow hedges.

Hedge effectiveness depends on the extent to which changes in the fair value or expected cash flows of the hedged item are offset by corresponding changes in the hedging instrument. Therefore, effectiveness is measured by comparing said changes, while taking into account the company's intent at hedge inception. With reference to the hedged risk, the hedging is effective (within the 80% to 125% window) when the changes in fair value (or in the cash flows) of the hedging instrument offset the changes in the hedged item almost entirely.

Effectiveness is assessed at year-end or at interim reporting dates by using:

- prospective tests, which justify continuing hedge accounting since they show its expected effectiveness;
- retrospective tests, which show how effective the hedging relationship has been in the period under review.

d) derecognition criteria

If tests do not confirm hedge effectiveness, both retrospectively and prospectively, hedge accounting is discontinued as described above.

In addition, the hedging relationship ceases when:

- the derivative expires, is extinguished or exercised;
- the hedged item is sold, expires, or is repaid;
- it is no longer highly likely that the hedged future transaction will occur.

The hedging derivative contract, if it has not expired or been extinguished, is reclassified under financial assets held for trading, whereas the hedged item, if it has not been sold or repaid, reverts to the accounting treatment based on its original classification.

5 Equity investments

a) classification criteria

This item includes equity interests held in subsidiaries, associates or joint ventures, which are recognised in accordance with the cost method.

Equity investments and equity securities are considered subject to control (subsidiaries) if the Bank directly or indirectly holds the absolute majority of voting rights and such rights are substantive, or if the Bank holds the relative majority of voting rights and the other voting rights are held by widely dispersed among shareholders. Control may also exist in situations in which the Bank does not hold the majority of voting rights, but holds sufficient rights to have the practical ability to unilaterally direct relevant activities of the investee or in the presence of:

- substantive potential voting rights through underlying call options or convertible instruments;
- rights deriving from other contractual arrangements which, combined with voting rights, give the Bank the de facto ability to direct production processes, other operating or financial activities able to significantly influence the investee's returns;
- power to influence, through rules of the by-laws or other contractual arrangements, governance and decision-making procedures regarding relevant activities;
- majority of voting rights through contractual arrangements formalised with other holders of voting rights (i.e., shareholders' agreements).

As regards structured entities - investment funds the Bank takes the following positions with respect to funds:

- subscriber of units, held for long-term investment purposes or for trading,
- counterparty in derivatives.

A relationship of control exists when the following situations are present:

- the Bank, as a subscriber of units, is able to remove the investment fund manager without just cause or for reasons associated with fund performance, and such rights are substantive;
- existence of provisions in the fund regulation envisaging the establishment within the fund of committees, in which the Bank participates, that influence the governance of relevant activities and have the legal and/or de facto right to control the activities of the fund manager;
- existence of other relations with the fund, such as the presence within the fund of personnel with strategic responsibilities associated with the Bank and the presence of contractual relations that subject the fund to the Bank for the subscription or placement of units.

Lastly, with reference to structured entities - securitisation vehicles, in checking for the fulfilment of requirements of control over securitisation vehicles, both the possibility of exercising power over relevant activities for its own benefit and the end purpose
of the transaction are taken into consideration by the Bank, as well as the investor/sponsor's involvement in the structuring of the transaction.

For autopilot entities, the subscription of the substantial entirety of the notes by the Bank is considered an indicator of the presence, particularly during the structuring phase, of the power to manage relevant activities to influence the economic returns of the transaction.

Companies subject to significant influence are considered associates. It is assumed that the company exercises significant influence in all cases in which it holds at least 20% of the voting rights (including "potential" voting rights) and, regardless of the interest held, if the company has the power to participate in management and financial decisions of the investee, by virtue of specific legal connections, such as shareholder agreements, with the purpose for the agreement's participants to ensure representation in management bodies and to ensure management unity, without having control.

Entities are considered to be jointly controlled companies when control is shared between the Bank and one or more other parties based on contractual agreements, according to which decisions are made through the unanimous consent of all parties that share control.

b) recognition criteria

Initial recognition of financial assets classified in this category occurs on the settlement date, for a total value equal to the cost, including any goodwill paid at the time of acquisition, which is therefore not subject to independent and separate recognition.

c) measurement criteria and revenue recognition criteria

Equity investments in subsidiaries, associates and joint ventures are recognised at cost. At each date of the financial statements or interim reports, the equity investments are checked for indicators of impairment. If evidence of impairment indicates that there may have been a loss in value of an equity investment, then the recoverable value of the investment (which is the higher of the fair value, less costs to sell, and the value in use) should be estimated. The value in use is the present value of the future cash flows expected to be derived from the investment, including those arising from its final disposal.

Should the recoverable value be less than its book value, including any goodwill, the difference is recognised immediately in the income statement under item "220 - Gains (losses) on investments". Should the reasons for impairment no longer apply as a result of an event occurring after the impairment was recognised, reversals of impairment losses are charged to the same item in the income statement, up to the amount of the previously recognised impairment.

For more detailed information, please refer to the paragraph "Use of estimates and assumptions when preparing financial statements - Methods for calculating impairment on investments".

The profit related to the equity investments is booked to the income statement of the Bank regardless of whether it was generated by the investee before or after the date of purchase. The result of the disposal of investments is recognised in the income statement under item "220 - Gains (losses) on investments".

d) derecognition criteria

Equity investments are derecognised upon maturity of the contractual rights on the cash flows resulting from the assets or when all related risks/rewards associated to them are transferred. If there is a situation that results in loss of significant influence or joint control, any residual equity investment is reclassified in the IFRS 9 financial asset portfolios.

6 Property, plant and equipment

a) classification criteria

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

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

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

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

This category also includes property, plant and equipment obtained through the enforcement of guarantees received and rights of use acquired through leases, both financial and operational, relating to property, plant and equipment that the Bank uses as a lessee for business purposes or for investment purposes. Improvements and incremental expenses incurred in relation to third-party assets when they refer to identifiable and separable property (e.g. ATMs) fall under the scope of third-party assets.

b) recognition criteria

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

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

For assets returned following the closure of the original credit position (known as "acceptance in return"), the value recognised is the lower of the gross credit value recorded at the time the asset is returned and:

- the "market value" resulting from a specific appraisal, if it is not expected that they will be classified as "non-current assets held for sale and discontinued operations" over a short-term horizon;
- the "rapid realisation value" inferred from a specific appraisal, which adjusted the "market value" for a sale in an exceedingly short period of time, if at the resolution date it is known that it will later be categorised under "non-current assets held for sale and discontinued operations";
- the price being negotiated, if at the time of initial recognition there are tangible sale negotiations, demonstrated by commitments made by the parties involved in the negotiation.

As regards real estate, components relating to land and buildings are separate assets for accounting purposes and are measured separately upon acquisition by applying the components approach. The breakdown of the value of the land and the value of the building is based on the appraisals of independent experts.

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

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

- estimated costs of refurbishment and dismantling, in cases where the contract provides for them.

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

When there is no implicit interest rate in the contract, the Bank uses, as the discount rate, the maturity curve aligned to the individual lease agreements, consisting of the 6M Euribor base rate and the blended funding spread, the latter equal to the weighted average of the funding curves for unsecured senior bonds and for protected and privileged deposits.

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

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

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

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

c) measurement criteria and revenue recognition criteria

Property, plant and equipment, including non-operating real estate and with the exception of those to which IAS 2 applies, are valued at cost less any accrued depreciation and impairment..
Property, plant and equipment, both owned and acquired through rights of use, are systematically depreciated over their useful life on a straight-line basis, except for land and artworks which have an indefinite useful life and cannot be depreciated. The useful life of property, plant and equipment subject to depreciation is periodically reviewed and, in the event of any adjustments to the initial estimate, a change is also made in the related depreciation rate. For the assets underlying the lease, the useful life must be determined taking into account the possible transfer of ownership of the asset to the lessee at the end of the lease. If it is considered likely that the lessee will exercise the option to purchase the asset, which is then reflected in the RoU value, the relevant useful life is that of the underlying asset at the contract's start date. Otherwise, the useful life is determined as the lower of the asset's useful life and the lease term. The depreciation rates and subsequent useful life expected for the main categories of assets are reported in the specific sections of the notes to the financial statements.

The presence of any signs of impairment, or indications that assets might have lost value, shall be tested at the end of each reporting period. Should there be indications of impairment of value, both for properties that are owned and those that are leased, a comparison is made between the book value of the asset and the asset's recoverable value, i.e. the higher of the fair value, less any costs to sell, and the relevant value in use, which is the present value of the future cash flows generated by the asset. Any adjustments are posted to the income statement under item 180 "Net value adjustments to (recoveries on) property, plant and equipment". Periodic depreciation is also reported in this item.

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

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

Property, plant and equipment falling under IAS 2 are valued in the same way as inventories and, therefore, at the lower of the cost at initial recognition and the net realisable value, represented by the estimated sale price less the presumed costs for completion and the other costs necessary to make the sale. Any losses in value are posted to the income statement under item "180 - Net value adjustments to (recoveries on) property, plant and equipment". Periodic depreciation is not applied in this case.

d) derecognition criteria

Property, plant and equipment are derecognised from the balance sheet upon their disposal or when the assets are permanently withdrawn from use and no future economic rewards are expected as a result of their disposal. Any gains and losses deriving from the disposal or sale of property, plant and equipment are calculated as the difference between the net sale price and the book value of the asset and are recorded in the income statement under item "250 - Gains (losses) on disposals of investments".

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

7 Intangible assets

a) classification criteria

Intangible assets are identifiable, non-monetary assets without physical substance that are held for use over several years or indefinitely. Intangible assets also include goodwill, which represents the positive difference between the purchase cost and the fair value of the assets and liabilities pertaining to an acquired company.

b) recognition criteria

They are recognised at cost, adjusted by any additional charges only if it is probable that the future economic rewards that are attributable to the asset will flow to the entity and if the cost of the asset can be measured reliably. The cost of intangible assets is otherwise posted to the income statement in the reporting period it was incurred.

Relevant intangible assets for the Bank include:

- technology-related intangible assets including software licenses, internal capitalised costs, projects and licenses under development; in particular, internally incurred costs for software project development are intangibles recognised as assets if, and only if: a) the cost for development can be measured reliably, b) the entity intends and is financially and technically able to complete the intangible asset and either use it or sell it, c) the entity is able to demonstrate that the asset will generate future economic rewards. Capitalised costs for software development only include the expenses that are directly attributable to the development process;
- customer relationship intangible assets, represented by the value of assets under management/custody and core deposits in the event of business combinations.

Goodwill is posted among assets when it results from a business combination transaction in accordance with the principles of determination indicated by IFRS 3, as a residual surplus between the overall cost incurred for the business combination and the net fair value of the assets and liabilities purchased (i.e. companies or business units).

Should the cost incurred be less than the fair value of the assets and liabilities acquired, the difference (badwill) is directly recognised in the income statement.

c) measurement criteria and revenue recognition criteria

The cost of an intangible asset with definite useful life is amortised on a straight-line basis over the useful life. Instead, intangible assets with indefinite useful life are not amortised but the book value is periodically assessed for impairment. Intangible assets arising from internally developed software and software purchased from third parties are amortised on a straight-line basis starting from completion and roll-out of the applications based on their useful life. Intangible assets reflective of customer relationships, which are taken over during business combinations, are amortised on a straight-line basis.

At each annual and interim reporting date, the recoverable amount of the assets is estimated where there is evidence of impairment. The amount of the loss recognised in the income statement is equal to the difference between the book value and the recoverable amount of the assets.

The goodwill recognised is not subject to amortisation, but its book value is tested annually (or more frequently) when there are signs of impairment. To this end, the cash flow generating units to which goodwill is attributable are identified. These units represent the lowest level at which goodwill is monitored for internal management purposes and should not be larger than an operating segment as defined by IFRS 8.

The amount of the impairment loss is determined by the difference between the book value of goodwill and its recoverable amount, if lower. Said recoverable amount is the higher of the cash generating unit's fair value, less costs to sell, and its value in use. Value in use is the present value of future cash flows expected to arise from the years of operation of the cash generating unit and its disposal at the end of its useful life. The resulting value adjustments are posted to the income statement under item "190 - Net value adjustments to (recoveries on) intangible assets". Periodic depreciation is reported in the same item. An impairment loss recognised for goodwill shall not be reversed in a subsequent period.

d) derecognition criteria

Intangible assets are derecognised from the balance sheet upon disposal and when no future economic rewards are expected.

8 Non-current assets held for sale and discontinued operations

a) classification criteria

Non-current assets/liabilities and groups of assets/liabilities for which the book value will presumably be recovered through sale rather than continuous use are classified in assets under item "110 - Liabilities associated with non-current assets held for sale and discontinued operations" and in liabilities under item "70 - Liabilities associated with individual assets held for sale".

To be classified in these items, the assets or liabilities (or discontinued operation) must be immediately available for sale and there must be active and tangible programs such as to suggest that their disposal is highly probable within one year of the date of classification in this category.

b) measurement criteria and revenue recognition criteria

Following initial recognition, non-current assets held for sale and discontinued operations, with the relative liabilities, are valued at the lower of the book value and the fair value net of selling cost, with the exception of certain types of assets, such as, for example, all financial instruments falling under the scope of IFRS 9 - for which IFRS 5 specifically envisages that the measurement criterion of the reference accounting standard must be applied.

Amortisation/depreciation is discontinued at the date the non-current asset is classified as a non-current asset held for sale.

The valuation reserves relating to non-current assets held for sale, recorded as an offsetting entry to changes in value relevant for that purpose, are recognised in the statement of comprehensive income.

Income and costs relating to groups of assets and liabilities held for sale, net of the tax effect, if attributable to operating assets sold, are recognised in income statement item "290 - Profit (loss) after tax from assets held for sale and discontinued operations". Profit and loss associated with individual assets held for sale are recognised in the most appropriate income statement item.

In the case of discontinued operations, it is also necessary to disclose the same economic information in a separate item also for the previous years shown in the financial statements, thereby reclassifying the income statement accounts.

c) derecognition criteria

Non-current assets held for sale and discontinued operations are derecognised from the balance sheet upon disposal.

9 Current and deferred tax

a) recognition criteria

The effects of current and deferred taxation calculated in compliance with Italian tax laws are recognised on an accrual basis, in accordance with the measurement methods of the income and expenses which generated them, by administering the applicable tax rates.

Income taxes are posted to the income statement, excluding those relating to items directly credited or charged to equity.

Income tax provisions are determined on the basis of a prudential forecast of current tax expense, deferred tax assets and liabilities.

Current tax includes the net balance of current tax liabilities for the year and current tax assets with the Financial Administration, comprising tax advances, tax credit arising from prior tax returns and other withholding tax receivables. In addition, current tax includes tax credit for which reimbursement has been requested from the relevant tax authorities. Tax receivables transferred as a guarantee of own debts shall also be recorded within this scope.

Deferred tax assets and liabilities are determined on the basis of the temporary differences - with no time limits - between the value assigned to the assets or liabilities in accordance with statutory principles and the corresponding values for tax purposes, applying the balance sheet liability method.

Deferred tax assets determined on the basis of deductible temporary differences are shown in the balance sheet for the extent to which they are likely to be recovered on the basis of the capacity of the company involved or all of the participating companies - as a result of exercising the option concerning "fiscal consolidation" - to generate a positive taxable profit on an ongoing basis, in light of a probability test.

Recovery of deferred tax assets relating to goodwill, other intangible assets, and write-downs on loans (known as "transformable DTAs") is to be automatically considered probable because of existing regulations that provide for conversion into tax credits, if a statutory and/or tax loss is incurred.

In particular, art. 2 - paragraphs 55 et seq. - of Law Decree no. 225 of 29 December 2010 (and subsequent amendments) provides that:

- if the financial statements filed by the company show a statutory loss for the year, deferred tax assets (IRES and IRAP) relating to goodwill, other intangible assets, and loan write-downs will be converted into tax credits for a portion equivalent to the ratio between the statutory loss and the book value of shareholders' equity prior to said loss. The conversion into tax credits becomes effective from the date when the 'loss-incurring' separate financial statements are approved by the Shareholders' Meeting;
- if there is a tax loss for the year (that is, for IRAP purposes, a negative production value), the deferred tax asset relating to the deductions for goodwill, other intangible assets, and loan write-downs, which contributed to the formation of the tax loss (i.e., the negative production value) is transformed into a tax credit. Conversion will be effective as of the date of submission of the tax return for the year in which the loss is incurred.

As a result of the provisions contained in Law Decree no. 83 of 27 June 2015, the DTAs that can be converted ceased to increase starting from 2016. In particular:

1. for deferred tax assets relating to goodwill, other intangible assets newly recognised in financial statements from 2016 onwards are excluded from the regulations pursuant to art. 2 - paragraphs 55 et seq. - of Law Decree 225/2010;
2. for deferred tax assets relating to loan write-downs, from 2016 onwards, the accounting assumption for recognition in financial statements has ceased and these write-downs are entirely deductible in the accounting period. Note that the 2019 financial manoeuvre (Law no. 145 of 30 December 2018) repealed the full deductibility of loan write-downs upon first-time application of IFRS 9, exclusively following the adoption of the model for recognising the provision to cover expected losses (ECL), providing for the deductibility (IRES and IRAP) of these write-downs on a straight-line basis over 10 years. It was, however, explicitly stated that the relative DTAs recorded in financial statements as a result, although referring to write-downs on loans to customers, cannot be converted into tax credits pursuant to Law Decree 225/2010. It should also be noted that the portion referring to 31 December 2019 was deferred to 31 December 2028, as a result of the 2020 Budget Law (Law 160 of 27 December 2019).

Furthermore, note that the Bank exercised the irrevocable option provided in Law Decree no. 59 of 3 May 2016 (and subsequent amendments) to maintain the right to convert DTAs relative to goodwill, other intangible assets, and loan losses into tax credits; thus, it is necessary to pay an annual fee for each year from 2016 onwards, if the conditions apply, until 2030.

Deferred tax assets on unused tax losses are recognised based on the same criteria as those used to recognise deferred tax assets on deductible temporary differences: therefore, they are shown in the balance sheet to the extent to which they are likely to be recovered on the basis of the capacity of the company to generate a positive taxable profit in the future. Since the existence of unused tax losses may be symptomatic of difficulties to generate positive taxable profit in the future, IAS 12 establishes that if losses have been posted in recent periods, suitable evidence must be provided to support the existence of such profit in the future. Furthermore, current Italian tax law allows for IRES losses to be carried forward indefinitely (art. 84, paragraph 1, of the Income Tax Act - TUIR); as a result, verifying the existence of future taxable profit against which to use such losses is not subject to any time limits.

As mentioned above, the Bank verifies the probability that there will be future taxable income (probability test) using the risk-adjusted approach, which provides for the application of a discount factor to future income. This factor, applied with the compound interest criterion, discounts future income at an increasing rate to reflect its uncertainty. For more details on the assessments made by the Group to verify the possibility of recognising deferred tax assets, please refer to the subsequent paragraph "Use of estimates and assumptions when preparing financial statements - Methods for recognising deferred tax assets (probability test)".

Deferred tax assets and liabilities are calculated using the tax rates expected at the date on which the temporary differences are reversed, on the basis of the provisions in force at the reporting date. In particular, for purposes of recognising deferred tax assets, it was taken into account that the 2020 Budget Law (Law 160 of 27 December 2019) reintroduced the ACE (Support for Economic Growth) subsidy, effective from 2019, which had previously been repealed by the 2019 Budget Law (Law 145 of 30 December 2018). Any changes in tax rates or tax standards having a significant effect on deferred tax assets and liabilities that are issued or announced after the reporting date and before the publication authorisation date are treated as events after the balance sheet date that do not entail an adjustment pursuant to IAS 10, with the resulting disclosure in the notes.

Deferred tax assets and liabilities are posted to the balance sheet by offsetting each tax against the defined asset or liability to which it relates.

b) classification and measurement criteria

Deferred tax assets and liabilities are systematically measured to take account of any changes in regulations or tax rates and of any different subjective situations.

With reference to fiscal consolidation of the parent company and participating subsidiaries, contracts have been stipulated to regulate offsetting flows in relation to the transfers of tax profits and losses. Such flows are determined by administering the applicable IRES tax rate to the taxable income of participating companies. The offsetting flow for companies that transfer tax losses - calculated as above - is posted by the consolidating to the consolidated company when and to the extent to which the consolidated company will transfer positive taxable income in tax periods subsequent to that in which the loss was recorded. Offsetting flows so determined are posted as receivables and payables with companies participating in fiscal consolidation, classified under other assets and other liabilities, offsetting item 270 "Tax expense (recovery) on income from continuing operations".

c) revenue recognition criteria

Where deferred tax assets and liabilities refer to components which affected the income statement, they are offset by income tax. When deferred tax assets and liabilities refer to transactions which directly affected equity without impacting the income statement (e.g. measurement of financial instruments at fair value through other comprehensive income or cash flow hedging derivatives), they are posted as an offsetting entry to shareholders' equity, involving the special reserves if required.

10 Provisions for risks and charges

Provisions for risks and charges: commitments and guarantees issued

The sub-item in question includes provisions for credit risk on commitments to disburse funds and guarantees given that fall under the scope of application of the impairment rules pursuant to IFRS 9, consistent with the provisions for "Financial assets measured at amortised cost" and "Financial assets measured at fair value through other comprehensive income". For more detailed information on the impairment model, please refer to the subsequent paragraph "Use of estimates and assumptions when preparing financial statements - Methods for calculating impairment on IFRS 9 financial instruments".

In addition, the sub-item also includes provisions for risks and charges established for other types of commitments and guarantees issued which, by virtue of their distinct characteristics, do not fall under the scope of application of the impairment rules pursuant to IFRS 9.

Provisions for risks and charges: post-employment benefits

The sub-item "Provision for risks and charges: b) post-employment benefits" includes appropriations, recognised based on IAS 19 "Employee Benefits", for the purpose of closing the technical deficit of defined benefit supplementary pension funds. Pension plans are either defined benefit or defined contribution schemes. The charges borne by the employer for defined contribution schemes are pre-determined; charges for defined benefit plans are estimated and shall take account of any shortfall in contributions or poor investment performance of defined benefit plan assets. For defined benefit plans, the actuarial values required by the application of the above standard are determined by an external actuary in accordance with the Projected Unit Credit Method. Actuarial gains and losses, defined as the difference between the book value of the liability and the present value of commitments at the end of the year, are recognised for the full amount in the statement of comprehensive income, under the item "Valuation reserves".

For further details, please refer to the following paragraph "16 - Other information - Severance pay and other employee benefits".

Provisions for risks and charges: other provisions

The sub-item "Provisions for risks and charges: c) other provisions" includes allocations made for estimated expenditures for legal or implicit obligations deriving from past events. These expenditures may be contractual in nature, such as the allocations for the incentive system for employees and leaving incentives, indemnities envisaged in contractual clauses upon occurrence of certain events, or for compensation and/or restitution, such as those against presumed losses for actions filed against the Bank, including claw-back actions, estimated expenses in relation to customer claims for securities brokerage, and tax disputes.

Sub-item c) also includes provisions established for lease contracts, stipulated as lessee, which require the dismantling/refurbishment of the underlying assets at the end of the contract.

Provisions for risks and charges consist of liabilities with uncertain amounts or payment dates and are recognised in the financial statements if:

- there is a current (legal or implicit) obligation resulting from a past event;
- an outflow of resources producing economic rewards is likely to be necessary in order to settle the obligation; and
- a reliable estimate can be made of the likely future disbursement.

The amount recognised as a provision represents the best estimate of the financial disbursement necessary to fulfil the obligation existing at the reporting date and reflects the risks and uncertainties inherent in the events and situations reviewed. Whenever the time element is meaningful, the provisions are discounted using the current market rates. With the exception of provisions associated with lease contracts, the allocation and discounting effect are recorded in the income statement under item "170 - Net provisions for risks and charges", as is the increase in the provision due to the passage of time. Provisions are reviewed at each reporting date and adjusted to reflect the best current estimate. When an outflow of resources, intended to produce economic benefits in fulfilment of an obligation, becomes unlikely or when the obligation has lapsed, the provision is reversed.

The provisions for lease contracts stipulated as lessee are established considering the best estimate of the costs to dismantle and refurbish the premises made on the contract start date, i.e. as at the date on which the underlying asset is made available to the Bank. The offsetting entry for the provision is the asset recognised for the right of use of the property in item "80 - Property, plant and equipment".

In addition, each provision is used solely for the expenditures for which it was originally established.

No provision is shown for contingent and unlikely liabilities, but information is provided in the notes to the financial statements, except in cases where the probability of an outflow of resources to settle the amount is remote or the amount is not significant.

11 Financial liabilities measured at amortised cost

a) classification criteria

Item 10 "Financial liabilities measured at amortised cost" includes the sub-items "a) deposits from banks", "b) deposits from customers", and "c) debt securities issued" and comprises the various types of funding (both interbank and from customers) and funds raised through certificates of deposit and outstanding bonds, net of any repurchase. Debt securities issued include all securities that are not subject to "natural" hedging through derivatives and that are classified as liabilities measured at fair value.

This item also incorporates payables booked by the lessee in relation to any stipulated finance and operating lease transactions, as well as repurchase agreements for funding and securities lent against cash guarantees that are fully available to the lender. Finally, operating payables related to the provision of financial services, as defined in the Consolidated Law on Banking and Consolidated Law on Finance, are included in this item.

b) recognition criteria

These financial liabilities are initially recognised upon receipt of the amounts collected or at the time of issuance of debt securities based on their fair value, which is generally equal to the amount received or the issue price, increased by any additional income/expense directly attributable to the individual funding or issuing transaction and not reimbursed by the creditors. Internal administrative expenses are excluded.

Repurchase agreement transactions with the obligation to repurchase are posted as funding transactions for the spot amounts collected.

Should the requirements provided for by IFRS 9 for the separate recognition of embedded derivatives be met in the case of structured instruments, they are separated from the host contract and reported at fair value as a trading asset or liability. Instead, the host contract is recognised at amortised cost.

Lease liabilities recognised in relation to the lessor are measured at the present value of future lease payments for the duration of the lease. The lease term is determined taking into consideration:

- periods covered by an option to extend the lease, if it is reasonably certain that the option will be exercised;
- periods covered by an option to terminate the lease, if it is reasonably certain that the option will be exercised.

c) measurement criteria and revenue recognition criteria

Following initial recognition, financial liabilities issued, net of any reimbursements and/or repurchases, are measured at amortised cost using the effective interest rate method. Short-term liabilities for which time effect is immaterial are an exception, and are recognised at the amount collected. Interest is charged to the income statement under item 20 "Interest expense and similar charges".

Following the commencement date, the book value of lease liabilities:

- increases for accrued interest expense, charged to the income statement under item "20 - Interest expense and similar charges";
- decreases for lease instalment payments;
- is recalculated to take into account any new valuations (e.g., extension or reduction of the contract term) or changes in the lease (e.g., renegotiation of the lease payment) that occurred after the commencement date.

Moreover, funding instruments that have an effective hedging relationship are assessed based on the rules for hedging transactions.

d) derecognition criteria

Financial liabilities are derecognised upon maturity or extinction. Derecognition also occurs if previously issued securities have been repurchased. The difference between the book value of the liabilities and the amount paid to repurchase them is recorded in the income statement in item "100 - Gains (losses) on disposals or repurchases". A new placement in the market of own securities after their repurchase is considered as a new issue and posted at the new price of placement, with no impact on the income statement.

12 Financial liabilities held for trading

a) classification criteria

This item includes:

- financial liabilities issued with the intention to repurchase them in the short term;
- liabilities that are part of a jointly managed portfolio of financial instruments for which there is a proven strategy to obtain profits in the short term;
- derivative contracts with a negative fair value not designated as hedging instruments, including both those embedded in complex financial instruments that have been unbundled from liabilities measured at amortised cost, as well as those related to assets/liabilities measured at fair value through profit and loss.

Moreover, liabilities that arise from technical overdrafts generated by securities trading activities are included.

b) recognition criteria

Financial liabilities held for trading are initially recognised on the settlement date for cash liabilities and on the subscription date for derivative contracts.

Upon initial recognition, they are measured at fair value, which usually corresponds to the amount collected net of any transaction costs or income directly attributable to the instrument itself, which are directly posted to the income statement.

c) measurement criteria

Following initial recognition, financial liabilities held for trading are measured at fair value, every change in fair value is recognised in the income statement.

For a description of criteria used to determine the fair value of financial instruments, please see Section "A.4.5 Fair Value Hierarchy" in Part A of these Notes to the financial statements.

d) revenue recognition criteria

Profits and losses arising from any changes in the fair value of financial liabilities and/or their sale are recognised in the income statement under item "80 - Net profit/loss from trading", including those for derivatives payable associated with the fair value option.

e) derecognition criteria

Financial liabilities are derecognised when the contractual rights on the related cash flows expire or when the financial liabilities are sold with the substantial transfer of all related risks and benefits.

13 Financial liabilities measured at fair value

a) classification criteria

This category includes financial liabilities for which, upon initial recognition, the option of measurement at fair value through profit and loss was chosen; this option is allowed when:

1. the fair value designation makes it possible to eliminate or significantly reduce a lack of standardisation in the measurement or recognition that would otherwise result from the valuation of assets or liabilities or the recognition of the related profits and losses on different bases (known as "accounting mismatch"); or
2. the management and/or measurement of a group of financial instruments at fair value through profit and loss is consistent with an investment or risk management strategy documented as such by senior management; or
3. a host instrument embeds a derivative which significantly modifies the cash flows of the host and should otherwise be unbundled.

The option to designate a liability at fair value is irrevocable, is carried out on an individual financial instrument, and does not require the same application to all instruments having similar characteristics. It is not permitted to use the fair value designation for only one portion of a financial instrument, attributable to a single risk component to which the instrument is subject.

The Bank has exercised this option in relation to case 1, classifying under this item financial liabilities that are subject to "natural hedging" through derivative instruments.

In Section 16 "Other information", a specific paragraph is included to provide insight into the hedging management methods through the adoption of the fair value option.

b) recognition criteria

Upon initial recognition, these financial liabilities are measured at fair value, which usually corresponds to the amount collected net of any transaction costs or income directly attributable to the instrument itself, which are directly posted to the income statement.

The fair value of any financial liabilities issued at conditions other than market conditions is calculated by using a specific valuation technique, and the difference with respect to the consideration received is booked directly to the income statement only when the conditions provided for by IFRS 9 have been met, i.e. when the fair value of the instrument issued can be established by using either quoted market prices for similar instruments or by a valuation technique based solely on market data. Should these conditions not apply, the fair value used for valuations after the issuance of instruments is cleared of the initial difference between the fair value upon issuance and the consideration received. This difference is recognised in the income statement only if it ensues from changes in the factors (including time), which market traders would consider for price determination.

c) measurement criteria and revenue recognition criteria

Following initial recognition, financial liabilities are measured at fair value. Gains and losses arising from any changes in the fair value of these liabilities are recognised:

- in item "110 - Valuation reserves", for the portion related to the change in fair value that is attributable to changes in the issuer's creditworthiness, unless this creates or increases an accounting mismatch in the profit (loss) for the year, in which case the entire change in fair value of the liability must be charged to the income statement; Effects associated with the change in own creditworthiness are recorded in the statement of comprehensive income, net of the related tax effect, along with the other income components that will not be reversed to the income statement. The amount charged to the specific equity reserve will never be reversed to the income statement, even if the liability expires or lapses; in this case, the cumulative gain (loss) in the specific valuation reserve must be reclassified to another shareholders' equity item ("140 - Reserves");
- in the income statement under item "110 - Net profit (loss) from financial assets and liabilities measured at fair value through profit and loss", for the portion of the fair value change not attributable to changes in own creditworthiness.

For a description of criteria used to determine the fair value of financial instruments, please see Section "A.4.5 Fair Value Hierarchy" in Part A of these Notes to the financial statements.

d) derecognition criteria

Financial liabilities are derecognised when the contractual rights on the related cash flows expire or when the financial liabilities are sold with the substantial transfer of all risks and benefits resulting from the ownership.

For financial liabilities represented by securities issued, derecognition also occurs if previously issued securities have been repurchased. The difference between the book value of liabilities and the amount paid to purchase them is recorded in the income statement under item "110 - Net profit/loss from financial assets and liabilities measured at fair value through profit and loss", with the exception of profits/losses associated with the change in own creditworthiness, which continues to be recognised in an equity reserve, as described above. A new placement in the market of own securities after their repurchase is considered for accounting purposes as a new issue and posted at the new price of placement, with no impact on the income statement.

14 Foreign-currency transactions

a) recognition criteria

Upon initial recognition, foreign-currency transactions are recognised in the currency of account using the foreign-exchange rates on the date of the transaction.

b) revenue classification, measurement, recognition and derecognition criteria

Financial statement entries denominated in foreign currencies are valued at the end of each reporting period as follows:

- monetary entries are converted using the exchange rate on the closing date;
- non-monetary entries valued at historical cost are converted using the exchange rate on the date of the transaction;
- non-monetary entries that are measured at fair value in a foreign currency are translated at the closing date rate.

Any exchange-rate differences resulting from the settlement of monetary elements, or from the conversion of monetary elements at rates other than those used for initial conversion or conversion in the previous financial statements, are posted to the income statement for the period in which they arise.

When a profit or a loss on a non-monetary element is recognised in equity, the exchange-rate difference in relation to said element is also posted to equity. However, when a profit or a loss is posted to the income statement, the relative exchange-rate difference is also posted there.

The accounting position of foreign branches with different operating currencies is converted into Euros by using the exchange rates at the end of the reporting period. Any exchange rate differences attributable to investments in such foreign branches, and those resulting from the conversion into Euros of their accounting position, are recognised in equity reserves and transferred to the income statement only in the year when the investment is disposed of or reduced.

15 Insurance assets and liabilities

The Bank does not carry out insurance activities.

16 Other information

Other financial statement items

Cash and cash equivalents

This item includes currencies that are legal tender, including foreign banknotes and coins and demand deposits with the central bank of the country or countries in which the Bank operates through its own companies or branches, with the exception of the mandatory reserve.

The item is posted at face value. For foreign currencies, the face value is converted into Euros at year-end exchange rate.

Change in value of macro-hedged financial assets and liabilities

These items show, respectively, the net amount, whether positive or negative, of changes in value of assets and liabilities macro-hedged against interest rate risk, pursuant to IAS 39, paragraph 89. For more detailed information, please refer to the discussion in paragraph 4 “Hedging transactions”.

Other assets

This item shows assets not attributable to the other items on the asset side of the balance sheet. It may include, for example:

- gold, silver, metals and precious stones;
- items in processing;
- accrued income and prepaid expenses not attributable to its own separate item;
- receivables associated with the provision of non-financial goods or services and accrued income other than that which is capitalised on the related financial assets, including those resulting from contracts with customers pursuant to IFRS 15;
- any inventories according to the definition of IAS 2, excluding those classified as inventories of property, plant and equipment;
- tax credits other than those recognised under item “100 - Tax assets”;
- improvements and incremental expenses incurred on third-party real estate other than those attributable to item “80 - Property, plant and equipment” and therefore not independently identifiable and separable.

The costs in the latter bullet point are posted to item “120 - Other assets”, since the user company exercises control of the assets for the purpose of the tenancy agreement and can obtain future economic benefits from them. Said costs are posted to item “200 - Other operating expenses (income)” in the income statement according to the shorter of the period in which the improvements and incremental expenses can be used and the remaining term of the contract, including the renewal period, where applicable.

Other liabilities

This item shows liabilities not attributable to other items on the liability side of the balance sheet.

It includes, for example:

- items in processing;
- payment agreements that must be classified as debit entries according to IFRS 2;

- debit entries connected with payment for provision of non-financial goods and services;
- accrued liabilities other than those to be capitalised for the respective financial liabilities, including those deriving from contracts with customers pursuant to IFRS 15;
- sundry tax liabilities other than those recognised under item "60 - Tax liabilities", associated, for example, with substitute tax assets.

Severance pay and other employee benefits

Employee severance pay is defined as a "benefit subsequent to the employment relationship", in accordance with IAS 19. Following the supplementary pension reform, pursuant to Italian Legislative Decree no. 252 of 5 December 2005, new rules were introduced for severance pay accrued effective 1 January 2007, which is recognised for purposes of the relative accounting treatment. In particular, for companies with an average of at least 50 employees during 2006, the portions of severance pay accrued starting from 1 January 2007 are considered a "defined contribution plan", both for the case in which the employee opts for supplementary social security, as well as the case in which the employee opts for the allocation to the INPS treasury fund; the charge, recognised under personnel costs, is limited to the contribution established by regulations envisaged by the Italian Civil Code, without applying any actuarial methodology.

Conversely, the severance pay accrued as at 31 December 2006 continues to be considered a "defined benefit plan". In general, "post-employment plans" - which include severance pay as well as pension funds - are divided into the two categories "defined benefit" or "defined contribution", based on their characteristics.

In particular, for defined contribution plans, the cost is represented by contributions accrued during the year, given that the company has only the obligation to pay the contractually established contributions to a fund and, consequently, has no legal or implicit obligation to pay, in addition to the contribution, additional amounts if the fund does not have sufficient assets to pay all the benefits to employees.

For defined benefit plans, the actuarial and investment risk, that is, the risk of a shortfall in contributions or poor investment performance of the assets in which the contributions are invested, is borne by the company. The liability is calculated by an external actuary based on the Projected Unit Credit method. Based on this method, future disbursements must be estimated based on demographic and financial assumptions, to be discounted to consider the time that will pass before the actual payment and to be adjusted for the ratio between the years of service accrued and the theoretical seniority estimate at the time the benefit is paid. For discounting purposes, the rate used is determined with reference to the market yield of primary corporate bonds taking into account the average residual duration of the liability, weighted according to the percentage of the amount paid and advanced, for each maturity, compared to the total to be paid and advanced up to the final settlement of the full bond.

The actuarial value of the liability thus calculated must then be adjusted for the fair value of any assets servicing the plan (net liabilities/assets). Actuarial gains and losses that arise as a result of adjustments to the previous actuarial assumptions formulated, following actual historical data or due to changes in the actuarial assumptions, entail a re-measurement of net liabilities and are offset against an equity reserve (item "110 - Valuation reserves") and are thus presented in the "Statement of comprehensive income". The change in the liability resulting from a change or reduction in the plan is recorded in the income statement as a profit or loss. More precisely, the specific case of a change applies if a new plan is introduced or an existing plan is withdrawn or modified. Instead, there is the case of a reduction due to a significant negative variation in the number of employees included in the plan, such as, for example, redundancy plans for redundant workers (access to the Solidarity Fund).

The Projected Unit Credit method, described above, is also used to measure long-term benefits, such as seniority bonuses for employees. Contrary to that which was described for defined benefit plans, actuarial gains and losses associated with the measurement of long-term benefits are immediately recognised in the income statement.

Valuation reserves

This item includes valuation reserves relating to the equity securities measured at fair value through other comprehensive income, financial assets (other than equity securities) measured at fair value through other comprehensive income, hedges on foreign investments, cash flow hedges, exchange rate differences for conversion, "individual assets" and groups of assets held for sale, the portion of valuation reserves for investments measured according to the equity method, actuarial gains (losses) on defined benefit plans, and profits/losses for changes in own creditworthiness in relation to liabilities under the fair value option.

Share capital and Treasury shares

This equity item includes the amount of issued shares net of any capital subscribed but not yet paid at the reporting date. The item is shown including any treasury shares held by the Bank. Treasury shares are recognised in financial statements as a negative component of shareholders' equity.

The original cost of repurchased treasury shares and the profits or losses from their subsequent sale are recognised as changes in shareholders' equity. Transaction costs for a capital transaction, such as an increase in share capital, are recorded as a reduction in shareholders' equity, net of any related tax benefits. Dividends on ordinary shares are recorded as a reduction of shareholders' equity in the year in which the Shareholders' Meeting approved their distribution.

Other significant accounting practices

Revenues from contracts with customers (IFRS 15)

Revenues are gross inflows of economic benefits during the year in the form of consideration for the obligation to transfer to the customer a wide range of goods and services considered part of ordinary business activities.

The IFRS 15 standard, "Revenue from Contracts with Customers", introduces a new model for recognising revenues deriving from contractual obligations with customers, which is based on the concept of a transfer of control and, thus, not only on the concept of the transfer of risks and benefits.

First of all, revenues deriving from contracts with customers are recorded in financial statements only if the relative contract is identifiable, that is:

- the parties have approved the contract and are committed to its execution;
- the rights and obligations of the parties can be clearly identified in the contract;
- the payment terms for the transferred goods and services can be identified;
- the contract has commercial substance, in the sense that it impacts the entity's cash flows;
- it is considered likely that the consideration will be collected upon transfer of the assets and provision of the services. For this assessment, only the customer's ability and intention to pay the amount due should be considered.

After the contract's consideration has been allocated to individual obligations resulting from the contract, revenue is recognised in the income statement when the customer obtains control of the goods or services promised (or when the performance obligation may be deemed satisfied) and can be:

- at a specific point in time (e.g., when the entity fulfils the obligation to transfer the promised good or service to the customer);
- over a period of time (e.g., as the entity fulfils the obligation to transfer the promised good or service to the customer);

For purposes of determining the revenue, the consideration is defined as the amount the entity is entitled to in exchange for the transfer of goods and services and may include fixed amounts, variable amounts, or both. Specifically, the contract's consideration may vary based on reductions, discounts, reimbursements, incentives, performance bonuses, or other similar elements. The consideration may also vary depending on whether a future event occurs (as in the case of a fee linked to performance objectives).

The methods suggested by IFRS 15 for estimating the variable portion of remuneration are:

- the expected value method, i.e., the weighted sum of the amounts in a range of possible considerations (for example, the company has many contracts with similar characteristics);
- the most likely amount method, or the most likely in a range of possible considerations (for example, the company receives a performance bonus or does not receive it).

If there is an element of variable consideration, revenue is recognised in the income statement only if it is possible to reasonably estimate the revenue and if it is highly probable that this consideration will not be subsequently reversed from the income statement, whether in full or for a significant part. In the event of a high prevalence of factors of uncertainty linked to the nature of the consideration, it will only be recognised at the moment this uncertainty is resolved. In any case, the estimated part of the transaction price must be updated at the end of each reporting period. The presence of financial components is also considered in determining the price, if considered relevant.

In the case of commercial agreements that envisage the recognition of variable non-cash consideration to the entity, linked to the achievement of specific targets and that can be used for services rendered by the commercial partner, the Bank recognises these revenues in the income statement in the year in which they accrue, at a value that is not more than the fair value of services effectively rendered by the partner.

If the entity receives from the customer a consideration that provides for the reimbursement to the customer, in whole or in part, of the revenue received, a provision for risks and charges is recognised against the expected future repayments. The case may occur, for example, when the customer has a right of withdrawal for the asset or if the contract includes a claw-back clause. This standard also applies to loyalty programmes, against which a refund liability is recognised. The liability for future redemptions is equal to the amount of the consideration received (or receivable) for which it is expected that the entity is not entitled to (i.e., amounts not included in the transaction price). The liability for future redemptions (as well as the corresponding change in the transaction price and, consequently, the liability arising from the contract) must be updated on the closing date of each reporting period to take account of changes in circumstances.

For contracts for the placement of third-party products, which provide for the reimbursement of part of the commissions received in the event of early termination by the customer and in the presence of claw-back clauses linked to the failure to achieve target commission volumes, the Bank quantified this provision for risk and charges based on historical trends for early repayments and reimbursements to customers. The monitoring and forecasting of volumes of the collected and reversed fees enable the provision to be adjusted at each reporting date. The model that is used is based on the most likely amount method.

In addition, the Bank has a credit card loyalty programme in place, according to which reward points are granted to customers based on the volumes transacted; reward points are redeemed through prizes purchased mainly from external suppliers. Reward points granted to customers who subscribe to a product/service of the Bank entails that recognition of the portion of revenue attributable to the recognised reward points in the income statement is suspended, as an offsetting entry to other liabilities. For this purpose, the transaction price of the performance obligation associated with the reward points granted is estimated, using a model based on the fair value of the reward points, calculated using several factors including: redemption forecasts for the reward points accrued by customers and the cost related to reward purchases. The amount of consideration that can be allocated to the reward points is recognised as a refund liability; it is released to the income statement only when the obligations related to the reward points have been fulfilled, i.e., when they are effectively redeemed by the customer.

Lastly, the incremental costs for obtaining the contract that are expected to be recovered and the costs for fulfilling the contract are capitalised when these costs can be directly attributed to the contract, generate resources that can be used to fulfil future contractual performance obligations, and are considered recoverable. This recognised asset is systematically amortised in accordance with the transfer to the customer of the good or service to which the asset refers and, therefore, in accordance with the accounting of the corresponding revenues. The Bank does not have assets of this type.

Revenues and costs relating to financial instruments

With reference to the income and charges relating to financial assets/liabilities, note that:

a) interest is booked *pro-rata temporis* on the basis of contractual interest rate or the effective interest rate in the event of application of the amortised cost; negative income components accrued on financial assets are booked to item “20. Interest expenses and similar charges”; the positive income components accrued on financial liabilities are booked to item “10. Interest income and similar revenues”. Interest income (or interest expense) also includes the spreads or margins, positive (or negative), accrued up to the reporting date, in relation to financial derivative contracts:
   - hedging assets and liabilities that generate interest;
   - classified in the balance sheet in the trading book, but operationally linked to financial assets and/or liabilities measured at fair value (fair value option);
   - connected operationally with assets and liabilities classified in the trading book and which entail the settlement of differentials or margins over several maturities;

b) interest on arrears is posted to the income statement only upon actual collection;

c) dividends are shown in the income statement upon resolution of their payout, i.e. when their payment is due;
d) commissions for service income are posted in the period when said services were rendered, on the basis of existing contractual agreements. The commissions considered in the amortised cost for purposes of calculating the effective interest rate are recorded in interest;
e) gains and losses following initial recognition at fair value, as determined by the difference between the transaction price and the fair value of the instrument, are booked to the income statement when the transaction is recorded if the fair value can be determined with reference to parameters or recent transactions observable on the same market in which the instrument is traded; otherwise, they are distributed over time, taking into account the duration and the nature of the instrument;
f) gains and losses from the sale of financial instruments are recognised in the income statement when the sale is finalised, with the relative transfer of risks and benefits, based on the difference between the consideration received and the book value of the instruments themselves. Portfolio management fees are recognised based on the duration of service.

Costs for constant services and decreasing payments

The IFRS accounting standards do not provide specific guidelines on the accounting treatment to be applied for recognising costs related to service contracts that are rendered by the supplier through an indeterminate number of actions, over a given period of time. If there are cases of services rendered by suppliers through a single performance obligation relating to the provision of a specific number of units, such as a certain volume of services, which remain constant throughout the contract term and this single performance obligation is satisfied over time with a decreasing payment amount due by the customer, the Bank applies the accounting treatment envisaged by IFRS 15 accounting standard (see Basis for Conclusions 313-314).

In cases of the provision of a constant volume over time of equal services and decreasing payments, the Bank assigns an average unit cost to the services received and, consequently, recognises their costs on a straight-line basis. This straight-line mechanism for recognising costs entails the need to recognise a prepaid asset which, at each reporting date pursuant to IAS 36, is assessed to determine if there are impairment indicators which also takes into account the analyses carried out pursuant to IAS 37, for purposes of onerous contracts. In the event that impairment indicators are identified, the recoverable value of the asset must be calculated and a write-down must be recognised in the financial statements when the recoverable value is lower than the book value.

Share-based payments

These are payments to employees, as consideration for work performed, settled with equity instruments, which consist, for example, in assigning:

- rights to subscribe paid share capital increases (stock options);
- rights to receive shares upon achieving certain objectives or at the end of the employment relationship.

Pursuant to IFRS 2, payments based on treasury shares are classified as “equity-settled” plans, to be recognised based on the fair value of the employment services received.

Given the difficulties of directly estimating the fair value of employment services received as an offsetting entry to the assignment of shares, the value of the services received can be measured indirectly, using as a reference the fair value of equity instruments at the date they are assigned. The fair value of payments settled by issuing shares is recognised according to the criterion of the service provided, in the income statement item “160 - a) Personnel expenses” as an offsetting entry to an increase in the item “140 - Reserves”.

In particular, when the assigned shares cannot immediately be used by the employee, but rather are available only after the employee has completed a specific period of service, the company recognises the cost as consideration for the service rendered throughout the accrual period for these conditions (“vesting period”).

Business combinations

A business combination is defined as the transfer of control of a company (or of a group of assets and integrated goods, conducted and managed as a unit). For the definition of control, please refer to Section 3 “Scope of consolidation” of this part A of the notes.

A business combination may give rise to an investment link between the acquiring Parent Company and the acquired subsidiary. In these cases, the acquiring entity applies IFRS 3 to the consolidated financial statements while posting the acquired interest to its separate financial statements as an equity interest in a subsidiary, consequently applying the "Separate financial statements" accounting standard.

A business combination may also provide for the acquisition of the net assets of another entity, including any goodwill, or the acquisition of the share capital of another entity (e.g., mergers, splits, acquisitions of business units). Such a business combination is not an investment link like the one between a parent company and a subsidiary, and therefore in these cases IFRS 3 is also applied to the acquiring entity's separate financial statements.

Business combinations are accounted for using the purchase method, which requires: (i) the identification of the acquirer; (ii) the determination of the cost of the business combination; and (iii) the allocation of the acquisition price ("Purchase Price Allocation").

<u>Identification of the acquirer</u>

IFRS 3 requires that an acquirer is identified for all business combinations, identified as the party that obtains control over another entity, understood as the power to set financial and management policies of the entity in order to receive benefits from its activities. In the case of business combination transactions that result in the exchange of equity interests, identification of the acquirer must consider factors such as: (i) the number of new ordinary voting shares issued with respect to the total number of ordinary voting shares that will constitute the share capital of the existing company after the combination; (ii) the fair value of the entities participating in the business combination; (iii) the composition of the new corporate bodies; and (iv) the entity that issues the new shares.

<u>Determination of the cost of the business combination</u>

The consideration paid in a business combination is equal to the fair value, on the purchase date, of assets sold, liabilities incurred, and equity instruments issued by the acquirer in exchange for obtaining control of the acquired entity. The consideration that the acquirer transfers in exchange to the acquired entity includes any assets and liabilities resulting from an agreement on "contingent consideration", to be recognised at the fair value on the acquisition date. Changes to the consideration transferred are possible if they result from additional information on events and circumstances that existed at the acquisition date and may be recognised within the measurement period for the business combination (i.e., within twelve months from the acquisition date, as specified below). Any other changes deriving from events or circumstances subsequent to the acquisition, such as consideration recognised to the seller linked to the achievement of a certain profit performance, must be recorded in the income statement.

Costs related to the acquisition, which include brokerage fees, consulting, legal, accounting, and professional fees, as well as general administrative costs, are recorded in the income statement as they are incurred, with the exception of the costs of issuing shares and debt securities, which are recognised on the basis of the provisions of IAS 32 and IFRS 9.

<u>Purchase Price Allocation</u>

According to the purchase method, at the acquisition date, the acquirer must allocate the cost of the business combination ("Purchase Price Allocation") to the identifiable assets acquired and to the liabilities assumed measured at their fair value on that date, as well as recognising the value of non-controlling interests of the acquired entity. Therefore, it is necessary to draw up a balance sheet for the acquired entity, at the acquisition date, measuring at fair value the identifiable assets acquired (including any intangible assets not previously recognised by the acquired entity) and identifiable liabilities assumed (including contingent liabilities).

For each business combination, any non-controlling interests may be recognised at fair value or in proportion to the share of identifiable net assets of the acquired company.

In addition, if control obtained through subsequent acquisitions (business combinations carried out in several phases), the previously held equity interest is measured at fair value at the acquisition date and the difference compared to the previous book value must be charged to the income statement.

Hence, at the acquisition date, the acquirer must determine the difference between:

- the sum of:
  - the cost of the business combination;
  - the amount of any non-controlling interests as described above;
  - the fair value of any equity interests previously held by the acquirer;

and

- the fair value of identifiable net assets acquired, including contingent liabilities.

Any positive difference must be recognised as goodwill; conversely, any negative difference must be charged to the income statement of the entity resulting from the business combination as profit deriving from the purchase at favourable prices (negative goodwill or badwill), after having performed a new measurement aimed at ascertaining the correct process of identifying all assets acquired and liabilities assumed.

The fair value of assets and liabilities must be definitively identified within the maximum term of twelve months from the acquisition date (measurement period).

Once control has been obtained and the purchase method described above has been applied, any further increase or decrease in the equity interest in a subsidiary in which control is maintained is recognised as a transaction between shareholders. Therefore, the book values of the shareholders' equity of the Group and third parties must be adjusted to reflect changes in equity interests in the subsidiary. Any difference between the value for which non-controlling interests are adjusted and the fair value of the consideration paid or received must be recognised directly in the Group's shareholders' equity.

If there is an event which results in the loss of control, an entry is made to the income statement equivalent to the difference between (i) the sum of the fair value of the consideration received and the fair value of the residual equity interest held and (ii) the previous book value of the assets (including goodwill) and liabilities of the subsidiary and any third-party shareholders' equity. The amounts previously recognised in the statement of comprehensive income (such as valuation reserves for financial assets sold that are measured at fair value through other comprehensive income) must be accounted for in the same way as required if the parent company had directly sold the assets or related liabilities (by reclassification in the income statement or shareholders' equity).

The fair value of any equity interest held in the former subsidiary must be considered equal to the fair value upon initial recognition of a financial asset according to IFRS 9, or, where appropriate, equal to the cost at the time of initial recognition in an associate company or a jointly controlled entity.

Business combinations under common control

Business combinations between entities under common control do not fall under IFRS 3. In the absence of a standard of reference, as indicated in Section 1 "Declaration of conformity with international accounting standards", these transactions are posted to the accounts by making reference to preliminary guidance from the Italian Association of Auditors (Orientamenti Preliminari, OPI 1 "Accounting treatment of business combinations of entities under common control in separate and consolidated financial statements" and OPI 2 "Accounting treatment of mergers in financial statements"). These guidelines consider the economic significance of business combinations on the basis of cash flow impact on the Bank. Transactions, which had no significant influence on future cash flows, were recognised using the pooling of interest method. Therefore, in the financial statements of the seller, the difference between the sale price and the book value is posted as an increase/decrease in equity. Exclusively in the event of acquisition or transfer of a controlling interest, the equity investment is posted at acquisition cost in the acquirer/transferee's financial statements for the year.

Amortised cost

The amortised cost of financial assets or liabilities is the value at which they were measured upon initial recognition, net of principal repayments, plus or minus overall amortisation calculated using the effective interest method, on the differences between the initial value and that at maturity and net of any permanent impairment.

The effective interest rate is the rate which equates the present value of a financial asset or liability with the future contractual payments or collection cash flows until maturity or a subsequent price recalculation date. To calculate the current value, the effective interest rate is applied to estimated future collection or payment flows over the entire useful life of the financial assets or liabilities - or for a shorter period if certain conditions are met (for example, a change to market rates).

Following initial recognition, the amortised cost makes it possible to allocate income and costs reducing or increasing the instrument over its entire expected life by means of the amortisation process. The determination of the amortised cost is different depending on whether the financial assets/liabilities are subject to valuation at a fixed or variable rate.

For fixed-rate instruments, future cash flows are quantified based on the known interest rate during the term of the financing. For floating-rate financial assets/liabilities, whose variability is not known beforehand (because, for example, it is tied to an index), cash flows are determined on the basis of the last known rate. At every rate review date, the amortisation schedule and the actual rate of return over the entire useful life of the instrument, i.e. until maturity, are recalculated. The adjustment is recognised as cost or income in the income statement.

Amortised cost is assessed for financial assets measured at amortised cost and for those as fair value through other comprehensive income as well as financial liabilities measured at amortised cost.

Financial assets and liabilities traded at market conditions are initially recognised at their fair value, which normally corresponds to the amount disbursed or paid inclusive - in the case of instruments valued at amortised cost - of transaction costs and commissions directly attributable to the assets and liabilities.

Transaction costs include marginal internal and external costs and income attributable to the issue, acquisition or sale of a financial instrument that cannot be charged to the customer. These fees, which must be directly attributable to the individual financial assets or liabilities, impact the original effective return and make the effective interest rate associated with the transaction different from the contractual interest rate. Indistinguishable costs related to several transactions and components related to events that may occur during the life of the financial instrument, but which are not certain at the time of the initial definition, are excluded, such as: fees for retrocession, for failure to use, and for early repayment.

Calculation of the amortised cost does not include costs that the Bank must incur regardless of the transaction (e.g., administrative, stationery and advertising costs), which, even though they are specifically attributable to the transaction, occur in the normal practice of managing loans (e.g., disbursement activities), as well fees for services collected following the completion of structured finance activities that would have been collected in any case, regardless of the subsequent financing of the transaction (e.g., facility and arrangement fees).

With particular reference to loans, fees paid to distribution channels (agents, advisors, brokers) and the fees paid for consultancy/advisory in organising and/or participating in syndicated loans are considered costs attributable to the financial instrument, while revenues considered in the calculation of the amortised cost are those for participation in syndicated transactions and brokerage commissions linked to fees recognised from brokerage firms.

With regard to securities not measured at fair value through profit and loss, transaction costs include both commissions for contracts with brokers operating on Italian stock markets and commissions paid to intermediaries operating on foreign stock and bond markets defined on the basis of commission tables.

For securities issued, commissions for bond placement paid to third parties, amounts paid to stock exchanges, and fees paid to the auditors for activities performed for each individual issue are considered in the calculation of amortised cost, while commissions paid to rating agencies, legal expenses and consultancy/audit fees for the annual update of the prospectuses, as well as costs for the use of indices and commissions that originate during the life of the bond are not considered in the amortised cost calculation.

Compared to the general approach, the effective interest rate must be calculated differently for those financial instruments measured at amortised cost or at fair value through other comprehensive income, purchased or originated, which at the time of their initial recognition are already credit impaired (known as PCI or OCI).

The criterion for measurement at amortised cost does not apply for hedged financial assets/liabilities for which changes in fair value for the hedged risk are charged to the income statement. However, the financial instrument is re-measured at amortised cost if the hedge is suspended, the moment from which the previously recognised changes in fair value are amortised, by calculating a new effective interest rate that considers the loan value adjusted for the fair value of the hedged element, until the expiry of the hedge that was originally envisaged. Moreover, as mentioned above in the paragraphs relating to financial assets and liabilities measured at amortised cost, the amortised cost measurement does not apply to financial assets/liabilities whose short duration makes the economic effect of discounting negligible or for loans without a defined maturity or revocation.

Purchased or originated impaired financial assets (POCI)

These are instruments whose credit risk is already very high and that, at the time of acquisition, are purchased at highly discounted price with respect to their initial disbursement; for this reason, they are considered already impaired (credit impaired) at the time of first recognition in the financial statements. These assets are classified, according to the business model with which the asset is managed, in item “30 - Financial assets measured at fair value through other comprehensive income” or item “40 - Financial assets measured at amortised cost”.

In relation to POCIs, there are two different types:

- instruments or portfolios of non-performing loans acquired on the market (Purchased Credit Impaired - "PCI");
- loans disbursed by the Bank to customers characterised by a very high credit risk (Originated Credit Impaired - "OCI").

Impaired financial assets acquired through a business combination pursuant to IFRS 3 fall within the scope of application of IFRS 9 PCI.

Note that these financial assets are initially recorded in Stage 3, without prejudice to the possibility of reclassifying them to performing loans (Stage 2), for which an expected loss will continue to be recorded according to an impairment model based on lifetime ECL, as described below.

With reference to the initial recognition, measurement and derecognition criteria, please refer to the discussion corresponding to the asset items into which they can be classified, with the exception of what is specified below in relation to procedures for calculating amortised cost and impairment.

In detail, the amortised cost and consequently the interest income are calculated using an effective interest rate adjusted for the credit (known as "credit-adjusted effective interest rate" or CEIR). For calculating the effective interest rate, the aforementioned credit adjustment entails including the expected credit losses over the entire residual duration of the asset in the estimate of future cash flows. For the purposes of calculating the CEIR, the Bank uses contractual cash flows net of expected losses.

In addition, the assets in question envisage a particular treatment also for the impairment process, as they are always subject to the calculation of an expected loss over the life of the financial instrument (lifetime ECL). After initial recognition, the profit or loss deriving from any change in expected losses over the life of the loan compared to the initial estimate must be recorded in the income statement. Thus, for these assets, expected losses cannot be calculated using the one-year time horizon as a reference.

Loan renegotiations

In some cases, over the life of financial assets and, in particular, of loans, the original contractual conditions are subsequently modified as agreed by the parties to the contract. When, during an instrument's life, the contractual clauses are changed (both in the case the change is formalised by signing a new contract and when there is an amendment to the existing contract), it is necessary to check 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.

In general, changes to a financial asset result in its derecognition and to the recording of a new asset when these changes are "substantial". The determination of the "substantiality" of the change is made by considering only qualitative elements. In particular, renegotiations are considered substantial when they introduce specific objective elements that affect the characteristics and/or cash flows of the financial instrument (e.g., change in the denomination currency, introduction of indexing on equities or commodities) in consideration of the significant expected impact on the original cash flows, or that are made in relation to customers that are not experiencing financial difficulties, with the aim of adjusting the contract's cost to the current market conditions. In the latter case, note that, if the Bank does not allow a renegotiation of contractual conditions, the customer would have the opportunity to obtain funding from another intermediary, with resulting loss in the revenue streams envisaged in the renegotiated contract. In other words, for a commercial renegotiation, the Bank would not have any loss to be recorded in the income statement as a result of the realignment to the best current market conditions for its customers. Instead, for renegotiations considered to be substantial, the gross value is recalculated by determining the present value of cash flows resulting from the renegotiation, based on the original rate of the exposure prior to the renegotiation. The difference between this gross value and the gross book value prior to the change is recorded in the income statement under item "140 - Modification gains/(losses)" (known as "modification accounting"). In the case of non-substantial renegotiations, the modifications granted to counterparties experiencing financial difficulties (concessions of forbearance measures) are attributable to the Bank's attempt to maximise the recovery of the original exposure, whose risks and benefits continue to be borne by the Bank. Exceptions are made for changes that introduce substantial objective elements in the contract that can themselves lead to the derecognition of the financial asset, as previously described.

Fair Value Option

In its financial risk management policy, relating to financial instruments included in the banking book, the Bank has used the fair value option accounting technique alongside fair value hedging and cash flow hedging methods.

The fair value option was used to represent operational hedges on fixed-rate or structured bonds and certificates of deposit issued at fixed rates (accounting mismatch). In that case the Bank stipulates operational micro-hedging derivative contracts with MPS Capital Services S.p.A., which in turn manages by assets the Bank's overall exposure to the market.

The scope of application of the fair value option currently regards primarily fixed-rate securities and structured securities subject to hedges on interest rate risk and the risk deriving from embedded derivative components.

IFRS 9 allows the option of designating a financial instrument under the fair value option to be exercised irrevocably only upon initial recognition. The fair value option cannot therefore be used for hedges on funding instruments issued prior to the decision that the hedge be undertaken; hedge accounting must be used in these cases, and is also used to manage hedges on bond issues that are traded in the secondary market at market values.

Unlike hedge accounting, whose rules provide that only fair value changes attributable to the hedged risk are recognised for the hedged instrument, the fair value option involves the recognition of all fair value changes, regardless of the risk factor that is being hedged.

For the issues in question, the fair value is measured, firstly, by referencing observable prices in markets considered active, such as regulated markets, electronic trading circuits (e.g., Bloomberg) or organised or similar exchanges. If there are no observable prices on active markets, they are measured based on prices of recent transactions for the same instrument in non-active markets in addition to using valuation techniques, based on a cash flow discounting model, which must consider all factors considered relevant by market participants in determining a hypothetical transaction on an exchange. In particular, for determining creditworthiness, the implicit spreads of comparable issuers are used in active markets in addition to the Bank's credit default swap curve with the same level of subordination of the security being measured. The quantification of effects resulting from the change in own creditworthiness between the issue date and the measurement date is calculated as the difference between the fair value obtained considering all of the loan's risk factors, including the credit risk, and the fair value obtained considering the same factors, excluding the change in own credit risk that occurred during the period.

For further details on methods for calculating fair value, please refer to the exhaustive information provided in the relevant paragraph in "Part A.4 - Information on Fair Value".

With reference to the criteria for recognition in financial statements, note that:

- derivatives connected with financial liabilities measured at fair value are classified under "Financial assets measured at fair value through profit and loss: a) financial assets held for trading" or "Financial liabilities held for trading";
- spreads and margins accrued on derivatives up to the measurement date are included, depending on the balance, in "interest income" or "interest expense", consistent with the accruals recorded on bonds subject to operational hedges;
- gains and losses from realisation and the measurement of loans under the fair value option are recorded in the income statement item "110 - Net profit (loss) from other financial assets and liabilities measured at fair value through profit and loss", with the exception of the valuation and execution effects related to the change in own creditworthiness that are recorded as an offsetting entry to a specific equity reserve (item "110 - Valuation reserves"), unless this accounting treatment creates or amplifies an asymmetry in the economic result, as described in greater detail in the discussion to item "13 - Financial liabilities measured at fair value";
- results of the measurement of derivatives associated with loans under the fair value option are recorded in the income statement item "80 - Net profit/loss from trading".

From the perspective of prudential supervision, in compliance with prudential regulations in force, distorting effects from changes in fair value due to changes in own creditworthiness are eliminated from own funds.

Lastly, note that gains posted to the income statement under the fair value option and not yet realised are not distributable.

Contributions to deposit guarantee systems and resolution mechanisms

Legislative Decrees 180 and 181 of 2015 transposed Directive 2014/59/EU Banking Resolution and Recovery Directive ("BRRD") into Italian law, which requires the formation of resolution funds. These provisions are funded, inter alia, by:

a) annual contributions from banks, in order to reach the target level of fund resources established by the regulation;

b) extraordinary contributions from banks when ordinary contributions are insufficient to support approved resolution interventions.

Both types of contribution are subject to interpretation IFRIC 21 "Levies", as the contribution obligations are based on legislative provisions. Based on this interpretation, a liability should be recognised when the "obligating event" takes place which triggers the payment obligation. The balancing entry of that liability is represented by income statement item "160 - Administrative expenses - (b) other administrative expenses", as the conditions are not met for the recognition of an intangible asset pursuant to IAS 38 "Intangible assets", or for the recognition of an asset for a prepayment.

The same treatment is applied to "ex ante" contributions made to the Italian Interbank Deposit Protection Fund within the scope of Directive 2014/49/EU "Deposit Guarantee Schemes" (DGS).

Other matters

Classification criteria for financial assets

The classification of financial assets in the three categories envisaged by the standard depends on two classification criteria, or drivers: the business model with which the financial instruments are managed and the contractual characteristics of the cash flows of the financial assets (or SPPI test).

The financial asset classification derives from the combination of these two drivers, as shown below:

- Financial assets measured at amortised cost: assets that pass the SPPI test and fall under the Held to Collect business model (HTC);
- Financial assets measured at fair value through other comprehensive income (FVOCI): assets that pass the SPPI test and fall under the Held to Collect and Sell business model (HTC&S);
- Financial assets measured at fair value through profit and loss (FVTPL): a residual category, which includes financial instruments that cannot be classified in the previous categories based on the results of the business model test or the test on the characteristics of contractual cash flows (SPPI test failed).

Business model

With regard to the business model, IFRS 9 identifies three cases in relation to the methods by which cash flows are managed and financial assets are sold:

- Held to Collect (HTC): a business model whose objective is achieved by collecting contractual cash flows from the financial assets included in the relative portfolios. The inclusion of a financial asset portfolio under this business model does not necessarily mean that the instruments cannot be sold, though it is necessary to consider the frequency, value, and timing of sales in previous years, reasons for sales, and expectations regarding future sales;
- Held to Collect and Sell (HTC&S): a mixed business model, whose objective is achieved by collecting contractual cash flows from the financial assets included in the portfolios and by sales activities, which is an integral part of the strategy. Both activities (collection of contractual cash flows and sales) are essential for achieving the business model's objective. Therefore, sales are more frequent and for greater amounts than an HTC business model and are an essential component of the strategies pursued;
- Other/Trading: a residual category that includes both financial assets held for trading purposes and financial assets managed with a business model other than the previous categories (Held to Collect and Held to Collect and Sell). In general, this classification applies to a portfolio of financial assets whose management and performance are assessed based on fair value.

The business model reflects the methods by which financial assets are managed to generate cash flows for the entity's benefit and is defined by top management through the appropriate involvement of business structures. It is determined by considering the ways in which financial assets are managed and, as a consequence, the extent to which the portfolio's cash flows derive either from the collection of contractual cash flows, or from the sale of financial assets, or from both of these events.

The assessment is not made using scenarios that, based on the entity's reasonable expectations, are not likely to occur, such as the "worst case" or "stress case" scenarios. For example, if the entity plans to sell a certain portfolio of financial assets only in a "stress case" scenario, this scenario does not affect the assessment of the entity's business model for these assets, if said scenario is not likely to occur based on the entity's reasonable forecasts.

The business model does not depend on the intentions that management has for an individual financial instrument, but refers to the ways in which groups of financial assets are managed for the purpose of achieving a specific business objective.

In summary, the business model:

- reflects the methods by which financial assets are managed to generate cash flows;
- is defined by top management through the appropriate involvement of business structures;
- must be determined by considering the methods by which financial assets are managed.

When assessing a business model, all relevant factors available at the assessment date are used. These factors include the strategy, risks and their management, remuneration policies, reporting, and the amount of sales. In analysing the business model, it is crucial that the factors evaluated are consistent amongst themselves and, in particular, are consistent with the strategy pursued. Evidence of activity not in line with the strategy must be analysed and adequately justified.

For the Held to Collect portfolio, the Bank has defined eligibility thresholds for sales that do not affect the classification (frequent but not significant, individually and in the aggregate, or infrequent though of a significant amount) and, at the same time, established the parameters to identify sales consistent with this business model, when they are attributable to an increase in credit risk.

More specifically, as part of an HTC business model, sales are permitted in the event of an increase in credit risk (i.e., sales of non-performing loans or securities, or those classified in Stage 2), when carried out near maturity, and finally, when they are frequent but not significant in terms of value or infrequent, even if their value is significant. In order to determine these aspects, frequency and significance thresholds have been defined:

- frequency is defined as the percentage ratio between the number of positions sold (ISIN or relationships) during the observation period and the total positions in the portfolio present at the beginning of the observation period. Sales carried out based on a number lower than a value equal to 5% of the number of securities held in the portfolio at the start of the year are infrequent (this value is equal to zero if the number of securities at the start of the year is under 40);
- significance is defined as the percentage ratio between the nominal value of sales and the total nominal value of instruments in the portfolio present at the beginning of the observation period. The significance threshold of individual sales identified by the Bank is 5%.

In the case of that both the frequency and significance thresholds are met for an individual sale, a further assessment is envisaged in terms of aggregate sales volume in order to confirm the consistency of the HTC business model. In this case, the significance threshold of the aggregate amount of sales identified by the Bank is 10%.

SPPI test

The other criterion to be used in determining whether a financial asset should be classified among the financial instruments measured at amortised cost or FVOCI - in addition to the business model analysis described above - envisages that the relative cash flows are represented exclusively by the repayment of principal and interest. To this end, IFRS 9 regulates that the SPPI (solely payments of principal and interest) test is carried out, with the purpose of verifying that the remuneration for a specific financial instrument, whether a debt security or loan, is linked exclusively to the payment of interest and repayment of principal.

A debt instrument that does not meet the SPPI test must always be measured at FVTPL and classified under the sub-item "other financial assets measured at fair value as per mandatory requirements".

For purposes of the analysis, IFRS 9 proposes a definition of the terms "principal" and "interest", as follows:

- principal is understood as the fair value of the financial asset at its initial recognition;

- interest is the consideration for the time value of money, for the credit risk associated with the principal over a given period of time, for other risks and costs associated with the basic risks of a lending transaction, and for the profit margin.

In basic lending arrangements, the value of interest must depend exclusively on the time value of money and on the credit risk associated with the principal over a given period of time. Whenever contractual terms introduce other elements, it is no longer possible to consider that asset as solely generating cash flows in terms of principal and interest. This could happen, for example, when the cash flows come from non-recourse financial assets. The cash flows of these financial assets may involve not only interest payments and principal repayments, since the remuneration is linked to specific business activities. In this regard, the owner of the asset must assess, using the look-through approach, whether or not its instruments pass the SPPI test. For example, when the entity has non-recourse financial assets, whose cash flows depend on the performance of an element of the issuer's equity (e.g., net income), the possibility of amortised cost or FVOCI measurement must be excluded.

Furthermore, when contractual cash flows depend on characteristics such as changes in share or commodity prices, the related financial instruments cannot pass the SPPI test, as they introduce exposure to risk or volatility that is not correlated with basic lending arrangements.

IFRS 9 points out that all financial instruments that are subject to "leverage effect" cannot be considered generators of principal and interest cash flows, since leverage has the potential to increase the volatility of cash flows. This includes swaps, options, forwards, and all derivative contracts.

IFRS 9 defines two cases in which the time value of money can be considered changed (modified time value of money) or when the relationship between the passage of time and the interest rate is considered imperfect. One case occurs when the asset's interest rate is periodically recalculated, but the frequency of this recalculation or the frequency of the payment does not correspond to the nature of the interest rate. This can happen, for example, when variable interest payments are made on a monthly basis and, at the beginning of each month, the interest rate is determined using the 6-month Euribor rate: the monthly interest rate is determined in reference to an interest rate calculated every six months, and therefore, under a different time horizon. In these cases, the accounting standard introduces the need to make a comparison between cash flows deriving from the financial asset being measured and cash flows deriving from a financial asset considered identical in terms of credit risk and duration, but for which the monthly interest is calculated based on the monthly Euribor. The other case of imperfect correlation between the passage of time and the time value of money occurs when the asset's interest rate is periodically restated based on an average of particularly short or medium/long-term rates. For example, when a financial asset provides for the payment of interest every three months, based on the average three-month Euribor interest rate in the quarter preceding the one to which the interest refers.

Therefore, in these cases the entity must analyse whether the financial asset generates only cash flows related to principal and interest, despite the change in the time value of money. The objective of this analysis is to verify how different the non-discounted contractual cash flows would be if there were no changes in the time value of money over time (known as the benchmark cash flow test).

In addition, any contractual clauses that could change the frequency or amount of contractual cash flows must be considered in order to assess whether such cash flows meet the requirements to be SPPI compliant (e.g., prepayment options, possibility to defer the contractually agreed cash flows, instruments with embedded derivatives, subordinated instruments, etc.).

However, as required by IFRS 9, a single element of contractual cash flows does not affect the classification of the financial asset if it has only a minimal effect on the contractual cash flows of the financial asset (in each year and cumulatively). Similarly, if an element of cash flows is not realistic or genuine, i.e., if it affects the instrument's contractual cash flows only at the occurrence of an extremely rare, highly unusual, and very unlikely event, it does not affect the classification of the financial asset.

In the case of instruments subordinated to another instrument (e.g., guaranteed debt securities), the related cash flows are linked to the nominal value of the principal or interest of the principal instrument. The instrument's owner has the power to exercise the right of pre-emption, even in the event of the borrower's bankruptcy. These instruments are included among those that do not pass the SPPI test.

With regard to contractually linked instruments, reference is made to instruments with which an entity assigns a certain priority to the payment of cash flows. The order of priority depends on the credit risk assigned to each category of creditor, called "tranche". The characteristics that an investment, belonging to a given tranche, must possess in order to be considered a generator of cash flows that are exclusively related to the payment of interest and repayment of principal are as follows:

- the underlying assets must contain one or more financial assets that generate cash flows consisting exclusively of interest payments and principal repayments. Furthermore, the presence of supporting financial instruments, such as derivatives, is permitted only if they serve to reduce the volatility of the relative cash flows;
- the exposure to credit risk relating to a given tranche must be equal to or less than the risk exposure attributable to the underlying financial instruments.

For purposes of conducting the SPPI test on transactions in debt securities, the Bank uses the services of an info-provider. The test is carried out manually using a proprietary tool based on an internally developed methodology (decision trees) only if the securities are not managed by the info-provider.

A proprietary tool based on a method developed in-house (decision trees) was developed to perform the SPPI test for credit approval processes. In particular, given the significantly different characteristics, differentiated management is envisaged for products that have a standard contract (typically, the retail loan portfolio) and tailor-made loans (typically, the corporate loan portfolio). For standard products, the SPPI test is conducted when the standard contract is structured, through the "Product Approval" process, and the test result is extended to all individual relationships that refer to that product in the catalogue. Instead for tailor-made products, the SPPI test is performed for each new credit line/relationship submitted to the decision-making process through the use of the proprietary tool. Decision trees - included in the proprietary tool - have been prepared internally (both for debt securities and loans) and capture possible features that may not comply with the SPPI test.

Use of estimates and assumptions when preparing financial statements

The estimates required by accounting standards can have a significant impact on the balance sheet and income statement, as well as on disclosure of contingent assets and liabilities reported in the financial statements. Production of these estimates involves the use of available information and adoption of subjective assessments. By their nature, the estimates and assumptions utilised may vary from one period to another and, therefore, it cannot be ruled out that in subsequent periods the actual amounts stated in the accounts may differ, even to a significant extent, as a result of changes in subjective assessments made. These estimates and valuations are thus difficult and bring about inevitable elements of uncertainty, even in stable macroeconomic conditions.

The main cases in which subjective valuations are mostly opted for by Management include the:

a) quantification of impairment losses on loans and, more generally, other financial assets;
b) assessment of the consistency of the value of equity investments and of other non-financial assets (goodwill, intangible assets, and property, plant and equipment, including right of use assets acquired through leasing);
c) use of valuation models to measure the fair value of financial instruments not listed in active markets;
d) estimation and assumptions on recoverability of deferred tax assets;
e) estimation of liabilities arising from defined benefit company pension funds;
f) quantification of provisions for risks and charges related to legal and tax disputes.

For some of the cases listed above, the main factors that are subject to estimates by the Bank, and which therefore contribute to determining the book value of assets and liabilities in the financial statements, can be identified.

In summary, note that:

a) for the allocation in the three credit risk stages envisaged in IFRS 9 for loans and debt securities classified as "Financial assets measured at amortised cost" and "Financial assets measured at fair value through other comprehensive income", and for the calculation of the expected losses, the main estimates concern:
    - determination of the parameters of significant increase in credit risk, based essentially on models for measuring the probability of default (PD) at the origination of financial assets and at the reporting date;
    - inclusion of forward-looking elements, including macroeconomic, for calculating PD, EAD, and LGD;
    - for calculating expected future cash flows from non-performing loans, certain elements are taken into account: expected repayment schedule, expected realisable value of any collateral, costs expected to be incurred for collection of the credit exposure, and finally, the probability of sale for positions that have a disposal plan;
b) for calculating the value in use of intangible assets with indefinite life (goodwill) with reference to the cash generating units (CGUs) that make up the Bank, future cash flows for the forecast period and cash

flows used to determine the terminal value generated by the CGUs are estimated separately and are appropriately discounted. The cost of capital is included in the estimates;

c) for calculating the fair value of financial instruments not listed on active markets, if it is necessary to use parameters that cannot be inferred from the market, the main estimates concern, on one hand, the development of future cash flows (or also profits for equity securities), possibly contingent upon future events and, on the other, the level of certain input parameters not listed on active markets;

d) for quantifying post-employment benefits, the present value of the obligations is estimated, taking into account the cash flows, appropriately discounted, resulting from the historical statistical analysis and the demographic curve;

e) for quantifying provisions for risks and charges, the amount of disbursements necessary to satisfy the obligations is estimated, where possible, taking into account the effective probability of having to make use of resources;

f) for calculating the items related to deferred taxation, the probability that taxes will effectively be incurred in the future (temporary taxable differences) and the degree of reasonable certainty - if any - of future taxable profits at the time the taxes can be deducted is estimated (temporary deductible differences).

For points a), b) and f), please refer to the subsequent chapters: “Methods for calculating impairment on IFRS 9 financial instruments”, “Methods for calculating impairment on equity investments”, “Methods for calculating impairment on other non-financial assets” and “Methods for recognising deferred tax assets (probability test)”; as regards point c), please refer to the description in paragraph A.4.5 “Fair value hierarchy” in the Notes to the financial statements. The actual technical and conceptual solutions used by the Bank are analysed in more detail in the individual sections of the notes to the balance sheet and income statement, where the distinct contents of each item in the financial statements are described. With regard to the cases referred to in points d) and e), please refer to Section 10 under liabilities in the Notes to the financial statements “Defined benefit company pension funds” and Part E of the Notes to the financial statements, Section 1.5 “Operational risks”.

Methods for calculating impairment on IFRS 9 financial instruments

Pursuant to IFRS 9, at each reporting date, financial assets other than those measured at fair value through profit and loss are subject to an impairment test, aimed at estimating the expected credit loss (ECL). In particular, the following are included in the scope of impairment testing:

- “Financial assets measured at amortised cost”;
- “Financial assets measured at fair value through other comprehensive income” other than equity securities;
- commitments to disburse funds and guarantees given that are not measured at fair value through profit and loss; and
- trade receivables or assets deriving from contracts that result from transactions falling under the scope of IFRS 15.

According to the ECL calculation model, introduced in IFRS 9, losses must be recorded not only with reference to objective evidence of losses in value that are already apparent at the measurement date, but also based on expectations of future losses of value that have not yet occurred. This concept represents an innovation with respect to the incurred loss concept, on which the previous impairment model was based.

In particular, the ECL model provides the aforementioned financial assets must be classified in three distinct “stages”, according to their credit quality in absolute terms or relative to that at initial disbursement, to which different measurement criteria for expected losses are applied. More specifically:

- stage 1: includes performing exposures that have not undergone a significant change in credit risk with respect to the initial recognition. The value adjustments correspond to the expected losses related to the verification of default in the 12 months following the reporting date;
- stage 2: includes performing exposures whose creditworthiness has been affected by a significant change in credit risk, but for which the losses are not yet observable. Adjustments are calculated considering the lifetime loss of the instrument;
- stage 3: includes all non-performing loans, i.e. non-performing exposures that present objective evidence of deterioration and which must be adjusted by using the lifetime expected loss concept[5].

[5] The valuation is statistical for positions with a balance of under EUR 1.0 mln and analytical, carried out by managers, for positions above said threshold.

Financial assets considered as impaired since their acquisition or origin (POCI - purchased or originated credit impaired) are an exception to the above, whose accounting treatment was discussed in the preceding paragraph dedicated to this topic, as are assets measured according to the “simplified method”, which is discussed in the specific points of the subsequent paragraph.

For the Bank, the perimeter of exposures classified under stage 3 corresponds to non-performing exposures, identified according to the definitions established by supervisory regulations (Bank of Italy Circular no. 272 “Accounts matrix”) and referred to in Bank of Italy Circular no. 262 “Bank financial statements: layout and rules for compilation”, as these definitions are deemed consistent with accounting regulations envisaged in IAS/IFRS for objective evidence of impairment. Based on these circulars, the perimeter of non-performing exposures corresponds to the aggregate “non-performing exposures”, defined in EU Regulation 2015/227, and implemented through the EBA’s “Implementing Technical Standard (ITS) on Supervisory Reporting (forbearance and non-performing exposures)” (EBA/ITS/2013/03/rev1 24/7/2014).

In detail, the aforementioned circulars identify the following categories of non-performing assets:

- Bad loans: these represent the aggregate of on- and off-balance sheet exposures to a party in a status of insolvency (even if not judicially certified) or in essentially comparable situations, regardless of any loss forecasts made by the Bank;
- Unlikely to pay: represent the on- and off-balance sheet exposures for which the borrower does not meet the conditions for classification under bad loans and for which it is considered unlikely that the borrower will be able to fully satisfy the credit obligations (in terms of principal and/or interest) without recourse to actions such as the enforcement of collateral. This assessment is carried out regardless of the existence of any overdue and unpaid amounts (or instalments). The classification among unlikely to pay is not necessarily linked to the explicit presence of anomalies, such as a missed repayment, but rather is linked to the existence of elements that would indicate a situation of risk that the borrower may default (e.g., a crisis in the borrower’s business sector);
- Past due and/or overdrawn exposures: on-balance sheet exposures, other than those classified as bad or unlikely to pay, which, at the reporting date, are past due and/or overdrawn for more than 90 days, according to the significance threshold envisaged in the aforementioned legislation. For the Bank, non-performing past due and/or overdrawn exposures are determined in reference to the position of an individual borrower.

In addition, Bank of Italy regulations, in line with EBA standards, introduced the definition of “forborne exposures”. This concerns, in particular, exposures benefiting from tolerance measures, which consist of concessions granted to the borrower, in terms of modification and/or refinancing of a pre-existing loan, exclusively because of, or to prevent, a state of financial difficulty that could have negative effects on the borrower’s ability to fulfil the contractual commitments originally assumed, and that would not have been granted to another borrower with a similar risk profile not in financial difficulty. These concessions must be identified at the level of the individual credit line and may relate to exposures of borrowers classified either in the performing or the non-performing (impaired) status. For exposures with forbearance measures classified as unlikely to pay, the recovery to a position of performing can only take place after at least one year has elapsed from the time the concession was granted (known as the “cure period”) and all the other conditions provided for in paragraph 157 of the EBA ITS are satisfied.

In any case, renegotiated exposures should not be considered forborne when the borrower is not in a situation of financial difficulty (renegotiations carried out for commercial reasons).

Impairment of performing financial assets

For performing financial assets, i.e., those assets not considered to be impaired, it must be determined, at the individual relationship level, if there is a significant deterioration of credit risk, by comparing the credit risk associated with the financial instrument at the time of measurement and that at the initial moment of disbursement or acquisition. This comparison is made using both quantitative and qualitative criteria. The results of this assessment, in terms of classification (or, more appropriately, staging) and measurement, are the following:

- where these indicators are found, the financial asset transfers to stage 2. In this case, the assessment requires that impairment is recognised equal to the expected losses over the entire residual life of the financial instrument, consistent with the provisions of international accounting standards and even if a loss in value has not yet occurred. These adjustments are reviewed at each subsequent reporting date both to periodically check that the continuously updated loss estimates are consistent, as well as to take into account - in the event that indicators of a "significantly increased credit risk" no longer exist - of the change in forecast horizon for calculation of expected loss;

- where none are found, the financial asset remains in stage 1. In this case, the assessment requires that impairment is recognised equal to the expected losses of the financial instrument over the next twelve months, consistent with the provisions of international accounting standards and even if a loss in value has not yet occurred. These adjustments are reviewed at each subsequent reporting date both to periodically check that the continuously updated loss estimates are consistent, as well as to take into account - in the event that indicators of a "significantly increased credit risk" are identified - of the change forecast horizon for calculation of expected loss;

As regards the measurement of financial assets and, in particular, the identification of a "significant increase" in credit risk (a necessary and sufficient condition for classification of the asset being assessed in stage 2), the elements that constitute the main determinants to be taken into consideration, according to the standard and its operating procedure implemented at the Bank, are the following:

- relative quantitative criteria, based on statistical observations, considered an expression of significant increase in credit risk over time;
- absolute qualitative criteria, represented by the identification of trigger events or exceeding absolute thresholds as part of the credit monitoring process. The category comprises:
    - all exposures affected by forbearance measures and for which these measures are still active, regardless of whether the probation period underway is regular;
    - exposures classified in the High Risk and Requalification management portfolio;
    - customers with negative EBITDA.
- backstop indicators, i.e., credit delinquency factors, whose manifestation suggests that there has been a significant increase in credit risk, unless there is evidence to the contrary. For purposes of assumptions, the Bank believes that the credit risk of the exposure must be considered significantly increased if there is an exposure that is past due/overdrawn for a period longer than 30 days, without prejudice to the application of the significance thresholds required by supervisory regulations.

With particular reference to the relative quantitative criterion applicable to credit exposures with customers, the Bank has determined as a reference the change between the lifetime forward-looking cumulative probability of default (PD), calculated at the beginning of the contractual relationship and the probability of default recorded at the measurement date. In developing the model, specific internal thresholds of variation were identified between the PD at the beginning of the contractual relationship and the PD recognised at the valuation date, broken down by counterparty, initial rating class and vintage. If these thresholds are exceeded, it signifies a significant increase in credit risk and the resulting transfer of the individual credit line from stage 1 to stage 2. The comparison is based on the homogeneous[6] residual durations and on homogeneous PD models, for example, if the definition of default changes over time, the original lifetime forward-looking cumulative PD is recalculated to take account of said new definition of default. Cumulative PDs subject to comparison are based on the same model used for ECL purposes (e.g. definition of PIT (Point in Time) PD, macroeconomic scenarios, expected life/contractual life). In order to obtain a unique classification result, use is made of a cumulative PD resulting from the weighted average of the cumulative PDs calculated for the individual prospective scenarios using the probabilities of the scenarios as weights. The threshold of significance is determined by historically measuring, through quantile regression analysis per cluster, that level of ratio, between the lifetime forward-looking cumulative PD at the reporting date and that at the origination date, which may be considered predictive of the classification as NPE[7]. The threshold is determined so as to minimise so-called false positives and false negatives and maximise true positives and true negatives.

For debt securities that do not have investment-grade ratings, the relative quantitative criterion is based on the variation in lifetime forward-looking cumulative PD between the reporting date and the origination date above a certain threshold. For corporate issuers, the multi-year PD curve is the corporate one estimated entirely by the Bank; for government issues, the multi-year PD curve is the one prepared on the basis of the Moody's matrix of 1-year defaults of government bonds. Cumulative PDs subject to comparison are based on the same model used for ECL purposes (e.g. definition of PIT (Point in Time) PD and macroeconomic scenarios). In order to obtain a unique classification result, use is made of a cumulative PD resulting from the weighted average of the cumulative PDs calculated for the individual prospective scenarios using the probabilities of the scenarios as

[6] Therefore, the valuation at 31/12/T of the significant increase in credit risk of a thirty-year mortgage disbursed on 31/12/T-5 is carried out by comparing the lifetime forward-looking cumulative PDs over the residual life of 25 years.

[7] The classification as NPE is measured over multi-year time horizons.

weights. The exposures are classified into stage 2 if the ratio between the lifetime forward-looking cumulative PD at the reporting date and that of the origination date exceeds a given threshold of significance equal, both for corporate bonds and government bonds, to that used for corporate exposures in the form of loans.

Debt securities that, at the reporting date, have an investment-grade rating, mainly related to government securities, are classified in stage 1 because in this case, and only for this case, the Bank used the "Low Credit Risk Exemption". This exemption consists of the practical expedient of not conducting the test for significant deterioration of credit risk on exposures whose credit risk is considered low. This exemption applies to securities that present, at the measurement date, a rating level equal to the investment grade, in full compliance with the provisions of accounting standard IFRS 9. In addition, given the presence of several purchase transactions on one fungible asset (ISIN), it was necessary to identify a methodology to identify the tranches sold in order to determine the residual quantities to which credit quality at initial recognition date can be associated, in order to compare it with credit quality at the measurement date. In this context, the "first-in-first-out" or "FIFO" methodology was deemed most appropriate, as it enables more transparent portfolio management, including from the operational perspective (front office), allowing, at the same time, a continuous updating of the creditworthiness assessment based on new purchases.

In general, the transfer criterion between stages is symmetrical. Specifically, an improvement in credit risk which involves the elimination of the conditions that led to the significant increase in said credit risk involves the reallocation of the financial instrument from stage 2 to stage 1. In this case, the entity recalculates the value adjustment on a twelve-month time horizon rather the previously recognised lifetime losses, by booking a write-back to the income statement.

Once the assignment of exposures into the various credit risk stages has been defined, the expected losses (ECL) are calculated, at the level of individual transaction or security tranche, starting from IRB/management modelling, based on the parameters of Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD), to which appropriate adjustments are made, in order to ensure compliance with the specific requirements of IFRS 9, given the different requirements and purposes of the accounting rules compared to prudential regulations.

The PD, LGD, and EAD are defined as follows:

- PD (Probability of Default): likelihood of transferring from a performing status to that of non-performing over a one-year time horizon. In models consistent with supervisory provisions, the PD factor is typically quantified through the rating. In MPS Group, PD values derive from internal rating models where available, supplemented by external valuations or average data for segment/portfolio; In particular, with regard to specialised lending transactions, the Bank revised the criteria for estimating the PD during the first half of 2019, using the rating assigned by the counterparties through slotting criteria in place of the AIRB rating;
- LGD (Loss Given Default): percentage of loss in the event of default. In models consistent with supervisory provisions, this factor is quantified using historical data on actual recoveries of loans that transferred to non-performing status;
- EAD (Exposure At Default) or credit equivalent: amount of exposure at the time of default.

As previously pointed out, in order to comply with the provisions of IFRS 9, specific adjustments must be made to the aforementioned factors, including:

- adoption of a Point in Time (PIT) PD against the Through the Cycle (TTC) PD used for Basel purposes;
- elimination of certain additional components from LGD, such as indirect costs (non-recurring costs) and the component linked to the adverse economic cycle (or "downturn"); as well as to reflect the most current recovery rates (PIT), expectations about future trends (forward-looking) and the inclusion of any recovery fees if collection is assigned to a third party;
- use of multi-year PDs and, where necessary, LGDs in order to determine the expected loss for the entire residual life of the financial instrument (stages 2 and 3);
- use of the effective interest rate of the individual transaction in the process of discounting expected future cash flows, as opposed to that which is set forth in regulatory models, in which individual cash flows are discounted using rates determined in accordance with prudential regulations.

In relation to the multi-year EAD, in line with the IFRS 9 provisions, the Bank refers to the amortised cost plans, regardless of the measurement methods (amortised cost or fair value through other comprehensive income). For commitments to disburse funds and guarantees given (off-balance sheet exposures), EAD is instead taken at nominal value weighted by a specific credit conversion factor (CCF).

IFRS 9 establishes that, at each reporting date, an entity must measure the impairment of an asset based on the expected credit loss, based on available, reasonable and consistent information, without incurring excessive costs or making disproportionate efforts. One of the most significant changes compared to IAS 39 concerns the use not only of historical information, adjusted to incorporate the effects of current conditions, but also of forecasts entailing a degree of judgement and accuracy that depends on availability, detail and depth of the data. Therefore, the forward-looking approach envisaged by IFRS 9 for purposes of determining the expected loss represents a key aspect of the measurement model.

Given the above, the Bank uses the forward-looking approach to estimate the expected loss, both in the analytical and collective measurements. The forward-looking approach is applied to the following statistical parameters:

- PD: Probability of Default, used for performing positions;
- LGD/EAD: Loss Given Default (LGD), used for both performing and non-performing positions measured statistically; Credit Conversion Factor (CCF) used to estimate the Exposure At Default (EAD) of performing positions;
- Cure/Danger rate: used for unlikely to pay other than restructured positions and positions statistically valued as lower than a given threshold;
- haircut for real estate collateral, used when applicable for the analytical measurement of bad loans and unlikely to pay exposures other than restructured loans.

Since the expected loss is estimated as a weighted average of a range of possible results, the aforementioned parameters are first determined based on historical data and then corrected to take into account at least 3 economic scenarios that cover a horizon of at least 3 years in the future: Baseline, Worst and Best.

The forecasts of the macroeconomic indicators (forward-looking), provided by a leading external consultant and internally re-formulated by the Research Function, are quantified based on three possible future scenarios, which consider the economic variables deemed relevant (Italian GDP, interest rates, unemployment rate, commercial and residential property prices, inflation, equity indices), with a future time horizon of three years to which the respective probabilities of occurrence are assigned, determined internally by the Bank. In greater detail, alongside the "baseline" scenario deemed most probable, i.e., the macroeconomic forecast scenario which the Bank uses as a basis to develop its projections for financial statement and risk data across a short- and medium-term time horizon, an alternative "better" scenario (decidedly favourable) and "worse" scenario (unfavourable) was developed.

The sensitivity of the statistical parameters to macroeconomic variables is estimated. In particular, the associations between the statistical parameter and macroeconomic variables are shown below:

- PD: Italian GDP, unemployment rate, interest rates, inflation, commercial and residential property prices and stock indices;
- LGD/EAD: Italian GDP and commercial and residential property prices;
- cure/danger rates: Italian GDP;
- haircut: commercial and residential property prices.

For those statistical parameters (e.g., PD) for which there is no linear relationship with the macroeconomic variable, the parameter measurement is not calculated based on the weighted average of the macroeconomic variables and using the respective probabilities as weights, but based on certain distinct measures of the parameter. In these cases, the weighted average occurs at the expected loss level.

Finally, for the estimate of expected losses over the life of the instrument, the reference period is represented by the contractual expiry date; for instruments that do not expire, the estimate of expected losses uses a time horizon estimated through a behavioural model for on-demand products and set to one year from the reporting date, in other cases.

Impairment of non-performing financial assets

As described earlier in the document, for non-performing financial assets, which are assigned a probability of default of 100%, the impairment amount for each loan is equal to the difference between the loan book value at the time of measurement (amortised cost) and the present value of estimated future cash flows, calculated by applying the original effective interest rate (or a proxy if not available). Cash flows are estimated based on expected recovery expectations over the lifetime of the loan, taking into account the presumed realisable value net of any collateral and any costs connected with obtaining the guarantee through sale. In this regard, in the event that the Bank uses a third party to collect non-performing loans, the fees paid to the outsourcer for activities strictly related to collection are considered for the purpose of estimating impairment losses. These costs are considered for both non-performing and performing exposures, if for the latter it is probable that in the event of a transfer to bad loans, the collection activities will be assigned to third parties.

Commissions paid to outsourcers are considered in LGD estimates used for statistical measurements of all administrative stages, in collection plans for bad loans, and in analytical measurements of unlikely to pay positions.

For purposes of estimating future cash flows and the relative collection times, the loans in question that have a significant unit amount are subject to an analytical assessment process. For some similar categories of non-performing loans whose unit amount is insignificant, the measurement processes allow that loss forecasts are based on lump-sum/statistical calculation methods, to be analytically assigned to each individual position. The perimeter of exposures subject to a lump-sum/statistical measurement process, that is, based on statistical analyses of operational LGD, differentiated according to the segment and length of time in the risk state ("vintage"), is represented by:

- bad and unlikely to pay loans with exposures less than or equal to an established significance threshold of EUR 1 mln;
- total non-performing past due exposures regardless of the exposure's significance threshold. In particular, these are loans that show continuous overdrawn situations or delayed payments, automatically identified by the Bank's IT procedures, according to the aforementioned rules of the supervisory authority.

Note that the EUR 1 mln threshold indicated above for bad loans and unlikely to pay was defined by the Bank in the first half of 2019 (the previous threshold was EUR 0.5 mln). The threshold was raised in order to decrease the margins of discretion inherent in the measurement process and, therefore, to guarantee greater timeliness and homogeneity in measurement for positions of lower amounts and a resulting greater focus of managers on more significant exposures.

The impairment loss is calculated including the measurement of future cash flows that it is assumed the borrower is able to produce and which will also be used to service the financial debt. This estimate should be made based on two alternative approaches:

- going concern approach: the borrower's operating cash flows (or that of effective guarantor) continue to be produced, and are used to repay the financial debts contracted, based on the scheduled repayment plans. The going concern assumption does not exclude the possible realisation of collateral, but only to the extent that this can occur without jeopardising the borrower's ability to generate future cash flows. The going concern approach also applies to cases in which the recoverability of the exposure is based on the possible sale of assets by the borrower or extraordinary transactions;
- gone concern approach: applicable in cases in which it is believed that the borrower's cash flows will be significantly reduced. This is a scenario whose application may possibly entail positions that are expected to be classified in bad loans. In this context, assuming that interventions by shareholders and/or extraordinary restructuring operations of the debt in a turnaround situation are not reasonable, loan collection is essentially based on the value of the collateral that supports the loan and, in the alternative, on the realisation value of the assets, taking into account liabilities and any rights of pre-emption.

With reference to exposures classified as bad and unlikely to pay loans, the quantification of expected losses includes forward-looking elements related to specific sale scenarios, where the Bank's NPL Strategy envisages that the aforementioned exposures may also be recovered through their sale on the market.

Consequently, the estimate of expected losses of exposures that can be sold varies depending on the forecast of the recoverable flows through internal management (work-out), as well as the forecast of recoverable flows through their possible sale on the market ("multi-scenario" approach). This approach is consistent with the provisions of the ITG paper of 11 December 2015 "Inclusion of cash flows expected from the sale on default of a loan in the measurement of expected credit losses". In particular, the exposures in question are associated with two different estimates of cash flows that the Bank expects to collect:

- the first determined by using as reference the scenario of recovery from the borrower based on internal activity, according to the ordinary measurement guidelines followed by the Bank and previously described (hold scenario);
- the second calculated by using as reference the recovery through sale of the loan to third parties (sale scenario).

Each of the two scenarios is assigned a probability of occurrence that is higher for clusters that are more likely to undergo a sale procedure, based on historical data and/or forecasts (e.g., formalised NPL reduction plans). The expected loss of the exposures in question is therefore equal to the weighted average for the probabilities assigned to the two scenarios of the estimates of recoverable cash flows in each (hold and sale).

Hence, the sale values and sale probability are the two key elements for defining the expected loss. For this purpose, MPS Group has performed an analysis of the historical data on sales (past events) on these portfolios and certain considerations on future sale strategies.

The Restructuring Plan approved in 2017 by the European Commission envisages that in the four-year period 2018-2021, MPS Group will undertake a major reduction in exposures classified as default, to be realised through sale transactions. This programme represents a qualifying constraint of the Restructuring Plan, for which the Group, in order to accelerate the process of reducing non-performing loans as specifically requested by the supervisory authority, has declared that it is willing to incur higher costs compared to the ordinary collection scenario, which will continue in parallel for portfolios of non-performing loans that are not subject to the sale programme, as well as those of performing loans (stages 1 and 2), with the primary objective of optimising the economic/financial profiles of work-out activities.

Based on these considerations, the accounting model for impairment for the Bank's non-performing loans only envisages a different application for:

- loans subject to ordinary collection process: application of existing accounting policies, reviews to take into account changes introduced by IFRS 9, including, in particular, the forward-looking element;
- loans included in the sale programme: measured with the ordinary policy plus any add-ons to adjust the portfolios to the presumable realisable value.

To determine the add-on, the Bank considers the following elements:

- <u>selection of the portfolios that are presumed to be sold</u>: the perimeter includes positions with a certain attractiveness on the market, indicated by the fact that other banks have already carried out sales and expressions of interest that have already been received, as well as additional positions resulting from assessments of economic benefit performed by the Bank's competent bodies (e.g., presence of extended bad loans or high danger rate);
- <u>probability of sale</u>: the probability is guided by the target sales level included in the NPL Strategy;
- <u>sale prices</u>: derived from mass transactions on similar portfolios and single names made by the Bank or from transactions carried out on the market in recent years.

Impairment losses calculated with the simplified method

Expected losses are quantified according to the provisions of the simplified method established under IFRS 9 based on the Lifetime ECL and therefore do not require verification of the significant increase in credit risk compared to the credit risk at the date of the asset's initial recognition. The Bank adopts this method for trade receivables and assets deriving from contracts that do not have significant financial components, i.e. only cases for which the adoption of the simplified approach is mandatory pursuant to IFRS 9. In this regard, the Bank has chosen not to use this method for those cases in which the application is optional.

Methods for calculating impairment on equity investments

At the end of every reporting period, the equity investments in associates or jointly controlled entities are evaluated to check whether there is objective evidence of impairment that might render the book value of these assets not entirely recoverable.

The process of recognising impairment involves verifying the presence of indicators of possible reductions in value and calculating any write-down. There are numerous impairment indicators, differentiated by type, listed or unlisted, of equity investments.

For listed equity investments:

- a fair value, at the reporting date, that is at least 30% lower than the book value, or
- a prolonged period, of more than 36 months, in which the fair value is lower than the book value, or
- a book value for the equity investment in consolidated financial statements that exceeds the corresponding portion of equity (existence of implicit goodwill), or
- a stock market capitalisation that is lower than the book value of the equity investment or the company's net equity.

For listed and unlisted equity investments:

- negative trends in dividends distributed by the investee;
- significant downward revision of profit forecasts;
- significant gap between actual results and the budget objectives or that envisaged in a long-term plan and communicated to the market;
- contracting or negative economic performance;
- negative performance for the investee's business sector;
- changes in the technological, economic, and regulatory environment that could result in difficulties for the business in identifying alternative business growth strategies;
- downward revision in the rating, expressed by a specialised rating agency assigned to the financial instrument, with respect to that on the instrument's acquisition date;
- negative cash flows;
- announcement/launch of debt restructuring plans;
- launching/requesting bankruptcy proceedings;
- any reporting exceptions or references regarding the applicability of the going concern assumption formulated by the independent auditors.

The presence of impairment indicators entails the recognition of a write-down in the amount for which the recoverable value is lower than the book value. The recoverable value is the greater of the fair value less costs to sell and the value in use.

For the methods used to determine the fair value, refer to the information in chapter A.4 - Information on fair value in the Notes to the financial statements.

The value in use is the present value of cash flows arising from the asset; it reflects the estimate of the cash flows expected from the asset, the estimate of possible changes in the amount and/or timing of cash flows, the time value of money, the price for remunerating the asset's risk and other factors that can influence the pricing, by market dealers, of the cash flows expected from the asset.

The value in use is determined by discounting future cash flows.

Methods for calculating impairment on other non-financial assets

Goodwill posted following acquisitions is subjected to an impairment test at least once a year and whenever there are signs of impairment. For testing purposes, once goodwill has been allocated to cash-generating units (CGUs), the book value is compared with the recoverable value of said units. The discounted cash flow (DCF) method is normally used to determine the recoverable value of the CGUs. To this end, senior management has estimated CGU cash flows; these are dependent on several factors, including cost and revenue growth rates, which in turn depend on changes in the real economy, customer behaviour, competition and other factors.

The property, plant and equipment and intangible assets with definite useful life are tested for impairment in the presence of any indication that the book value of the asset may not be recovered. The recoverable value is computed with reference to (i) the fair value of the property, plant and equipment or intangible asset, net of the charges for disposal or (ii) the value in use if determinable and if it is above fair value.

In particular, the recoverable value of properties is determined on the basis of an appraisal or index-based valuations. The loss in value is reported only if the fair value less costs to sell, or the value-in-use, is less than the book value.

Similar to owned properties, the values of right of use assets acquired through leasing are subject to impairment testing, if the conditions are met. The test is performed when the following events or situations arise: full/partial abandonment, under-use or non-use of the leased asset. In addition, it is necessary to refer to indicators from internal sources such as signs of obsolescence and/or physical deterioration of the asset, restructuring plans and closures of branches and external sources such as, for example, the increase in interest rates or other rates of return on the market for investments that may cause a significant decrease in the recoverable value of the asset.

Methods for recognising deferred tax assets (probability test)

The Bank verifies the possibility of recognising tax assets based on a probability test, as described below.

Forecast plans approved by the Board of Directors are used, in line with the Group's forecasts. Since the forecast plans cover a limited time horizon, the results subsequent to the plan horizon are assumed to be equivalent to those of the last year of the plan and increased by a compound growth factor "g", commonly used for determining the value of companies.

In any case, the framework of the probability test is consistent with that of the impairment test used for the measurement of goodwill, except for the specifics related to regulatory requirements (IAS 12 and IAS 36, respectively) such as, for example, the possibility in the probability test to take into account business restructuring and reorganisation actions included in the forecast plans, which is not considered in the goodwill impairment test.

In order to reflect the uncertainty associated with realising future taxable income suitable to allow the recovery of deferred tax assets, a discount factor is used based on data observable on the market and consistent with the risk metrics of the investment in Banca MPS shares.

The application of this discount factor represents a method for reflecting the uncertainty connected with realising future income; in any case, it is believed that the horizon considered for purposes of the taxable income test, whose realisation is considered probable, cannot exceed 20 years.

In developing the probability test, where applicable, the national tax consolidation agreements in which the Bank participates are taken into account.

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Transparency obligations within the framework of public disbursements

Note that, at the reporting date of these financial statements, the contributions received by the Bank for 2019 in relation to training activities totalling EUR 3.1 mln are present in the National Register for State Aid and publicly available in the "Individual Aid" Transparency section. For more details, please refer to the following link:

https://www.rna.gov.it/sites/PortaleRNA/it_IT/trasparenza

A.3 Information on portfolio transfers

The tables on transfers between portfolios of financial assets were not created, as the Bank did not carry out any reclassification transactions following the change in the business model.

A.4 - Information on fair value

Qualitative Information

A.4.1.a Fair value level 2: measurement techniques and inputs used

Items	Fair value 31 12 2019							Type	Valuation techniqu	Inputs used
	Financial assets held for trading	Financial assets measured at fair value mandatory	Financial assets measured at fair value through other comprehensive income	Hedging deivatives	Financial liabilities held for trading	Financial liabilities designated at fair value	Hedging derivatives			
Debt securities	8	35,506	526,018	X	-	372,837	X	Bonds	Discounted Cash Flow	Interest rate curve, CDS curve, Basi(yield), Inflation Curves
								Structured bonds	Discounted Cash Flow	Interest rate curve, CDS curve, Basi(yield), Inflation Curves + inputs necessary to measure optional component
								Bonds	Market price	Market price
Equity instruments	-	-	13,801	X	X	X	X	Share/Equity	Market price	Market price, recent transactions, appraisals, manager reports
								Equity Instruments	Discount cash	Share price, beta sector, free risk rate
								Equity Instruments	Net asset adjusted	Carryng Amount Asset/Liabilities
Units of UCITS	-	65,548	X	X	X	X	X	Funds/Private Equity	Nav Investor report	Market price*; recent transactions, appraisals, manager reports
Financial Derivatives	678,905	X	X	71,392	582,307	X	1,315,905	IR/Asset/Currency Swaps	Discounted Cash Flow	Interest rate curve, CDS Curve, Basi(yield), Inflation Curve, Foreign exchange rates and correlation
								Equity swaps	Discounted Cash Flow	Share price, Interest rate curve, Foreing exchange rates
								Forex Singlename Plain	Option Pricing Model	Interest rate curve, Foreing exchange rates, Forex volatility
								Forex Singlename Exotic	Option Pricing Model	Interest rate curve, Foreing exchange rates, Forex volatility (Surface)
								Equity Singlename Plain	Option Pricing Model	Interest rate curve, share price, foreign exchange rates, Equity volatility
								Equity Singlename Exotic	Option Pricing Model	Interest rate curve, share price, foreign exchange rates, Equity volatility
								Equity Multiname Plain	Option Pricing Model	Interest rate curve, share price, foreign exchange rates, Equity volatility
								Equity Multiname Exotic	Option Pricing Model	Interest rate curve, share price, foreign exchange rates, Equity volatility (surface),Model inputs,Quanto correlation, Equity/Equity correlation
								Plain Rate	Option Pricing Model	Interest rate curve, inflation curves,bond prices,foreign exchange rates, Rate volatility, rate correlations
								Spot-Forward	Market price	Market price, Swap Point
Credit Derivatives	1,200	-	-	-	1,200	-	-	Default swaps	Discounted Cash Flow	CDS curves, Interest rate curve
Total assets	680,113	101,054	539,819	71,392	X	X	X			
Total liabilities	X	X	X	X	583,507	372,837	1,315,905			

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

A.4.1.b Fair value level 3: measurement techniques and inputs used

Items	Fair value 31 12 2019			Type	Valuation techinque(s)	Unobservable inputs	Range (weighted average)
	Financial assets held for trading	Finacial assets measured at fair value mandatory	Financial assets measured at fair value through other comprehensive income				
Debt securities	-	240,069	X	Junior Tranche NPL Securitization	Discounted Cash Flow	Yield	12.0%
				Convertible Bonds	Credit Model	Credit Data (LGD/PD)	42%/100%
				Participating financial instruments	Credit Model	Credit Data (LGD/PD)	42%/100%
Equity instruments	-	7,730	229,100	Equity instruments	External pricing	Cet 1 target, Cost of equity, grow rate	13,3%, 10%, 2%
				Investments	Discounted cash flow	Liquidity base/ Equity Risk	20%/8%/0.4
				Investments	Cost/Equity income	Fair value asset	0-12.4 €/mln
Units of UCITS	-	46,899	-	Closed-end Fund	External Pricing	Fair value asset	10 €/mln
				Real estate closed-end Fund	Net investor report	estimated value of real estate	7,7 mln€
				Alternative funds	Discounted cash flow	Discount rate	10.4%
Loans	-	267,978		Loans	Discounted cash flow	NPE SPREAD	1.92% - 4.52%
				Loans	Discounted cash flow	LGD	0% - 82.7%
				Loans	Discounted cash flow	PD	0,09% - 45%
				Loans	Discounted cash flow	PE SPRED	0.01% - 2.43%
Total Assets	-	562,676.2	229,100.0				
Total liabilities	X	X	X				

A.4.2 Measurement processes and sensitivity

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

The column "Other financial assets measured at fair value as per mandatory requirements", in the "Debt securities" category valued according to the Credit Model method, essentially include two convertible bonds and participative financial instruments issued by Sorgenia S.p.A. and Nuova Sorgenia Holding S.p.A., respectively, as part of the restructuring of the original debt position for a total amount of EUR 199.4 mln. The securities are measured according to the credit models and the value obtained is in line with the assumptions for asset recovery underlying the binding purchase offer for Sorgenia S.p.A. proposed by F2i funds and Asterion Capital Partners in December 2019. The sensitivity of these positions, defined as the loss deriving from the impact on non-observable parameters such as the probability of default (PD) and loss given default (LGD) following a (negative) change in the administrative status of the counterparties, is quantified at approximately EUR 8.4 mln.

The valuation of the junior tranche of the NPL securitisation, (nominal value of EUR 22 mln), was carried out using the Discounted Cash Flow method, discounting future cash flows based on expected collections. It is estimated that a fluctuation in these values may have an impact on the value of the note of EUR -0.4 mln.

The column "Other financial assets measured at fair value as per mandatory requirements" also includes loans (totalling EUR 268.0 mln) that are required to be measured at fair value, as the contractual cash flows do not exclusively provide for the repayment of principal and payment of interest on the principal to be repaid (i.e., do not pass the "SPPI test"), either by virtue of clauses originally envisaged in the contract or following subsequent amendments. The fair value is calculated using the Discounted Cash Flow approach, applied in a different manner depending on whether they are performing or non-performing loans: in the former case, the contractual cash flows are discounted with a risk-adjusted curve that incorporates risks that affect the cost of credit, cost of funding, and capital; in the latter case, the recoverable value is discounted by applying a spread to include risks inherent in a possible sale on the market. The unobservable parameters are Probability of Default (PD), Loss Given Default (LGD) and the different spreads for performing and non-performing assets. The change in these parameters, of 10%, 5%, 1%, and 1%, respectively, would have an impact on fair value of approximately EUR -10 mln.

This category includes EUR 5.6 mln for the investment in the Voluntary Scheme, represented by the shares resulting from the conversion of the subordinated security issued by Carige following the bank's capital strengthening transaction.

The majority of the units of UCITS refers to units of funds received in exchange for the sale of non-performing loans (Back2bonis, IDEA CCR I and II) equal EUR 36.3 mln. The Bank has estimated the value of these units as the sum of the present values of the expected fund distributions (DCF). The inputs used are as follows:

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

A change in the discount rate (+/- 1%) and forecasted distributions (+/- 10%) would result in the following range of values: EUR 31.4 - 41.5 mln.

Lastly, the category of units of UCITS contains the total of contributions, made from June 2016, to the Italia Recovery Fund (formerly Atlante due) for a book value of EUR 10 mln. This position takes into account the fund's residual assets after the write-off of the two main equity investments in the fund's assets (BPVI and Veneto Banca).

The "Financial assets measured at fair value through other comprehensive income" accounting portfolio includes the shareholding in Bank of Italy (EUR 187.5 mln), measured using the Discounted Cash Flow method. The shareholding was measured with the methodology identified by the Committee of Experts in the document "Revaluation of shareholdings in the Bank of Italy". This document not only details the valuation techniques adopted to reach the end result, but identified the following entity-specific parameters: the market beta, equity risk premium, and the cash flow base. The valuation of that equity investment is also confirmed in market transactions carried out in recent years by certain banks. The range of possible values that can be assigned to these parameters cause the following changes in value: roughly EUR -34 mln for every 100 bps increase in the equity risk premium, roughly EUR -54 mln for every 10 pp increase in the market beta, and roughly EUR -32 mln for every 10 pp increase in the cash flow base.

This category also includes equity securities representing all investments designated at fair value that could not be measured according to a market-based model. These positions amount to approximately EUR 42 mln.

A.4.3 Fair value hierarchy

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions.

The fair value of financial instruments listed in active markets is determined by using quoted market prices; quoted market prices for similar instruments or internal valuation models are used for other financial instruments.

Financial instruments are classified in three different levels according to the reliability of the inputs used during measurement.

The methods for classifying financial instruments in the three-level fair value hierarchy are shown below.

Level 1

This level shall include financial instruments measured using unadjusted quoted prices in active markets for identical instruments.

IFRS 13 defines an active market as a market in which transactions take place with sufficient frequency and volume to provide information on an ongoing basis. A financial instrument is quoted in a financial market when:

- the quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, authorised body or regulatory agency;
- the quoted prices represent actual and regularly occurring market transactions on an arm's length basis.

If the quoted prices meet these criteria, they represent the best estimation of fair value and must be used to measure the financial instrument.

From the definition of active market set out in IFRS 13, it is inferred that the active market concept is particular to the individual financial instrument being measured and not to the market on which it is listed; the fact that a financial instrument is quoted in a regulated market is therefore not in itself sufficient for the aforementioned instrument to be defined as listed in an active market. Conversely, a financial instrument that is not traded in a regulated market may present sufficient frequency and volumes for it to be classified in level 1 of the fair value hierarchy.

Levels 2 and 3

Financial instruments not listed in an active market must be classified in level 2 or 3.

Classification in level 2 rather than level 3 is determined on the basis of market observability of the significant inputs used to determine fair value. A financial instrument must be fully classified in a single level; if inputs belonging to different levels are used for the purpose of measuring an instrument, the aforementioned instrument is classified based on the lowest level of input that is significant to the fair value measurement.

An instrument is classified in level 2 if all significant inputs are directly or indirectly observable on the market. An input is observable if it reflects the same assumptions used by market participants, based on independent market data.

Level 2 inputs are as follows:

a) quoted prices on active markets for similar assets or liabilities;
b) quoted prices for the instrument in question or for similar instruments on non-active markets, i.e. markets where:
    - there are few transactions;
    - the prices are not current or they vary substantially over time and between the different market makers;
    - little information is made public;

c) observable market inputs other than quoted prices (e.g. interest rates or yield curves observable in different buckets, volatility, credit curves, etc.);
d) inputs that derive primarily from observable market data, the reporting of which is confirmed by parameters such as correlation.

A financial instrument is classified in level 3 if the measurement techniques adopted use non-observable market inputs and their contribution to estimating fair value is deemed significant.

All financial instruments not listed in active markets are classified in level 3 where:

- despite having observable data available, significant adjustments based on non-observable data are required;
- the estimate is based on internal assumptions on future cash flows and risk adjustment of the discount curve.

It should also be noted that regardless of whether measurement techniques adopted use non-observable market inputs, the Bank deemed it appropriate and conservative to include in Level 3 of the fair value hierarchy any instruments not listed in active markets which are complex by their financial structure or for which there is no clear measurement method recognised as standard in the market and adjustable based on observable prices of comparable structures.

This applies, for example, to assets in the structured credit category not listed in an active market. Although, in some cases, this category could avail itself of appropriate measurement models that make use of observable market inputs (e.g. credit default swap curves) or quotations by primary counterparties, the lack of a liquid market on correlations in the wake of the financial crisis made it necessary to use subjective estimates. Given the complexity of these structures, the Bank decided to classify these instruments in level 3, in the absence of an active market, regardless of the observability of input parameters significant for their mark-to-model measurement.

The processes used to measure level 3 instruments are based on a shared analysis of the types of instruments and underlying risk parameters by the Bank's Business functions and Risk Management. The analysis is completed with the formulation of a pricing model and/or a model for determining non-observable market inputs, which is subject to final validation by Risk Management. At different time intervals depending on the type of instruments (though commonly on a monthly basis) on the back of directly observable market inputs, the Bank's business functions proceed with determining the non-observable market inputs and measuring instruments of level 3. The Risk Management function, based on a shared methodological approach, proceeds with the final validation of fair value. In support of this activity and with a view to ensuring an adequate level of auditability, assessment data sheets have been introduced and are updated on a six-monthly basis for individual instruments classified in level 3, which contain a brief description of the instrument, pricing methods adopted and details about inputs used for fair value measurement.

As for fair value transfers between different levels, it is noted that the Bank has set some rules to determine whether a financial instrument is level 1 or 3; level 2 is determined, from the logical point of view, on a residual basis. When an instrument no longer meets the conditions for classification in level 1 or 3, a new level is determined.

A.4.4 Other information

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

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

Qualitative Information

A.4.5 Fair value hierarchy

A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: breakdown by fair value level.

Asset and liabilities measured at fair value	31 12 2019				31 12 2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
1, Financial assets measured at fair value through profit and loss of which:	37	781,167	562,676	1,343,880	99,879	1,920,757	531,428	2,552,064
a) Financiale asset held for trading	37	680,113	-	680,150	99,879	700,689	-	800,568
b) Financial assets designated at fair value	-	-	-	-	-	-	-	-
c) other financial assets measured at fair value mandatory	-	101,054	562,676	663,730	-	1,220,068	531,428	1,751,496
2. Financial assets measured at fair value through other comprehensive income	5,795,379	539,819	229,100	6,564,298	9,781,797	517,194	234,169	10,533,160
3. Hedging derivative	-	71,392	-	71,392	-	257,676	-	257,676
Total assets	**5,795,416**	**1,392,378**	**791,776**	**7,979,570**	**9,881,676**	**2,695,626**	**765,597**	**13,342,899**
1. Financial liabilities held for trading	-	583,507	-	583,507	-	623,032	-	623,032
2. Financial liabilities designated at fair value	-	372,837	-	372,837	-	370,200	-	370,200
3. Hedging derivative	-	1,315,905	-	1,315,905	-	907,617	-	907,617
Total liabilities	**-**	**2,272,248**	**-**	**2,272,248**	**-**	**1,900,849**	**-**	**1,900,849**

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

Additional information on level 3 financial instruments can be found in the comments under the tables for the individual balance sheet items concerned.

The fair value of some financial assets, particularly the bonds for approx. EUR 2 mln, worsened during the year from level 1 to level 2. This was essentially due to worsening of the liquidity conditions of the securities (measured in terms of bid-ask spread of the listed price), leading to the level transfer, in accordance with the Group's policy on the valuation of financial instruments.

As for OTC derivatives, in compliance with IFRS 13, the Bank calculates adjustments to values, obtained through valuation models using risk-free interest rates, to take account of the creditworthiness of the individual counterparty. This risk measure, known as Credit Value Adjustment (CVA), is estimated for all OTC derivative positions with non-collateralised institutional and retail counterparties. The methodology is based on the calculation of expected operational loss linked to counterparty rating and estimated on a position's duration. The exposure includes future credit variations represented by add-ons. Market-consistent probability measurements are employed in the calculation of CVAs in order to gauge market expectations resulting from CDS prices without, however, losing the historical information available within the Bank.

The impact of the CVA as at 31 December 2019 amounted to EUR -12.6 mln.

The Bank calculates the value adjustment of OTC derivatives in a mirror image fashion and on the same perimeter to take into account its creditworthiness, Debit Value Adjustment (DVA). As at 31 December 2019, the DVA amounts to a total of EUR 4.4 mln.

A.4.5.2 Annual changes of financial assets measured at fair value on a recurring basis (level 3)

31 12 2019

	Financial assets measured at fair value through profit and loss			Financial assets measured at fair value through other comprehensive income
	Total	of which: a) financial assets held for trading	of whichi: c) financial assets measuerd at fair value mandatory	
1. Opening balance	**531,427**	**-**	**531,427**	**234,169**
2. Increases	**275,838**	**-**	**275,838**	**1,660**
2.1 Purchase	1,882	-	18,047	-
2.2 Profit posted to:	170,316	-	170,316	296
2.2.1 Profit and Loss	170,316	-	170,316	-
- of which capital gains	*169,903*	-	*169,903*	-
2.2.2 Equity	-	X	-	296
2.3 Transfers from other levels	36,310	-	36,310	-
2.4 Other increases	67,330	-	51,165	1,364
3. Decreases	**244,588**	**-**	**244,588**	**6,729**
3.1 Sales	33,678	-	33,678	5,249
3.2 Redemptions	31,325	-	31,325	-
3.3 Losses posted to:	107,718	-	107,718	1,480
3.3.1 Profit and Loss	107,718	-	107,718	-
- of which capital losses	*107,137*	-	*107,137*	-
3.3.2 Equity	-	X	-	1,480
3.4 Transfers to other levels	-	-	-	-
3.5 Other decreases	71,867	-	71,867	-
4. Closing balance	**562,677**	**-**	**562,677**	**229,100**

The most significant amounts reported in the column “Other financial assets measured at fair value as per mandatory requirements” corresponding to the line item are shown below:

- “2.1 Purchases”, equal to EUR 1.8 mln, includes the purchase of loans from the former subsidiary BMP Belgio S.A. for EUR 1.3 mln;
- “2.2.1 Profits charged to the income statement - of which gains” of EUR 170 mln, of which EUR 155 mln for the revaluation of both convertible bonds issued by Sorgenia Group, equity instruments issued by Nuova Sorgenia Holding S.p.A.[8] and Tirreno Power S.p.A., and finally EUR 14 mln for the revaluation of loans sold during the year;
- “2.3 Transfers from other levels” amounting to EUR 36.3 mln refers to units of UCITS with underlying NPE loans or deriving from restructuring transactions of the original credit positions;
- “2.4 Other increases” equal to EUR 67.3 mln includes approximately EUR 36 mln in positions that during the year were reclassified from the loan portfolio at amortised cost to the portfolio of other assets measured at fair value as per mandatory requirements due to substantial credit changes not consistent with the SPPI test, as well as new disbursements. Also includes the purchase of units of the Back2bonis fund obtained in exchange for the sale of non-performing loans as part of the Cuveè transaction for EUR 16.1 mln and

[8] The securities of Sorgenia Group and Nuova Sorgenia Holding S.p.A. are measured according to the credit models and the value obtained is in line with the assumptions for asset recovery underlying the binding purchase offer for Sorgenia S.p.A. proposed by F2i funds and Asterion Capital Partners in December 2019.

- "3.1 Sales" of EUR 33.7 mln refers to the sale during 2019 of loans classified as unlikely to pay;
- "3.2 Repayments" of EUR 31.3 mln refers to collections on credit positions for roughly EUR 22 mln;
- "3.3.1 Losses charged to the income statement - of which losses" of EUR 107.1 mln refers to write-downs during the year on non-performing loans (EUR 76.9 mln) and write-downs on debt securities (EUR 33 mln, of which EUR 8.4 mln attributable to the junior notes for the Siena NPL securitisation and EUR 7.3 mln for the investment in the Voluntary Scheme in relation to Banca Carige), as well as units of UCITS (EUR 13.6 mln);
- "3.5 Other decreases" equal to EUR 71.9 mln refers for EUR 70 mln to the equity instruments of Perimetro Gestione Proprietà Immobiliari S.p.A. that were extinguished following the merger by incorporation in BMPS which took place in 2019.

A.4.5.3 Annual changes of financial liabilities measured at fair value on a recurring basis (level 3)

This table was not completed as the Bank has did not have any liabilities measured at fair value on a recurring basis during the year.

A.4.5.4 Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: breakdown by fair value level

Financial asset/liabilities not measured at fair value or measured at fair value on a non -recurring basis	31 12 2019					31 12 2018*	
	Book value	Level 1	Level 2	Level 3	Total Fair value	Book value	Total Fair value
1.Loans to banks	107,036,499	6,888,721	34,104,395	71,649,302	112,642,418	101,603,299	104,078,845
2. Property, plant and equipment held for investment	314,583	-	-	339,217	339,217	219,660	249,730
3. Non-current assets and groups of assets held for sale	75,233	-	-	917	917	71,683	228
Total	**107,426,315**	**6,888,721**	**34,104,395**	**71,989,436**	**112,982,552**	**101,894,642**	**104,328,803**
1. Deposits from customers	111,361,586	11,948,548	99,620,851	-	111,569,399	109,733,725	109,401,762
2. Liabilities associated to disposal groups held for sale	-	-	-	-	-	-	-
Total	**111,361,586**	**11,948,548**	**99,620,851**	**-**	**111,569,399**	**109,733,725**	**109,401,762**

**The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 16.*

With reference to assets and liabilities not measured at fair value, note that, in the context of financial assets and liabilities measured at amortised cost, all loans to customers, other than debt securities, are considered level 3, since the fair value was determined based on unobservable parameters, mainly attributable to estimates of expected losses calculated using indicators not observable on the market.

Loans to banks, other than debt securities and non-performing loans, and deposits from banks/customers are considered level 2. In particular, for liabilities at amortised cost other than securities issued, the book value was used as an expression of fair value, as permitted by IFRS 7.

For all the aforementioned portfolios, the rules followed for classification in hierarchy levels, as well as the techniques and parameters used in estimating fair value, shown in financial statements for disclosure purposes only, require significant discretionary elements; therefore, it is possible that a different estimate of these parameters or the use of alternative measurement techniques could lead to significantly different fair values, also depending on the different purposes for calculating them.

Assets that are not measured at fair value include property, plant and equipment held for investment purposes. The fair value used for disclosure purposes is classified as level 3 in the hierarchy, as it is determined based on appraisals or index valuations.

As at 31 December 2019, the items measured in the financial statements at fair value on a non-recurring basis refer to the assets held for sale, in accordance with IFRS 5, primarily attributable to loans classified as "Financial assets measured at amortised cost" that will be sold.

For these assets held for sale, note that the fair value levels indicate only the assets measured at fair value or at fair value less disposal costs. For assets measured at cost, please refer to the specific information provided in Section 11 "Non-current assets held for sale/discontinued operations and associated liabilities" in Part B of these notes.

A.5 Information on "*day one profit/loss*"

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

Part B - Information on the balance sheet

ASSETS

LIABILITIES

ASSETS

Section 1 - Cash and cash equivalents - Item 10

1.1 Cash and cash equivalents: breakdown

	Total 31 12 2019	Total 31 12 2018
a) Cash	829,508	897,757
b) Demand deposits with central banks	627	36,586
Total	**830,135**	**934,343**

The line "Demand deposits with central banks" does not include the compulsory reserve, which is shown in asset item 40 "Financial assets measured at amortised cost", under loans to banks.

Section 2 - Financial assets measured at fair value through profit and loss - Item 20

2.1 Financial assets held for trading: breakdown

Voci/Valori	Total 31 12 2019				Total 31 12 2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
A. Balance-sheet assets								
1. Debt securities	-	8	-	8	99,818	105	-	99,923
1.1 Structured securities	-	-	-	-	-	-	-	-
1.2 Other debt securities	-	8	-	8	99,818	105	-	99,923
2. Equity instruments	36	-	-	36	61	-	-	61
3. Units of UCITS	1	-	-	1	1	-	-	1
4. Loans	-	-	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-	-	-
4.2 Others	-	-	-	-	-	-	-	-
Total (A)	37	8	-	45	**99,880**	**105**	**0**	**99,985**
B. Derivatives	-	-	-	-	0.0	0.0	0.0	0.0
1. Financial derivatives:	-	678,905	-	678,905	0	693,387	-	693,387
1.1 held for trading	-	578,640	-	578,640	0	603,942	-	603,942
1.2 fair value option	-	100,265	-	100,265	-	89,445	-	89,445
1.3 Others	-	-	-	-	-	-	-	-
2. Credit derivatives:	-	1,200	-	1,200	-	7,196	-	7,196
2.1 held for trading	-	1,200	-	1,200	-	7,196	-	7,196
2.2 fair value option	-	-	-	-	-	-	-	-
2.3 Others	-	-	-	-	-	-	-	-
Total (B)	-	680,105	-	680,105	**-**	**700,583**	**-**	**700,583**
Total (A+B)	**37**	**680,113**	**-**	**680,150**	**99,880**	**700,688**	**-**	**800,568**

Criteria adopted for classification of financial instruments in the three levels of the "fair value hierarchy" are reported in Section A.4, "Fair value disclosure" of Part A, "Accounting policies" of the notes to the financial statements, to which reference should be made.

During 2019, government securities were sold for a total of EUR 99.8 mln, shown in line 1.2 "Balance-sheet assets - Other debt securities" in the Level 1 column.

As a result of the provisions set out in IFRS 9 with regard to the derecognition of financial assets, line 1.2 "Balance-sheet assets - Other debt securities" also includes debt securities pledged in repos and securities lending transactions carried out in respect of own securities posted to the trading book.

At the reporting date, the aggregate does not include senior, mezzanine and junior exposures assumed by the Bank with reference to own and third party securitisation transactions.

Derivatives connected with fair value option instruments are also classified as derivative instruments: these cover the risks of funding designated at fair value arising from possible interest rate fluctuations and from any embedded options in fixed-rate and structured bonds issued by the Bank (natural hedging). The positive fair value of these derivatives is shown in the table in line "B.1-1.2 - Fair value option".

By convention, such derivatives are classified in the trading book. In terms of their representation in the income statement, they comply with rules similar to the rules applicable to hedging derivatives: positive and negative spreads or margins settled or accrued until the reporting date are recognised as interest income and expense, while valuation profits and losses are posted under item 80 of the income statement, "Net profit (loss) from trading", contrary to funding instruments included in the fair value option, for which profit, loss, capital losses and capital gains fall under item "110 a) Net profit (loss) from other financial assets and liabilities measured at fair value through profit and loss a) financial assets and liabilities measured at fair value" of the income statement.

2.2 Financial assets held for trading: breakdown by borrower/issuer/counterparty

Items/Amounts	Total 31 12 2019	Total 31 12 2018
A. Balance sheet assets		
1. Debt securities	8	99,923
a) Central banks	-	-
b) Public entities	-	99,818
c) Banks	-	-
d) Other financial companies	8	105
of which: insurance companies		
e) Non-financial companies		
2. Equity instruments	36	61
a) Banks	-	-
b) Other financial companies	1	4
of which: insurance companies	-	-
c) Non-financial companies	35	57
d) Other issuers:	-	-
3. Units of UCITS	1	1
4. Loans	-	-
Total (A)	**45**	**99,985**
B. Derivatives		
a) Central couterparties	-	-
b) Others	680,105	700,583
Total (B)	**680,105**	**700,583**
Total (A+B)	**680,150**	**800,568**

The breakdown by borrower/issuer was carried out in accordance with criteria of classification by economic activity group and sector laid down by the Bank of Italy.

2.3 Financial assets measured at fair value: breakdown

2.4 Financial assets measured at fair value: breakdown by borrower/issuer

Tables 2.3 and 2.4 were not completed since the Bank has no financial assets measured at fair value to report for either the current or previous year.

2.5 Other financial assets measured at fair value as per mandatory requirements: breakdown

Items	Total 31 12 2019				Total 31 12 2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
1. Debt securities	-	35,506	240,069	275,575	-	1,118,588	107,007	1,225,595
1.1 Stuctured secutities	-	-	125,432	125,432	-	33,249	95,650	128,899
1.2 Other debt securities	-	35,506	114,637	150,143	-	1,085,339	11,357	1,096,696
2. Equity instruments	-	-	7,730	7,730	-	-	74,033	74,033
3. Units of UCITD	-	65,548	46,899	112,447	-	101,479	13,123	114,602
4. Loans	-	-	267,978	267,978	-	-	337,265	337,265
4.1 Repurchase agreements	-	-	-	-	-	-	-	-
4.2 Others	-	-	267,978	267,978	-	-	337,265	337,265
Total	**-**	**101,054**	**562,676**	**663,730**	**-**	**1,220,067**	**531,428**	**1,751,495**

The decrease of approximately EUR 1 bn posted in line 1.2 “Other debt securities” under level 2 is due to the full early repayment by Casaforte of asset-backed securities in classes A, B and Z.

Line “1.1 Structured securities” as at 31 December 2019 refers to convertible bonds resulting from the restructuring of Sorgenia Group.

Debt securities measured at fair value as per mandatory requirements also include EUR 53.2 mln of exposures referring to the mezzanine (EUR 35.5 mln) and junior (EUR 17.7 mln) tranches of the securitisation of BMPS Group’s bad loan portfolio.

Line “2. Equity securities” includes contributions to the IDPF Voluntary Scheme as at 31 December 2019, of which EUR 5.6 mln relating to the capitalisation intervention for Banca Carige and EUR 0.8 mln to the intervention for CR Cesena. The decrease of approx. EUR 70 mln compared to last year is due to the extinction of equity instruments of Perimetro Gestione Proprietà Immobiliari S.p.A. as a result of its merger into the Bank.

Line “3. Units of UCITS” contains in level 3 the units of UCITS assumed in exchange for the sale of NPE loans for EUR 36.3 mln and the units in the Atlante Fund for EUR 9.9 mln.

Line “4. Loans” consists of financial assets that must be valued at fair value as a result of their failure to pass the SPPI test.

At the reporting date, there are no equity securities arising from the recovery of impaired financial assets.

2.6 Other financial assets measured at fair value as per mandatory requirements: breakdown by borrower/issuer

Voci/Valori	Total 31 12 2019	Total 31 12 2018
1. Equity instruments	7,730	74,033
of which: banks	*5,628*	-
of which: other financial companies	*1,106*	*1,559*
of which: non-financial companies	*996*	*72,474*
2. Debt secuties	275,575	1,225,596
a) Central Banks	-	-
b) Public Entities	-	-
c) Banks	319	13,425
d) Other financial companies	127,452	1,144,934
of which: insurance companies	-	-
e) Non-financial companies	147,804	67,237
3. Units of UCITS	112,447	114,602
4. Loans	267,978	337,265
a) Central Banks	-	-
b) Public Entities	-	-
c) Banks	-	-
d) Other financial companies	13,295	18,687
of which: insurance companies	-	-
e) Non-financial companies	221,742	280,331
f) Families	32,941	38,247
Total	**663,730**	**1,751,496**

The main cumulative losses relating to equity securities of clearly poor credit quality are:

- CISFI S.p.A. (EUR 10.9 mln);
- RCR S.p.A. (EUR 9.5 mln);
- Compagnia Investimento e Sviluppo (EUR 3.8 mln)
- Marinella S.p.A. (EUR 5.5 mln);
- Targetti Poulsen S.p.A. (EUR 3.7 mln).

During the course of the year, the Bank did not carry out further write-downs equity instruments of clearly poor credit quality.

Provided below is the breakdown by main categories of UCITS.

Categories/Amounts	Total 31 12 2019	Total 31 12 2018
Hedge Funds	398	1,030
Private Equity	75,133	74,944
Real estate	596	3,655
Credit recovery funds	36,320	34,973
Total	**112,447**	**114,602**

Section 3 - Financial assets measured at fair value through other comprehensive income - Item 30

3.1 Financial assets measured at fair value through other comprehensive income: breakdown

Items/Amounts	Total 31 12 2019				Total 31 12 2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
1. Debt securities	5,794,384	526,018	-	6,320,402	9,781,600	502,700	-	10,284,300
1.1 Structured securities	-	-	-	-	-	-	-	-
1.2 Other debt securities	5,794,384	526,018	-	6,320,402	9,781,600	502,700	-	10,284,300
2. Equity instruments	995	13,801	229,100	243,896	197	14,494	234,169	248,860
4. Loans	-	-	-	-	-	-	-	-
Total	**5,795,379**	**539,819**	**229,100**	**6,564,298**	**9,781,797**	**517,194**	**234,169**	**10,533,160**

As a result of the provisions set out in IFRS 9 for the derecognition of financial assets, line 1.2 also includes debt securities committed in repos (liabilities) and securities lending transactions carried out for own securities posted to financial assets measured at fair value through other comprehensive income.

Line "1.2 Other debt securities", amounting to about EUR 6.3 bn, was down by EUR 4.0 bn mainly due to the disposal of certain Italian government bond positions.

Line 2. Equity securities" (Level 3 column) includes EUR 187.5 mln for the investment in the capital of Bank of Italy.

It should be noted that EUR 2,729.7 mln are subject to fair value macro-hedging of the interest rate risk.

At the reporting date, the aggregate does not include the senior, mezzanine and junior exposures with reference to own and third party securitisation transactions or equity securities arising from the recovery of impaired financial assets.

3.2 Financial assets measured at fair value through other comprehensive income: breakdown by borrower/issuer

Items/Amounts	Total 31 12 2019	Total 31 12 2018
1. Debt securities	6,320,402	10,284,300
a) Central banks	-	-
b) Public entities	5,902,010	9,925,530
c) Banks	288,973	197,170
d) Other financial companies	96,582	66,888
of which: Insurance companies	-	-
e) Non-financial companies	32,837	94,712
2. Equity instruments	243,896	248,860
a) Banks	201,217	204,056
b) Other issuers:	42,679	44,804
- other financial companies	*28,883*	*27,824*
of which: Insurance companies	-	-
- non-financial companies	*13,795*	*16,979*
- others	-	-
4. Loans	-	-
Total	**6,564,298**	**10,533,160**

The main cumulative losses relating to equity securities of clearly poor credit quality are:

- Restart S.r.L. (EUR 1 mln recognised entirely during the previous year);
- Gabetti Group (EUR 2.7 mln recognised during previous years);
- Arezzo Fiere (EUR 1.4 mln, of which EUR 1.3 mln during the year).

3.3 Financial assets measured at fair value through other comprehensive income: gross value and overall value adjustments

	Gross exposure				Value adjustments			
	1 stage							
		of which: low credit risk instruments	2 stage	3 stage	1 stage	2 stage	3 stage	Partial write-off (*)
Debt securities	6,301,560	6,092,510	23,538	9,514	5,542	743	7,925	-
Loans	-	-	-	-	-	-	-	-
Totale 31 12 2019	**6,301,560**	**6,092,510**	**23,538**	**9,514**	**5,542**	**743**	**7,925**	**-**
Totale 31 12 2018	**10,284,550**	**10,147,414**	**7,246**	**6,851**	**10,087**	**130**	**4,130**	**-**
of which: purchased or originated credit impaired financial assets	X	X	-	-	X	-	-	-

* *Value to be presented for disclosure purposes*

The line "Debt securities" of the level 3 column contains a single position whose gross value, at the reporting date, was EUR 9.5 mln, downgraded to default during the previous year. The gross value is indicated as the sum of the fair value as at the reporting date and the value adjustment as at the same date; in particular, the latter is equal to the expected credit loss recognised as an offsetting entry to item 130 b) of the income statement "Net impairment (losses)/reversals for credit risk of: b) financial assets measured at fair value through other comprehensive income".

Section 4 - Financial assets measured at amortised cost - Item 40

4.1 Financial assets measured at amortised cost: breakdown of loans to banks

Type of transaction/Amount	Total 31 12 2019							
	Book value				Fair value			
	Stage 1 and Stage 2	Stage 3	*of which: impaired or originated impaired financial assets*	Total	L1	L2	L3	Total
A. Loans to central banks	**9,282,052**	-	**-**	**9,282,052**	**-**	**9,282,052**	-	**9,282,052**
1. Time deposits	20,001	-	-	20,001	X	X	X	-
2. Compulsory reserve	9,262,051	-	-	9,262,051	X	X	X	-
3. Reverse repurchase agreements	-	-	-	-	X	X	X	-
4. Others	-	-	-	-	X	X	X	-
B. Loans to bank	**22,864,122**	**236**	**-**	**22,864,358**	21,994	22,695,266	237	**22,717,497**
1. Loans	21,614,105	236	-	21,614,341	-	21,613,774	237	21,614,011
1.1 Current accounts and demand deposits	1,505,913	157	-	1,506,070	X	X	X	-
1.2 Time deposits	13,204,273	-	-	13,204,273	X	X	X	-
1.3 Other loans	6,903,919	79	-	6,903,998	X	X	X	-
- Reverse repurchase agreements	4,919,339	-	-	4,919,339	X	X	X	-
- Finance leases	-	-	-	-	X	X	X	-
- Others	1,984,580	79	-	1,984,659	X	X	X	-
2. Debt securities	1,250,017	-	-	1,250,017	21,994	1,081,492	-	1,103,486
2.1 Sructured securities	-	-	-	-	-	-	-	-
2.2 Other debt securities	1,250,017	-	-	1,250,017	21,994	1,081,492	-	1,103,486
Total	**32,146,174**	**236**	**-**	**32,146,410**	**21,994**	**31,977,318**	**237**	**31,999,549**

At the reporting date, the item includes non-performing loans for an amount of EUR 0.2 mln (EUR 1.8 mln as at 31 December 2018).

'Banks' also includes international entities of a banking nature subjected to zero weighting in accordance with prudential supervisory regulations on the standardised approach to counterparty and credit risk.

The portfolio of "Loans to banks" includes loans and deposits, in addition to the unrestricted part of the compulsory legal reserve with the Bank of Italy which, at year end, amounted to EUR 9,262.1 mln (EUR 6,507.6 mln as at 31 December 2018). In accordance with regulations on average maintenance levels, the end-of-period balance of the compulsory reserve may be subject to substantial changes in relation to the Bank's contingent cash flow requirements.

Sub-item "B.1.3 Other loans - Other", totalling EUR 1,984.6 mln, includes security deposits of approximately EUR 1,589.6 mln.

It should be noted that EUR 747.1 mln are subject to specific fair value -hedging of the interest rate risk.

At the reporting date, the aggregate does not include senior, mezzanine and junior exposures assumed by the Bank with reference to own and third party securitisation transactions.

Type of transaction/Amount	Totale 31 12 2018							
	Book value				Fair value			
	Stage 1 and Stage 2	Stage 3	*of which: impaired or originated impaired financial assets*	Total	L1	L2	L3	Total
A. Loans to central banks	**6,527,635**	**-**	**-**	**6,527,635**	**-**	**6,527,635**	**-**	**6,527,635**
1. Time deposits	20,001	-	-	20,001	X	X	X	-
2. Compulsory reserve	6,507,634	-	-	6,507,634	X	X	X	-
3. Reverse repurchase agreements	-	-	-	-	X	X	X	-
4. Others	-	-	-	-	X	X	X	-
B. Loans to bank	**22,307,340**	**1,833**	-	**22,309,173**	**22,696**	**21,919,584**	**1,833**	**21,944,113**
1. Loans	21,074,620	1,833	-	21,076,453	-	21,072,030	1,833	21,073,863
1.1 Current accounts and demand deposits	1,965,402	120	-	1,965,522	X	X	X	-
1.2 Time deposits	11,903,974	-	-	11,903,974	X	X	X	-
1.3 Other loans	7,205,244	1,713	-	7,206,957	X	X	X	-
- Reverse repurchase agreements	5,757,576	-	-	5,757,576	X	X	X	-
- Finance leases	-	-	-	-	X	X	X	-
- Others	1,447,668	1,713	-	1,449,381	X	X	X	-
2. Debt securities	1,232,720	-	-	1,232,720	22,696	847,554	-	870,250
2.1 Sructured securities	-	-	-	-	-	-	-	-
2.2 Other debt securities	1,232,720	-	-	1,232,720	22,696	847,554	-	870,250
Total	**28,834,975**	**1,833**	**-**	**28,836,808**	**22,696**	**28,447,219**	**1,833**	**28,471,748**

4.2 Financial assets measured at amortised cost: breakdown of loans to customers

Type of transaction/Amount	31 12 2019							
	Book value				Fair value			
	Stage 1 and Stage 2	Stage 3	*of which: impaired or originated impaired financial assets*	Total	L1	L2	L3	Total
Loans	**61,548,130**	**4,560,171**	***41,050***	**66,108,301**	**-**	**-**	**71,649,066**	**71,649,066**
1.1. Current accounts	4,624,616	630,083	*2,115*	5,254,699	X	X	X	X
1.2. Reverse repurchase agreements	-	-	-	-	X	X	X	X
1.3. Mortgage	43,677,987	3,230,278	*12,636*	46,908,265	X	X	X	X
1.4. Credit cards, personal loans and fifth-of-salary backed loans	639,882	23,553	-	663,435	X	X	X	X
1.5. Finance lease	-	-	-	-	X	X	X	X
1.6. Factoring	-	-	-	-	X	X	X	X
1.7. Other transactiones	12,605,645	676,257	*26,299*	13,281,902	X	X	X	X
- of which operating receivable	*16,125*			*16,125*	-	-	-	-
Debt securities	**8,781,789**	**-**	**-**	**8,781,789**	**6,866,727**	**2,127,077**	**-**	**8,993,804**
1.1. Structured securities	-	-	-	-	-	-	-	-
1.2. Other debt securities	8,781,789	-	-	8,781,789	6,866,727	2,127,077	-	8,993,804
Total	**70,329,919**	**4,560,171**	***41,050***	**74,890,090**	**6,866,727**	**2,127,077**	**71,649,066**	**80,642,870**

"Loans to customers" also includes operating receivables for EUR 16.1 mln, other than those connected with the payment for the supply of non-financial goods and services, posted to "Other assets" in item 150 of the Assets, subject to the provisions pursuant to IFRS 9, paragraph 5.5.15 a) i).

The item also includes loans to Monte Paschi Fiduciaria for EUR 0.3 mln, for which, pursuant to IFRS 15.116, the certainty of the revenue may be considered as consolidated only following actual collection by the subsidiary from its customers.

The column impaired acquired or originated almost entirely comprises the granting of new loans to already non-performing counterparties. There were no business combinations carried out during the year for which impaired loans were acquired.

Line "2.2 Other debt securities", amounting to about EUR 8.8 bn, was up by EUR 2.0 bn as compared to 2018, mainly due to the purchase of Italian government securities during 2019. The aggregate also includes securities amounting to EUR 1.8 bn for senior notes related the securitisation transaction on the MPS Group's bad loan portfolio, subscribed by the Bank in the first half 2018.

It should be noted that EUR 1,926.6 mln are subject to specific fair value -hedging of the interest rate risk.

The line also includes bonds not listed in active markets issued mainly by regional public bodies, e.g. municipal bonds (it.: buoni ordinari comunali, BOC).

"Loans to customers" include loans disbursed with funds made available by the government or by other public entities, with the Bank adopting partial or total risk. These funds are managed under the agreements signed by the Bank with Cassa Depositi e Prestiti (hereinafter CDP), in direct cooperation with ABI, and with regional financial institutions. In particular, the Group participated in the agreements set up by ABI and CDP:

- to support the business sector. These activities aim to encourage the disbursement of loans, depending on the case, to small and medium-sized companies, essentially to ensure financial coverage of costs for investments and/or linked to requirements to increase working capital and purchase or lease operating assets. Loans to SMEs must have a term of over 12 months and the relative contractual conditions, which are not subject to CDP funding, are the subject of independent negotiation between the interested parties. Loans to the final beneficiaries must be assigned as collateral to CDP;

- to support consumers. In this case, CDP provides funding aimed at encouraging access to secured mortgage loans by natural persons, on residential properties designated as the principal residence on a priority basis and to refurbishment and energy efficiency works. The terms and conditions of loans disbursed by the Bank to private parties, which must have a term of between 10 and 30 years, are not subject to CDP funding and are the subject of independent negotiation between the parties, provided that use of the funding leads to an improvement in the financial conditions offered to beneficiaries with respect to those normally applied by the Bank. Loans to the final beneficiaries must be assigned as collateral to CDP. Specifically, for 2019 the Bank did not use the funding provided by the ABI-CDP Plafond Casa Agreement, which is still operational;

- in favour of the territory for natural disasters. With said initiatives, the funds made available by the CDP are allocated to encourage subsidised loans to those impacted by the earthquakes of 2012 and 2016, and following the series of natural disasters (floods, snowfalls, sea storms, etc.) of 2013. The operational scheme envisages matching transactions between CDP/Bank and Bank/Beneficiaries, with expected terms of 15/20/25 years. As exclusive means of reimbursement of the loans disbursed, the tax credit specifically assigned to the beneficiary by the legislation is accepted as payment, with discharging effect for the beneficiary, for the principal and interest of each instalment of the loan up to the final expiry date. The Bank uses said tax credits with the methods established by the Italian Revenue Agency, through a netting mechanism. The Bank/Final Beneficiary loans are backed by unconditional and irrevocable first-demand guarantee by the Italian government, fully reimbursing principal and interest. For the loans disbursed, no discretion by the Bank with respect to the beneficiary is envisaged, for reasons linked to creditworthiness or determination of the rate to apply.

Conversely, with regard to management of resources made available by specific Regional Laws, the Bank's operations refer to specific agreements stipulated with the regional financial institutions or to alternative instruments, such as the so-called "Rotation Funds", also established through regional laws. These loans are generally disbursed with part of the funding made available with public funds and part with the Bank's own resources (co-financing).

The procedure to manage the aforementioned resources is described in more detail below.

- An agreement is in place with Veneto Sviluppo, which defines the characteristics for the granting of loans using the funds (prerequisites of companies, objectives, amounts, etc.), including the methods and amount of subsidies, and the maximum percentage that can be financed, in addition to the portion of funding borne by the entity. The Bank integrates the remainder with its own funds. The agreement requires the loan to be structured with two distinct amortisation plans and that the risk of insolvency be fully borne by the Bank, even for the part disbursed with public funds.
- The Bank participates in initiatives of the Friuli Venezia Giulia Region aimed at facilitating access to loans by local companies, establishing the so-called "Rotation funds", including the FRIE (Fondo di Rotazione per le Iniziative Economiche - Rotation Funds for Economic Initiatives), based on Regional Law 2/2012, and regional funds pursuant to Regional Law 80/82. Availability of these funds is designated for the granting of loans at special conditions, established by the Region and differentiated based on sector. Use of the available funds varies according to the initiative and sector financed: it is generally equal to 50% of the total investment amount. It is possible to supplement the portion not covered by public funds with own funds, up to the total cost sustained by the company. In the case of co-financing, for transactions under Regional Law 80/82, the insolvency risk is fully borne by the Bank; for transactions under Regional Law 2/2012, the Bank's credit risk is limited to 20%. Moreover, for both subsidised loans (FRIE and Law 80/82), as total compensation for management of the loans and of the credit risk, the Bank receives remuneration commensurate with a pre-established percentage, which differs based on the amount of the loan. The disbursement of loans with funds under Regional Law 80/82 must be formalised with a single agreement and two distinct amortisation plans, while for the FRIE, formalisation takes place with only one single amortisation plan.
- Other agreements stipulated with Finlombarda envisage the disbursement of Bank-Entity co-financing loans in percentages that depend on the various initiatives, for which the credit risk continues to be borne by the individual lenders:
    - "Al Via", aimed at sustaining new investments by Lombardy's SMEs; it envisages the disbursement of a loan with the parties providing equivalent amounts, at a rate defined in the agreement for the Bank's portion and at a fixed rate for Finlombarda's portion.
    - "Linea Innovazione", aimed at sustaining investments for product or process innovation, through the granting, to companies operating in Lombardy, of Bank-Finlombarda co-financing, in conjunction with a contribution to interest; the disbursement of a loan with a part by the Bank and an equal part by the Entity, at a rate defined in the agreement for the Bank's portion and at a fixed rate for Finlombarda's portion is envisaged in this case as well.
    - "Credito Adesso", aimed at sustaining financial aid in favour of micro/small and medium-sized enterprises in the manufacturing, services and commerce sectors, to finance working capital requirements connected to the commercial expansion of companies operating in Lombardy. The initiative envisages the disbursement of medium-term loans, in the form of co-financing by BMPS and Finlombarda, to cover working capital requirements connected to commercial expansion: the portion of public funds made available by BEI through Finlombarda, is 40%, with the remaining 60% disbursed with the Bank's funds.
- The Bank has taken on the Framework Agreement function defined between ABI and Finpiemonte to manage the measures to facilitate the local economy. The facilitation measures also include co-financing between the Bank and Finpiemonte for specific initiatives. In general, initiatives may envisage subsidised loans with Finpiemonte funding, which in some cases reaches 80% (even at zero rate) and for the remainder with Bank funding at the interest rate defined by the agreement with the Entity. Credit risk for co-financing continues to be borne by the individual financing party for its portion.

Type of transaction/Amount	31 12 2018							
	Book value				Fair value			
	Stage 1 and Stage 2	Stage 3	*of which: impaired or originated impaired financial assets*	Total	L1	L2	L3	Total
Loans	**60,304,239**	**5,666,632**	***45,201***	**65,970,871**	**-**	**-**	**68,945,130**	**68,945,130**
1.1. Current accounts	4,957,714	991,218	*3,251*	5,948,932	X	X	X	X
1.2. Reverse repurchase agreements	-	-	-	-	X	X	X	X
1.3. Mortgage	42,738,210	3,696,496	*17,263*	46,434,706	X	X	X	X
1.4. Credit cards, personal loans and fifth-of-salary backed loans	738,004	35,958	-	773,962	X	X	X	X
1.5. Finance lease	-	-	-	-	X	X	X	X
1.6. Factoring	-	-	-	-	X	X	X	X
1.7. Other transactiones	11,870,311	942,960	*24,687*	12,813,271	X	X	X	X
- of which operating receivable	*13,521*	-	-	*13,521*	-	-	-	-
Debt securities	**6,795,621**	**-**	**-**	**6,795,621**	**4,128,553**	**2,491,800**	**41,614**	**6,661,967**
1.1. Structured securities	-	-	-	-	-	-	-	-
1.2. Other debt securities	6,795,621	-	-	6,795,621	4,128,553	2,491,800	41,614	6,661,967
Total	**67,099,860**	**5,666,632**	***45,201***	**72,766,492**	**4,128,553**	**2,491,800**	**68,986,744**	**75,607,097**

4.3 Financial assets measured at amortised cost: breakdown by borrower/issuer of loans to customers

Type of transaction/Amount	Totale 31 12 2019			
	Stage 1 and Stage 2	Stage 3	*of which: impaired or originated impaired financial assets*	Total
1. Debt securities	**8,781,789**	**-**	**-**	**8,781,789**
a) Public entities	6,700,964	-	-	6,700,964
b) Other financial companies	2,003,328	-	-	2,003,328
of which: insurance companies	*62,437*	-	-	*62,437*
c) Non-financial companies	77,497	-	-	77,497
2. Loans to	**61,548,130**	**4,560,171**	***41,050***	**66,108,301**
a) Public Entities	1,780,725	123,317	-	1,904,042
b) Other financial companies	3,686,142	39,403	*1,751*	3,725,545
of which: insurance companies	*135*	*1*	-	*136*
c) Non-financial companies	23,382,350	2,615,852	*31,381*	25,998,202
d) Families	32,698,913	1,781,599	*7,918*	34,480,512
Total	**70,329,919**	**4,560,171**	***41,050***	**74,890,090**

Type of transaction/Amount	Totale 31 12 2018			
	Stage 1 and Stage 2	Stage 3	*of which: impaired or originated impaired financial assets*	Total
1. Debt securities	**6,795,621**	**-**	**-**	**6,795,621**
a) Public entities	4,318,562	-	-	4,318,562
b) Other financial companies	2,407,004	-	-	2,407,004
of which: insurance companies	*75,824*	-	-	*75,824*
c) Non-financial companies	70,055	-	-	70,055
2. Loans to	**60,304,239**	**5,666,632**	***45,201***	**65,970,871**
a) Public Entities	1,980,579	118,782	-	2,099,361
b) Other financial companies	2,955,611	94,389	*1,765*	3,050,000
of which: insurance companies	*55*	*3*	-	*58*
c) Non-financial companies	23,547,675	3,562,447	*35,796*	27,110,122
d) Families	31,820,374	1,891,014	*7,640*	33,711,388
Total	**67,099,860**	**5,666,632**	***45,201***	**72,766,492**

4.4 Financial assets measured at amortised cost: gross value and overall value adjustments

	Gross exposure				Value adjustments			Partial write-off (*)
	Stage 1	*of which: low credit risk instruments*	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	10,039,175	9,377,535	-	-	7,369	-	-	-
Loans	83,681,783	-	9,135,134	8,548,374	53,361	319,269	3,987,967	128,015
Totale 31 12 2019	**93,720,957**	***9,377,535***	**9,135,134**	**8,548,374**	**60,730**	**319,269**	**3,987,967**	**128,015**
Totale 31 12 2018	**86,504,604**	***7,343,493***	**9,925,439**	**11,634,746**	**66,267**	**428,943**	**5,966,280**	**139,960**
of which: purchased or originated credit impaired financial assets	*X*	*X*	*12,325*	*51,399*	*X*	*422*	*22,252*	-

** Value to be presented for disclosure purposes*

For financial assets included in the "Stage 3" column, the gross value corresponds to the book value gross of the relative overall value adjustments, which are equal to the difference between the expected recovery value and the gross book value.

Section 5 - Hedging derivatives - Item 50

5.1 Hedging derivatives: breakdown by type of contract and underlying asset

	Fair value 31 12 2019				Total Net Value 31 12 2019
	Level 1	Level 2	Level 3	Total	
A. Financial derivatives	**-**	**71,392**	**-**	**71,392**	**4,119,286**
1) Fair value	-	71,392	-	71,392	4,119,286
2) Cash flows	-	-	-	-	-
3) Foreign investments	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-
2) Cash flows	-	-	-	-	-
Total	**-**	**71,392**	**-**	**71,392**	**4,119,286**

Legend

NV = Notional or Nominal Value

The table displays the positive book value (fair value) of hedging derivatives for hedges carried out through hedge accounting.

Information on the underlying strategies and objectives of hedge transactions can be found in the Section “Market risks” of Part E “Information on Risks and hedging policies”.

	Fair value 31 12 2018				Total Net Value 31 12 2018
	Level 1	Level 2	Level 3	Total	
A. Financial derivatives	**-**	**257,676**	**-**	**257,676**	**8,795,425**
1) Fair value	-	99,091	-	99,091	7,898,963
2) Cash flows	-	158,585	-	158,585	896,462
3) Foreign investments	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-
2) Cash flows	-	-	-	-	-
Total	**-**	**257,676**	**-**	**257,676**	**8,795,425**

Legend

NV = Notional or Nominal Value

5.2 Hedging derivatives: breakdown by hedged portfolios and type of hedging

Transaction/Type of hedge	Fair Value							Cash Flows		Foreign Investments	Total 31 12 2019
	Micro-hedge						Macro-hedge	Micro-hedge	Macro-hedge		
	debt securities and interest rate	equity instruments and stock indices	currencies and gold	Credit	Commodities	Others					
1. Financial assets measured at fair value through other comprehensive income	1,362	-	-	-	X	X	X	-	X	X	1,362
2. Financial assets measured at amortised cost	-	X	-	-	X	X	X	-	X	X	-
4. Portfolio	X	X	X	X	X	X	4,293	X	-	X	4,293
5. Other transactions	-	-	-	-	-	-	X	-	X	-	-
Total assets	**1,362**	**-**	**-**	**-**	**-**	**-**	**4,293**	**-**	**-**	**-**	**5,655**
1. Financial liabilities	63,608	X	2,129	-	-	-	X	-	X	X	65,737
2. Portfolio	X	X	X	X	-	X	-	X	-	X	-
Total liabilities	**63,608**	**-**	**2,129**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**65,737**
1. Expected transactions	X	X	X	X	X	X	X	-	X	X	-
2. Financial assets and liabilities portfolio	X	X	X	X	X	X	-	X	-	-	-
Total	**64,970**	**-**	**2,129**	**-**	**-**	**-**	**4,293**	**-**	**-**	**-**	**71,392**

The table shows the positive fair values of hedging derivatives, classified by hedged assets or liabilities and type of hedging implemented.

In particular, for financial assets, fair value micro-hedging was used to hedge against interest rate risk on bonds classified in the portfolio "Financial assets measured at fair value through other comprehensive income", in order to protect the portfolio from unfavourable interest rate changes.

With reference to financial liabilities, fair value micro-hedging of the interest rate risk refers primarily to hedges of liabilities represented by fixed-rate issues; fair value macro-hedging of the interest rate risk refers to hedges of optional components implicit in floating-rate mortgage loans.

More information on hedged assets and liabilities can be found in the tables contained in Part B of the notes for each section of the balance sheet items to which the hedged items are posted.

Section 6 - Change in value of macro-hedged financial assets - Item 60

6.1 Change in value of hedged assets: breakdown by hedged portfolios

Changes in value of hedged assets / Group components	Total 31 12 2019	Total 31 12 2018
1. Positive changes	**617,260**	**165,690**
1.1 of specific portfolios:	617,260	165,690
a) loans and receivables	617,260	165,690
b) financial assets measured at fair value through other comprehensive income	-	-
1.2 overall	-	-
2. Negative changes	**-**	**-**
2.1 of specific portfolios:	-	-
a) loans and receivables	-	-
b) financial assets measured at fair value through other comprehensive income	-	-
2.2 overall	-	-
Total	**617,260**	**165,690**

The value adjustment concerns fixed and capped floating rate mortgage loan portfolios that were fair value macro-hedged with derivatives to counter possible interest rate risk-induced fluctuations in value. As this is a macro-hedge, any gain or loss on the hedged item attributable to the risk hedged may not directly adjust the value of said item (unlike in micro-hedging), but must be presented in this separate line item of the assets. The amounts in this item must be removed from the balance sheet when the relevant assets or liabilities are derecognised.

Compared to 2018, in 2019 there was an increase in the value adjustment to macro hedging due to the reduction in market rates which led a significant increase in the fair value of the portfolio of hedeged items, against a decrease in hedging derivatives.

The fair value of the corresponding hedging derivatives is shown respectively in Table 5.2 (assets) or Table 4.2 (liabilities), both entitled “Hedging derivatives: breakdown by hedged portfolio and type of hedging”, in the “Macro-hedging” column.

The assets subject to macro hedging of interest risk refer to fixed and capped floating rate mortgage loan portfolios included in item 40 “Financial assets measured at amortised cost - Loans to customers”, amounted to EUR 12,790.1 mln as at 31 December 2019 (EUR 11,819.8 mln as at 31 December 2018). The sum of this amount and the one shown in this table expresses the book value of these receivables, adjusted for profit or loss attributable to the risk hedged.

Section 7 - Equity investments - Item 70

7.1 Equity investments: information on shareholding

Company Name	Headquarters	Registered Office	Share holding %	Available votes %
A. Subsidiaries				
Aiace Reoco s.r.l.	Siena	Siena	100.000	
Cirene Finance S.r.l.	Conegliano	Conegliano	60.000	
Consorzio Operativo Gruppo Montepaschi	Siena	Siena	99.760	
Enea Reoco s.r.l.	Siena	Siena	100.000	
G.Imm.Astor s.r.l.	Lecce	Lecce	52.000	
Magazzini Generali Fiduciari di Mantova S.p.a.	Mantova	Mantova	100.000	
Monte dei Paschi di Siena Leasing & Factoring Banca per i servizi f	Siena	Siena	100.000	
Monte paschi banque S.A.	Parigi	Parigi	100.000	
Monte paschi fiduciaria S.p.a.	Siena	Siena	100.000	
Montepaschi Luxembourg s.a.	Lussemburgo	Lussemburgo	99.200	
Mps Capital Services Banca per le imprese S.p.a.	Firenze	Firenze	100.000	
Mps covered bond 2 S.r.l.	Conegliano	Conegliano	90.000	
Mps covered bond S.r.l.	Conegliano	Conegliano	90.000	
Mps Tenimenti Poggio Bonelli e Chigi Saracini soc. agricola S.p.a.	Castelnuovo Barardenga	Castelnuovo Barardenga	100.000	
Siena lease 2016 2 S.r.l.	Conegliano	Conegliano	10.000	
Siena mortgages 07 5 S.p.a.	Conegliano	Conegliano	7.000	
Siena mortgages 09 6 S.r.l.	Conegliano	Conegliano	7.000	
Siena mortgages 10 7 S.r.l.	Conegliano	Conegliano	7.000	
Siena PMI 2016 S.r.l.	Conegliano	Conegliano	10.000	
Wise Dialog Bank S.p.a. in breve WIDIBA	Milano	Milano	100.000	
B. Companies under joint control				
Immobiliare Novoli S.p.a.	Firenze	Firenze	50.000	
Integra S.p.a.	Firenze	Firenze	50.000	

Company Name	Headquarters	Registered Office	Share holding %	Available votes %
C. Companies under significant influence				
Axa Mps Assicurazioni danni S.p.a.	Roma	Roma	50.000	
Axa Mps Assicurazioni vita S.p.a.	Roma	Roma	50.000	
Fidi Toscana S.p.a.	Firenze	Firenze	27.460	
Fondo Etrusco Distrubuzione	Roma	Roma	48.000	
Fondo Minibond PMI Italia	Conegliano	Conegliano	61.940	
Fondo Socrate	Roma	Roma	21.000	
Interporto toscano A. Vespucci	Collesalvetti	Collesalvetti	21.819	
Microcredito di Solidarieta' S.p.a.	Siena	Siena	40.000	
Nuova Sorgenia Holding S.p.a.	Milano	Milano	16.670	
S.i.t. Sviluppo imprese e territorio S.p.a.	Roma	Roma	19.969	
Sansedoni Siena S.p.a.	Siena	Siena	21.754	33.674
Terme di Chianciano S.p.a.	Chianciano Terme	Chianciano Terme	18.816	

Equity investments in subsidiary companies, jointly controlled companies and companies under significant influence are valued at cost.

The classification criteria of the equity investments in subsidiary companies, jointly controlled companies and companies under significant influence are illustrated in Part A "Accounting policies" of these Notes to the Financial Statements.

For further details on changes, see comments to the subsequent table "7.5 - Equity investments: annual changes".

7.2 Significant equity investments: book value, fair value and dividends earned

7.3 Significant equity investments: accounting information

7.4 Non-significant equity investments: accounting information

The information referred to in the above items is not provided in that the Bank also prepares the consolidated financial statements.

7.5 Equity investments: annual changes

	Total 31 12 2019	Total 31 12 2018
A. Opening balance	**2,653,301**	**3,079,197**
B. Increases	**252,868**	**75,598**
B.1 Purchases	46	-
B.2 Write-backs	-	68,558
B.3 Revaluations	-	-
B.4 Other increases	252,822	7,040
C. Decreases	**142,920**	**501,494**
C.1 Sales	1,550	5,813
C.2 Value adjustment	30,516	451,372
C.3 Depreciation	-	-
C.4 Other decreases	110,854	44,309
D. Closing balance	**2,763,249**	**2,653,301**
E. Total revaluation	-	-
F. Total write-downs	**2,906,352**	**2,918,997**

Below are the main changes in the item “Equity investments” during the year ended 31 December 2019.

Line B.4 “Other increases” includes:

- EUR 2.8 mln for gains recognised following the liquidations of the following subsidiaries: Consumit.it Securitisation S.r.l., Siena Consumer 2015 S.r.l., Siena Consumer S.r.l. and MPS Preferred Capital II LLC.
- EUR 250.0 mln referring to the subscription to the share capital increase of the subsidiary MPS Leasing & Factoring S.p.A. that occurred in April 2019.

In line with the indications of accounting standards, the measurement of impairment indicators for equity investments resulted in valuation adjustments for EUR 30.5 mln, indicated in line “C.2 Value adjustments”, almost entirely referring to the controlling stake held in Banca Widiba S.p.A.

The decreases in line “C.4 Other decreases”, totalling EUR 110.9 mln, includes EUR 55 mln for the merger by incorporation of Perimetro Gestione Proprietà Immobiliari S.p.A. and approx. EUR 49 mln related to the closure of the following vehicles: Siena Consumer S.r.l, Siena Consumer 2015 S.r.l., Consumit.it Securitisation S.r.l., Siena PMI 2015 S.r.l., MPS Preferred Capital I LLC., MPS Preferred Capital II LLC, Antonveneta Capital Trust I, Antonveneta Capital Trust II, Antonveneta Capital LLC I and Antonveneta Capital LLC II.

7.6 Covenants on investments in jointly controlled companies

The information referred to in the above items is not provided in that the Bank also prepares the consolidated financial statements

7.7 Covenants on investments in companies under significant influence

The information referred to in the above items is not provided in that the Bank also prepares the consolidated financial statements

7.8 Significant restrictions

The information referred to in the above items is not provided in that the Bank also prepares the consolidated financial statements

7.9 Other information

The information referred to in the above items is not provided in that the Bank also prepares the consolidated financial statements.

Impairment test on equity investments

As required by IAS/IFRS, equity investments were subjected to impairment testing in order to check whether there is objective evidence that the book value of the assets is not fully recoverable. In the case of investments in associates and joint ventures, the process of identifying any impairment involves checking for the presence of impairment indicators and determining any write-down. For further details on the indicators used by the Group, please refer to part A of these Notes, paragraph "Use of estimates and assumptions -Methods for calculating impairment on investments". In the presence of impairment indicators, the recoverable value is determined as the higher between the fair value net of selling costs and the value in use, and if the latter is lower than the book value, the impairment is recorded. Regarding investments in associates or joint ventures, the impairment tests determined the need to recognise an impairment loss, irrelevant in amount (Euro 81 thousand), for the investee S.i.t. Finanziaria di Sviluppo per l'innovazione Tecnologia S.p.A. It should be noted that as at 31 December 2018, the impairment test procedure resulted in the write-down of the associate Trixia S.r.l (Euro 5.7 million) and of the jointly-controlled investment in Immobiliare Novoli S.p.A. (Euro 1.5 million).

For subsidiaries other than Wise Dialog Bank S.p.A. (Widiba) – whose valuation is carried out indirectly within the scope of the impairment test of the only Cash Generating Units (IAS 36) identified at consolidated level as part of the goodwill impairment test, to which reference should be made for further details – a check was carried out on the presence of any impairment triggers represented by a synthetic set of indicators starting from the 2019 budget targets and compared with the final figures as at 31 December 2019. In relation to the aforementioned equity investments, the need emerged to make a value adjustment for Widiba (Euro 30.4 million) and Euro 35 thousand for the investee Consumit.it Securitization S.r.l.

As of 31 December 2018, the impairment test procedure has led to the write-down of the subsidiaries MPS Leasing& Factoring (Euro 265.1 million), MPS Capital Services S.p.A. (Euro 169.0 million) and MPS Preferred Capital I LLC (Euro 10 million).

Section 8 - Property, plant and equipment - Item 80

8.1 Property, plant and equipment used in the business: breakdown of assets valued at cost

Asset/Amount	Total	
	31 12 2019	31 12 2018*
1. Assets owned	**1,958,643**	**781,055**
a) land	703,246	275,181
b) buildings	996,288	249,078
c) furniture and furnishings	140,263	139,153
d) electronic systems	52,138	59,322
e) other	66,708	58,321
2. Right of use leasing	**232,427**	**-**
a) land	-	-
b) buildings	231,804	-
c) furniture and furnishings	-	-
d) electronic systems	-	-
e) other	623	-
Total	**2,191,070**	**781,055**
of which: obtained through the enforcement of the guarantees received	-	-

*The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 16.

All of the Bank's property, plant and equipment is measured at cost; the line "land" expresses the value of land separately from the value of buildings. In compliance with guidance provided by IAS 36 "Impairment of Assets" and recommendations contained in document no. 4 of 3 March 2010 issued jointly by the Bank of Italy, Consob and Isvap, an overall property appraisal was made with a view to determining any impairment losses to be posted to the income statement for the year; disclosure of these impairment losses is provided in the notes to the table "8.6 Property, plant and equipment used in the business: annual changes".

Item "1. Assets owned - a) land and b) buildings" includes the assets deriving from the merger of Perimetro Gestione Proprietà Immobiliari S.p.A. into the Bank for EUR 434 mln and EUR 767 mln, respectively.

The rights of use acquired under leasing are nearly entirely attributable to real estate lease contracts. As at 31 December 2019, the Bank has granted operating leases of owned assets for business use totalling EUR 273 mln, entirely in the categories a) land and b) buildings. For more information on the assets of the Bank, as lessor and lessee, under the operating lease agreements, see Part M of these Notes to the financial statements.

Item 1 "Assets owned –c) furnishings" includes artworks whose value amounts to EUR 121 mln.

As at the reporting date of these financial statements and for the comparison year, there was no property, plant and equipment under finance lease, obtained through enforcement of guarantees and the cases to which paragraph 78 of IAS 40 applies.

8.2 Property, plant and equipment held for investment: breakdown of assets valued at cost

Asset/Amount	Total 31 12 2019				
	Book value	Fair Value			
		Level 1	Level 2	Level 3	Total
1. Assets owned	**314,583**	**-**	**-**	**339,217**	**339,217**
a) land	157,177	-	-	152,829	152,829
b) buildings	157,406	-	-	186,388	186,388
2. Assets leased	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-
b) buildings	-	-	-	-	-
Total	**314,583**	**-**	**-**	**339,217**	**339,217**
of which: obtained through the enforcement of the guarantees received	-	-	-	-	-

All of the Bank's property, plant and equipment is measured at cost; the line "land" expresses the value of land separately from the value of buildings. In compliance with guidance provided by IAS 36 "Impairment of Assets" and recommendations contained in document no. 4 of 3 March 2010 issued jointly by the Bank of Italy, Consob and Isvap, an overall property appraisal was made with a view to determining any impairment losses to be posted to the income statement for the year; disclosure of these impairment losses is provided in the notes to the table "8.7 Property, plant and equipment held for investment: annual changes".

Item "1. Assets owned - a) land and b) buildings" includes the assets deriving from the merger of Perimetro Gestione Proprietà Immobiliari S.p.A. into the Bank for EUR 47.5 mln and EUR 76.8 mln, respectively.

As at 31 December 2019, the Bank has granted operating leases of owned assets for investment purposes totalling EUR 139 mln, entirely in the categories a) land and b) buildings.

The criteria for classification of a tangible asset as a real estate investment pursuant to IAS 40 are described in the accounting policies, to which reference is made. The disclosure required by IAS 40 paragraph 75 letter c) is not provided, as the classification is not difficult.

As at the reporting date of these financial statements and for the comparison year, there was no property, plant and equipment under finance lease, obtained through enforcement of guarantees and the cases to which paragraph 75, letters c), g), and h) of IAS 40 apply.

Attività/Valori	Total 31 12 2018				
	Book value	Fair Value			
		Level 1	Level 2	Level 3	Total
1. Assets owned	**219,660**	**-**	**-**	**249,730**	**249,730**
a) land	120,176	-	-	123,319	123,319
b) buildings	99,484	-	-	126,411	126,411
2. Assets leased	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-
b) buildings	-	-	-	-	-
Total	**219,660**	**-**	**-**	**249,730**	**249,730**
of which: obtained through the enforcement of the guarantees received	-	-	-	-	-

8.3 Property, plant and equipment used in the business: breakdown of revalued assets

The Bank holds no revalued property, plant and equipment.

8.4 Property, plant and equipment held for investment: breakdown of assets measured at fair value

The Bank holds no property, plant and equipment measured at fair value pursuant to IAS 40.

8.5 Inventories of property, plant and equipment governed by IAS 2: breakdown

Assets/Amounts	Total	
	31 12 2019	31 12 2018
1. Gross closing balance of tangible assets obtained through enforcement of the guarantees received	**-**	**-**
a) Land	-	-
b) Buildings	-	-
c) Furniture and furnishings	-	-
d) Electronic systems	-	-
e) Others	-	-
2. Others gross closing balance of tangible assets	**25,525**	**25,540**
Totale	**25,525**	**25,540**

"Other inventories of property, plant and equipment" refer to properties of former subsidiary MPS Immobiliare S.p.A., merged by incorporation in 2014.

8.6 Property, plant and equipment used in the business: annual changes

	Land	Buildings	Furniture and furnishings	Electronic systems	Others	Total 31 12 2019
A. Gross closing balance 2018	**299,437**	**438,511**	**488,954**	**583,451**	**476,662**	**2,287,015**
A.1 Total net decrease	24,256	189,434	349,801	524,129	418,341	1,505,961
A.2 Net closing balance 2018	**275,181**	**249,077**	**139,153**	**59,322**	**58,321**	**781,054**
First time adoption effects	**-**	**269,130**	**-**	**-**	**1,523**	**270,654**
A.3 Net opening balance	**275,181**	**518,207**	**139,153**	**59,322**	**59,844**	**1,051,708**
B. Increases	**436,644**	**805,113**	**5,663**	**12,705**	**22,477**	**1,282,602**
B.1 Purchases	2	7,438	5,661	12,632	22,470	48,203
B.2 Capitalized expenditure on improvements	-	25,864	-	-	-	25,864
B.3 Write-backs	-	-	-	-	-	-
B.4 Increases in fair value booked to:	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) profit and loss	-	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	1	1	2
B.6 Transfers from properties held for investm	2,395	3,955	X	X	X	6,350
B.7 Other increases	434,247	767,856	2	72	6	1,202,183
C. Decreases	**8,579**	**95,228**	**4,553**	**19,889**	**14,990**	**143,239**
C.1 Sales	2,272	3,615	-	-	-	5,887
C.2 Depreciation	-	85,428	4,552	19,875	14,981	124,836
C.3 Impariment losses booked to:	4,904	3,786	-	-	-	8,690
a) shareholders' equity	-	-	-	-	-	-
b) profit and loss	*4,904*	*3,786*	-	-	-	*8,690*
C.4 Decreases in fair value booked to:	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) profit and loss	-	-	-	-	-	-
C.5 Negative exchange differences	-	-	-	-	-	-
C.6 Transfer to:	1,403	1,604	-	-	-	3,007
a) tangible asset held for investment	-	-	*X*	*X*	*X*	-
b) Non-current assets and groups of assets held for sale and discontinued operations	*1,403*	*1,604*	-	-	-	*3,007*
C.7 Other decreases	-	795	1	14	9	819
D. Net closing balance	**703,246**	**1,228,092**	**140,263**	**52,138**	**67,331**	**2,191,070**
D.1 Total net decreases	29,160	412,306	354,128	543,375	433,004	1,771,973
D.2 Gross closing balance	**732,406**	**1,640,398**	**494,391**	**595,513**	**500,335**	**3,963,043**
E. Carried at cost	**-**	**-**	**-**	**-**	**-**	**-**

"Other increases" (line B.7) under the "land" and "buildings" columns include the assets of the former subsidiary Perimetro Gestione Proprietà Immobiliari S.p.A., merged by incorporation in 2019, for a value of EUR 434 mln and EUR 767 mln, respectively.

An analysis of external and internal impairment indicators resulted in impairment losses for an amount of EUR 8.7 mln being recognised in the balance sheet as at 31 December 2019 (line C.3). In addition, EUR 1.0 mln in overall capital gains on real estate used in the business is also reported; these capital gains were not recognised in the balance sheet. With regard to property, plant and equipment used in the Bank's business other than buildings, no extraordinary negative market factors were thought to exist under a going concern assumption that might call for the need to recognise impairment losses. Line "E. Carried at cost" was left blank, as per the Bank of Italy's instructions, since it only needs to be completed for assets accounted for at fair value.

8.6 a Property, plant and equipment used in the business - rights of use acquired: annual changes

	Land	Buildings	Furniture and furnishings	Electronic systems	Others	Total 31 12 2016
A.1 Net opening balance*						
B. Increases	**-**	**8,244**	**-**	**-**	**6**	**8,250**
B.1 Purchases	-	7,434	-	-	-	7,434
B.7 Other increases	-	810	-	-	6	816
C. Decreases	**-**	**45,570**	**-**	**-**	**906**	**46,476**
C.1 Sales	-	-	-	-	-	-
C.2 Depreciation	-	44,876	-	-	906	45,782
C.7 Other decreases	-	694	-	-	-	694
D. Net closing balance	**-**	**231,804**	**-**	**-**	**623**	**232,427**
D.1 Total net decreases	-	44,876	-	-	906	45,782
D.2 Gross closing balance	**-**	**276,680**	**-**	**-**	**1,529**	**278,209**
E. Carried at cost	**-**	**-**	**-**	**-**	**-**	**-**

*Initial balances are measured as at 1 January 2019.

The lines "Other increases" and "Other decreases" include renegotiations of existing lease contracts.

8.7 Property, plant and equipment held for investment: annual changes

	31 12 2019		
	Lands	Builiding	Total
A. Opening balance	**149,764**	**189,673**	**339,437**
A.1 Total net decrease	29,588	90,189	119,776
A.2 Net opening balance	**120,176**	**99,484**	**219,660**
B Increases	**48,515**	**79,251**	**127,766**
B.1 Purchases	-	-	-
B.2 Capitalized expenditure on improvements	-	1,291	1,291
B.3 Increases in fair value	-	-	-
B.4 Write-backs	-	-	-
B.5 Positive exchange differences	-	-	-
B.6 Transfers from property used in the business	-	-	-
B.7 Other increases	48,515	77,960	126,475
C. Decreases	**11,514**	**21,329**	**32,843**
C.1 Sales	3,158	3,112	6,270
C.2 Depreciation	-	7,631	7,631
C.3 Decreases in fair value	-	-	-
C.4 Impairment losses	1,550	1,257	2,807
C.5 Negative exchange differences	-	-	-
C.6 Transfers to other asset potfolios	6,806	9,329	16,135
a) properties used in the business	2,395	3,955	6,350
b) Non-current assets and groups of assets held for sale and discontinued operations	4,411	5,374	9,785
C.7 Other decreases	-	-	-
D. Closing balance	**157,177**	**157,406**	**314,583**
D.1 Total net decrease	31,138	106,610	137,748
D.2 Gross closing balance	188,315	264,016	452,331
E. Designated at fair value	**152,829**	**186,388**	**339,217**

“Other increases” (line B.7) includes the land and buildings acquired by the Bank following the merger by incorporation of the company Perimetro Gestione Proprietà Immobiliari S.p.A. for a value of EUR 47.5 mln and EUR 76.8 mln, respectively.

An analysis of external and internal impairment indicators resulted in impairment losses for an amount of EUR 2.8 mln being recognised in the balance sheet as at 31 December 2019 (line C.4). In addition, EUR 24.9 mln in overall capital gains on real estate held for investment is also reported; these capital gains were not recognised in the balance sheet.

8.8 Inventories of property, plant and equipment governed by IAS 2: annual changes

	Gross closing balance of tangible assets obtained through enforcement of the guarantees received					Other Closing balance of tangible assets	Total
	Land	Buildings	Furniture and furnishings	Electronic systmes	Others		
A.Opening balance	**-**	**-**	**-**	**-**	**-**	**25,540**	**25,540**
B. Increase	**-**	**-**	**-**	**-**	**-**	**847**	**847**
B.1 Purchases	-	-	-	-	-	847	847
B.2Write-backs	-	-	-	-	-	-	-
B.3 Positive exchange differences	-	-	-	-	-	-	-
B.4 Other increases	-	-	-	-	-	-	-
C. Decreases	**-**	**-**	**-**	**-**	**-**	**862**	**862**
C.1 Sales	-	-	-	-	-	-	-
C.2 Impairment losses	-	-	-	-	-	-	-
C.3 Negative exchange differences	-	-	-	-	-	-	-
C.3 Other decreases	-	-	-	-	-	862	862
D. Closing balance	**-**	**-**	**-**	**-**	**-**	**25,525**	**25,525**

8.9 Commitments to purchase property, plant and equipment

No commitments to purchase property, plant and equipment were registered in 2019.

8.10 Property, plant and equipment: depreciation rates

Main categories of tangible assets	%
Buildings	3.03%
Furniture and furnishings	10-15%
Alarm and video systems	30.00%
Electronic and ordinary office equipment	20.00%
Electronic data processing equipment	50.00%
Vehicles	20-25%
Telephones	25.00%

The percentages used for carrying out the depreciations with reference to the main categories of property, plant and equipment are presented in the table. Owing to their indefinite useful life, lands and artworks are not depreciated. Note that the rights of use acquired through leasing are depreciated based on the lease contract duration.

Section 9 - Intangible assets - Item 90

9.1 Intangible assets: breakdown by type

Asset / Amount	31 12 2019			31 12 2018		
	Finite Life	Indefinite Life	Total	Finite Life	Indefinite Life	Total
A.1 Goodwill	**X**	**-**	**-**	**X**	**-**	**-**
A.1.1 group	X	-	-	X	-	-
A.1.2 minorities	X	-	-	X	-	-
A.2 Other intangible assets	**3,181**	**-**	**3,181**	**13,991**	**-**	**13,991**
A.2.1 Assets carried ad cost	3,181	-	3,181	13,991	-	13,991
a) internally generated intangible assets	-	-	-	-	-	-
b) other assets	3,181	-	3,181	13,991	-	13,991
A.2.2 Assets valued at fair value:	-	-	-	-	-	-
a) internally generated intangible assets	-	-	-	-	-	-
b) other assets	-	-	-	-	-	-
Total	**3,181**	**-**	**3,181**	**13,991**	**-**	**13,991**

All of the Bank's intangible assets are valued at cost and have a finite useful life.

Line "A.2.1 Assets carried at cost - b) Other assets" includes intangible assets associated with customer relations recognised following the acquisition of former Banca Antonveneta S.p.A., deriving from the measurement of on-demand funding (current accounts and savings deposits, or core deposits) for EUR 3.0 mln. For these assets, an analysis was carried out on the impairment indicators, which found no need for impairment testing.

9.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: generated internally		Other intangible assets: other		Total
		finite life	indefinite life	finite life	indefinite life	31 12 2019
A. Opening balance	**5,209,817**	**-**	**-**	**563,511**	**-**	**5,773,328**
A.1 Total net decreases	5,209,817	-	-	549,520	-	5,759,337
A.2 Net opening balance	-	-	-	13,991	-	13,991
B. Increases	**-**	**-**	**-**	**12**	**-**	**12**
B.1 Purchases	-	-	-	-	-	-
B.2 Increases in internally generated intangible assets	X	-	-	-	-	-
B.3 Write-backs	X	-	-	-	-	-
B.4 Increases in fair value	-	-	-	-	-	-
- to net equity	X	-	-	-	-	-
- to profit and loss	X	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	5	-	5
B.6 Other increases	-	-	-	7	-	7
C. Decreases	**-**	**-**	**-**	**10,822**	**-**	**10,822**
C.1 Sales	-	-	-	-	-	-
C.2 value adjustment	-	-	-	10,822	-	10,822
- Depreciation	X	-	-	10,822	-	10,822
- Write-downs	-	-	-	-	-	-
+ net equity	X	-	-	-	-	-
+ profit and loss	-	-	-	-	-	-
C.3 Decreases in fair value	-	-	-	-	-	-
- to net equity	X	-	-	-	-	-
- to profit and loss	X	-	-	-	-	-
C.4 Transfers to non-current assets held for sale	-	-	-	-	-	-
C.5 Negative exchange differences	-	-	-	-	-	-
C.6 Other decreases	-	-	-	-	-	-
D. Net closing balance	**-**	**-**	**-**	**3,181**	**-**	**3,181**
D.1 Total net value adjustments	5,209,817	-	-	560,342	-	5,770,159
E. Gross closing balance	**5,209,817**	**-**	**-**	**563,523**	**-**	**5,773,340**
F. Carried at cost	-	-	-	-	-	-

Line C.2 "Value adjustments - Amortisation" includes, in the "Other - finite life" column, the amortisation charges for the year related to the intangible assets recognised in the financial statements, during 2008, due to the merger by incorporation of former Banca Antonveneta S.p.A.
Line "F. Carried at cost" was left blank in accordance with the Bank of Italy's instructions, as it only needs to be completed for assets recognised at fair value.

9.3 Other information: amortisation rates

Main categories of intangible assets	%	residual depreciation period
Software	20% - 33,3%	
Core deposits - deposit	6.70%	4 years

Intangible assets recognised during the purchase price allocation of Banca Antonveneta S.p.A. are all finite-life and therefore amortised based on their expected useful life.

As at 31 December 2019 there were no:

- revalued intangible fixed assets;
- intangible fixed assets acquired through government concessions (IAS 38, par. 4);
- intangible fixed assets pledged as loan collaterals;
- commitments to purchase intangible assets;
- fully amortised intangible assets that are still in use.

Section 10 - Tax Assets and Liabilities - Item 100 (Assets) and Item 60 (Liabilities)

10.1 Deferred tax assets: breakdown

Items/Amounts	IRES with offsetting entry to P&L	IRES with offsetting entry to Balance Sheet	IRAP with offsetting entry to P&L	IRAP with offsetting entry to Balance Sheet	31 12 2019	31 12 2018
Receivables (including securitisations)	207,633	-	30,441	-	238,074	350,838
Receivables (L. 214/2011)	301,746	-	43,493	-	345,239	354,744
Other financial instruments	4,529	-	5,627	-	10,156	7,256
Goodwill deduction pursuant to	377,136	1,435	87,899	317	466,787	468,526
Tangible assets	66,181	-	7,599	-	73,780	44,780
Intangible assets (Law 214/2011)	25,590	-	5,351	-	30,941	31,047
Personnel expenses	5,642	16,310	3,291	1,701	26,944	31,785
ACE surplus	90,735	-	-	-	90,735	98,985
Tax losses	191,062	36,011	-	-	227,073	1,124,853
Tax losses (Law 214/2011)	-	-	-	-	-	-
Financial instruments - valuation reserves	-	9,783	-	3,013	12,796	152,891
Others	63,063	-	344	-	63,407	148,542
Deferred tax assets (gross)	**1,333,317**	**63,539**	**184,045**	**5,031**	**1,585,932**	**2,814,247**
Offsetting with deferred tax liabilities	(13,003)	(38,549)	(3,729)	(5,031)	(60,312)	(78,876)
Deferred tax assets (net)	**1,320,314**	**24,990**	**180,316**	**-**	**1,525,620**	**2,735,371**

Deferred tax assets were recognised after verifying the existence of foreseeable future income (probability test). Write-downs (or write-backs of previous write-downs) based on the probability test are recognised overall as an offsetting entry to the tax item of the income statement; in the tables under this section, however, the portion of DTA not recognisable is allocated based on the proportional criterion, also for DTA originally recognised as offsetting entries to shareholders' equity. For additional information, please refer to paragraph 10.7 "Other information" below.

In addition to deferred taxes referring to the main tax (at the rate of 24%) the amounts shown in the IRES column also include those relating to the additional IRES tax (3.5% rate) introduced by Law no. 208 of 28 December 2015, paragraphs 65-66.

The decrease in the balance of the item that occurred during the year is largely due to the change made by the Bank to the DTA value in order to take into account the effects on future taxable income from both the reintroduction of the "ACE - Support for Economic Growth" subsidy as part of the 2020 Budget Law (article 1, paragraph 287, of Law no. 160 of 27 December 2019) as well as the change in internal long-term projections (2020-2024) of income statement and balance sheet values to reflect changes in the current macroeconomic scenario. For more information on the probability test procedures, please refer, again in this case, to the aforementioned paragraph 10.7.

The line "Loans" includes deferred tax assets that can be recognised for nine-tenths of the impairment on loans to customers recorded upon first-time adoption of IFRS 9, whose deduction is envisaged in ten annual instalments (from 2018 to 2027) by article 1, paragraphs 1067-1069 of Law no. 145 of 30 December 2018 (2019 Budget Law); note that the deductible portion for 2019 was postponed to 2028 by article 1, paragraph 713 of Law no. 160 of 27 December 2019 (2020 Budget Law).

The line "Property, plant and equipment" includes deferred tax assets on real estate resulting from the merger by incorporation of the subsidiary Perimetro Gestione Proprietà Immobiliari S.p.A. during 2019.

The line "Financial instruments - valuation reserves" includes tax assets relating to the valuation of financial instruments classified in the portfolio "Financial assets measured at fair value through other comprehensive income" (OCI).

The line "Other" includes tax assets relating to other cases; the predominant amount refers to provisions for risks and charges in respect of deductible costs expected for future periods.

10.2 Deferred tax liabilities: breakdown

Items/Amounts	IRES with offsetting entry to P&L	IRES with offsetting entry to Balance Sheet	IRAP with offsetting entry to P&L	IRAP with offsetting entry to Balance Sheet	Total 31 12 2019	Total 31 12 2018
Tangible and intangible assets	3,093	-	413	-	3,506	3,907
Financial instruments	9,044	-	539	-	9,583	12,416
Personnel expenses	866	425	-	130	1,421	1,785
Financial instruments - valuation reserves	-	37,012	-	7,462	44,474	58,374
Others	-	1,112	-	216	1,328	2,394
Deferred tax liabilities (gross)	**13,003**	**38,549**	**952**	**7,808**	**60,312**	**78,876**
Offsetting with deferred tax assets	(13,003)	(38,549)	(952)	(7,808)	(60,312)	(78,876)
Deferred tax liabilities (net)	**-**	**-**	**-**	**-**	**-**	**-**

In addition to deferred taxes referring to the main tax (at the rate of 24%) the amounts shown in the IRES column also include those relating to the additional IRES tax (3.5% rate) introduced by Law no. 208 of 28 December 2015, paragraphs 65-66.

The line "Financial instruments - valuation reserves" includes tax liabilities relating to the valuation of cash flow hedge derivatives, as well as financial instruments classified in the portfolio "Financial assets measured at fair value through other comprehensive income" (OCI).

10.3 Deferred tax assets: annual changes (with offsetting entry to profit and loss)

	Total 31 12 2019	Total 31 12 2018
1. Opening balance	**2,600,663**	**2,514,055**
2. Increases	**238,593**	**787,024**
2.1 Deferred tax assets arising during the year	200,714	773,030
a) relating to previous years	-	-
b) due to changes in accounting principles	-	-
c) write-backs	919	260,957
d) other	199,795	512,073
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	37,879	13,994
3. Decreases	**1,321,894**	**700,416**
3.1 Deferred tax assets derecognised during the year	1,245,582	397,389
a) reversals	232,967	106,597
b) write-downs of non-recoverable items	1,012,615	290,792
c) changes in accounting principles	-	-
d) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	76,312	303,027
a) conversion into tax credits pursuant to Law no. 214/2011	11,341	252,750
b) others	64,971	50,277
4. Total	**1,517,362**	**2,600,663**

The major components of "Deferred tax assets arising during the year" as reported in line 2.1 letter d) include those concerning:

- taxed provisions to the provision for risks and charges made during the year of EUR 126.6 mln;
- ACE deduction accrued during the year and unused, of EUR 27.5 mln.

The amount shown on line 3.1 letter a) "Reversals" consists for EUR 186.5 mln of the use of provisions for risks and charges taxed in previous years.

The table shows the effects of the measurement of deferred tax assets based on the results of the probability test conducted as at 31 December 2019. Specifically, the amount indicated on line 3.1 letter b) "Write-downs of non-recoverable items", net of the amount in line 2.1 letter c) "Write-backs", refers to the partial derecognition of deferred tax assets for IRES tax losses (Domestic Consolidated declaration) accrued and recognised in prior years for EUR 815.7 mln, tax losses for additional IRES for EUR 64.4 mln, and other temporary deductible differences other than losses and excess ACE (specifically, DTAs that cannot be converted into tax credits pursuant to Law 214/2011, such as those related to provisions for risks and charges, adjustments on IFRS 9 FTA credits, etc.) for EUR 130.2 mln. For additional information, please refer to paragraph 10.7 "Other information" below.

With regard to the decrease pursuant to line 3.3 letter a), please refer to the comments to the subsequent table "10.3.1 Deferred tax assets: changes under Law 214/2011 (with offsetting entry to profit and loss)".

Line 3.3 letter b) includes transformation of the excess ACE accrued for 2018, converted into IRAP credit for EUR 34.9 mln.

The change for the year, as shown in this table - difference between final and initial balance - is reconciled with the amount states in the income statement table 19.1 "Tax (expense)/recovery on income from continuing operations: breakdown" on the line 'changes in deferred taxes' given that:

- the amount of EUR 34.9 mln regarding conversion of the excess ACE into an IRAP credit, although shown in this table as a decrease, did not have an offsetting entry under the taxes item of the income statement but under current tax assets;

- the amount of EUR 10.6 mln, resulting from the merger by incorporation of Perimetro Gestione Proprietà Immobiliari S.p.A, although shown in this table as an increase, did not have an offsetting entry under the taxes item of the income statement;
- the amount of EUR 1.4 mln, portion of the write-down of DTAs based on the probability test and recorded as an offsetting entry to the taxes item of the income statement, was attributed on a proportional basis to the deferred tax assets recognised as an offsetting entry to equity and, as such, is shown in subsequent table 10.5.

10.3bis Deferred tax assets: changes under Law 214/2011 (with offsetting entry to profit and loss)

Items/Amounts	Total	
	31 12 2019	31 12 2018
1. Opening balance	**852,556**	**1,105,306**
2. Increases	-	-
3. Decreases	11,341	252,750
3.1 Reversals	-	-
3.2 Conversion into tax credits	11,341	252,750
a) arising from loss for the period	11,341	252,750
b) arising from tax losses	-	-
3.3 Other decreases	-	-
4. Closing balance	**841,215**	**852,556**

As a result of the loss recorded in the separate financial statements for 2018, in 2019 the Bank transformed into tax credits a portion of the deferred tax assets relating to loan write-downs, goodwill and other intangible assets, pursuant to art. 2, par. 55 of Law Decree no. 225 of 29 December 2010. This conversion has been in effect as of the date of approval of the 2018 Financial statements by the Shareholders' Meeting in April 2019.

10.4 Deferred tax liabilities: annual changes (with offsetting entry to profit and loss)

	Total 31 12 2019	Total 31 12 2018
Opening balance	**17,066**	**41,444**
2. Increases	**7,239**	**5,685**
Business combinations	-	-
2.1 Deferred tax liabilities arising during the year	5,645	4,944
a) relating to previous years	-	-
b) due to changes in accounting principles	-	-
c) other	5,645	4,944
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	1,594	741
3. Decreases	**10,350**	**30,063**
3.1 Deferred taxes derecognised during the year	3,202	29,603
a) reversals	3,202	29,603
b) due to changes in accounting principles	-	-
c) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	7,148	460
4. Closing balance	**13,955**	**17,066**

The increase for the year mainly refers to write-backs on loans to banks.

The decrease was mainly due to write-downs of equity instruments classified in the portfolio "Financial assets measured at fair value through profit and loss".

The change for the year, as shown in this table - difference between final and initial balance - is reconciled with the amount states in the income statement table 19.1 "Tax (expense)/recovery on income from continuing operations: breakdown" on the line 'changes in deferred taxes' given that the amount of EUR 6.9 mln, resulting from the merger by incorporation of the subsidiary Perimetro Gestione Proprietà Immobiliari S.p.A., although shown in this table as a decrease, was not offset in the income tax item in the income statement.

10.5 Deferred tax assets: annual changes (with offsetting entry to equity)

	Total 31 12 2019	Total 31 12 2018
1. Opening balance	**213,584**	**143,495**
2. Increases	**5,870**	**102,958**
2.1 Deferred tax assets arising during the year	5,385	102,508
a) relating to previous years	2,330	-
b) due to changes in accounting principles	-	-
c) other	3,055	102,508
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	485	450
3. Decreases	**150,884**	**32,869**
3.1 Deferred tax assets derecognised during the year	102,473	31,779
a) reversal	101,554	22,743
b) write-downs of non-recoverable items	919	9,036
c) due to changes in accounting principles	-	-
d) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	48,411	1,090
4. Closing balance	**68,570**	**213,584**

The deferred tax assets that arose during the year, shown in line 2.1 c) “Other”, refer to actuarial components of liabilities to employees and write-downs of financial instruments classified in the portfolio “Financial assets measured at fair value through other comprehensive income” (OCI).

The deferred tax assets cancelled during the year, shown in line “3.1 a) Reversals”, refers to write-backs on financial instruments classified in the portfolio “Financial assets measured at fair value through other comprehensive income” (OCI) for EUR 56.1 mln and revaluations of cash flow hedging derivatives for EUR 34.7 mln.

Lines 2.1 letter a) "Deferred tax assets arising during the year - related to previous years” and 3.1 letter b) "Write-downs for non-recoverable items” represent the effect on the DTAs recognised as an offsetting entry in shareholders’ equity of the change made by the Bank in the related book value to take into account, as previously described, the effects on future taxable income from both the reintroduction of the ACE subsidy and the negative developments in the macroeconomic scenario. For additional information, please refer to paragraph 10.7 “Other information” below.

10.5bis Deferred tax assets: changes under Law 214/2011 (with offsetting entry to equity)

Items/Amounts	Total	
	31 12 2019	31 12 2018
1. Opening balance	**1,760**	**2,044**
2. Increases	-	-
3. Decreases	8	284
3.1 Reversals	-	-
3.2 Conversion into tax credits	8	284
a) arising from loss for the period	8	284
b) arising from tax losses	-	-
3.3 Other decreases	-	-
4. Closing balance	**1,752**	**1,760**

The table shows deferred tax assets that may be converted into tax credits pursuant to Law 214/2011, recognised with an offsetting entry to equity. These refer to goodwill posted by the Bank to equity on business combinations "under common control".

10.6 Deferred tax liabilities: annual changes (with offsetting entry to equity)

	Total 31 12 2019	Total 31 12 2018
1. Opening balance	**61,810**	**74,635**
2. Increases	**17,069**	**35,410**
2.1 Deferred tax liabilities arising during the year	16,651	34,949
a) relating to previous years	-	-
b) due to changes in accounting principles	-	-
c)other	16,651	34,949
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	418	461
3. Decreases	**32,522**	**48,235**
3.1 Deferred tax liabilities derecognised during the year	31,960	47,915
a) reversal	31,960	47,915
b) due to changes in accounting principles	-	-
c) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	562	320
4. Closing balance	**46,357**	**61,810**

The increases shown in line 2.1 letter c) refer to revaluations of financial instruments classified in the portfolio "Financial assets measured at fair value through other comprehensive income" (OCI).

The reversals refer for EUR 29.7 mln to the re-absorption of deferred tax liabilities from cash flow hedging derivatives.

10.7 Other information

Probability test

Deferred tax assets were recognised after verifying the existence of foreseeable future income sufficient to absorb them (probability test).

In this test, the different rules set forth in the Italian tax laws which impact the assessment in question were taken into account, in particular:

- art. 2, paragraphs 55-59, of Law Decree no. 225 of 29/12/2010 (converted, with amendments, by Law no. 10 of 26/02/2011) which establishes the obligation for financial intermediaries to convert into tax credits DTAs (IRES and IRAP) relating to goodwill, other intangible assets and impairment losses on receivables, in the case of a loss in the statutory financial statements and/or a tax loss;
- art. 84, paragraph 1 of the TUIR, which allows for the possibility of carrying forward IRES tax losses with no time limits;
- art. 1, paragraph 4 of Law Decree no. 201 of 06/12/2011 (converted, with amendments, by law no. 214 of 22/12/2011), which allows for unused excess ACE to be carried forward with no time limits, as well as, alternatively, conversion into a tax credit to be used to offset IRAP due in 5 annual instalments;
- in paragraphs 61 to 66, art. 1, of the 2016 Stability Law (Law no. 208 of 28 December 2015) reduced the IRES rate from 27.5% to 24% and simultaneously introduced an additional IRES tax of 3.5% for credit and financial institutions; both measures are effective as of 2017.

In terms of methodology, the probability test was carried out according to the steps listed below and taking into consideration the changes in the internal long-term estimates (2020-2024) of financial statement values described below.

DTAs relating to goodwill, other intangible assets and impairment losses on receivables ("qualified" DTAs), were excluded from the total amount of DTAs for which the existence of sufficient future taxable income needs to be identified.

This is because the above-mentioned art. 2, paragraphs 55-59 of Law Decree 225/2010 made the recovery of that type of DTA certain, with respect to both IRES and IRAP, regardless of the presence of future taxable income.

Indeed, the rule sets forth that, if taxable income for the year in which the recovery of qualified DTAs is expected is not sufficient to absorb them, the resulting tax loss would be convertible into a tax credit that may be, alternatively (i) used to offset, with no amount limits, the various taxes ordinarily due from the Bank, or (ii) requested in the form of a refund, or (iii) transferred to third parties. In addition, qualified DTAs may be converted into tax credit in advance of their natural maturity, in the event of a loss for the year in the statutory financial statements or voluntary liquidation, as well as subjection to bankruptcy proceedings.

In other words, for qualified DTAs the probability test must be deemed automatically satisfied; this is also confirmed by the joint Bank of Italy, Consob and ISVAP document no. 5 of 15 May 2012.

For DTAs other than qualified DTAs, the year in which the relative recovery is expected has been identified (or estimated when uncertain).

Taxable income in future years has therefore been estimated based on the forecast income statements of the Bank most recently approved by the Board of Directors. The forecast for taxable income in the years subsequent to the last plan year assumes 1.5% growth per year with respect to the forecasted economic result for the immediately preceding year.

Taxable income was estimated for the probability test by applying a discount factor to the forecast profit and loss (the "risk-adjusted profits approach"); this factor, used in a combined manner, discounts future income over a maximum 20-year time horizon, to an increasing extent to reflect its uncertainty. The discount factor is calculated by taking into account observable market parameters. Taxable income was estimated:

- at domestic tax consolidation level, for the IRES Probability test, since for the payment of this tax the Bank uses the method set forth in arts. 117 et seq. of the TUIR;
- at individual level for additional IRES;
- at individual level for IRAP.

These data have the following effects on the Bank's accounts:

- with reference to DTAs for consolidated tax losses, a write-down of EUR 815.7 mln;

- with regard to DTAs for tax losses for the purposes of the additional IRES, the non-recognition of DTAs on the loss arising in 2019 and a write-down of DTAs for prior losses amounting to EUR 64.4 mln;
- with reference to DTAs other than "qualified" and those relative to the ACE and tax losses, a total write-down of EUR 130.2 mln.

Note that the overall value of DTAs of EUR 1,010.3 mln was greatly influenced in a negative manner by two non-recurring factors:

1. the introduction of the "Business incentive for capitalisation" in the 2020 Budget Law (article 1, paragraph 287, of the Law no. 160 of 27 December 2019);
2. the change in internal long-term projections (2020-2024) of income statement and balance sheet values.

The introduction of the "Business incentive for capitalisation" substantially equates to the reinstatement of the previous "ACE - Support for Economic Growth" subsidy, with slightly lower return rates, which had been abolished in the 2019 Budget Law (article 1, paragraph 1080, of the Law no. 145 of 30 December 2018).

This incentive entails an important future tax benefit for MPS Group which, through the reduction of taxable income, will have a positive impact on taxes recognised in the income statements for each of the future years in which it will accrue. However, the aforementioned reduction in taxable income also resulted in a lower capacity for future re-absorption of DTAs recognised in financial statements prior to the introduction of the incentive (in particular, those deriving from tax losses), which were consequently partially written down with effect in the current year. This essentially involved the reversal of the write-back of DTAs from consolidated tax losses recognised in 2018 following the repeal of ACE (see 2018 Financial Statements, Notes to the financial statements - Part B - Information on the balance sheet - 10.7 Other Information). The ACE benefit for MPS Group is calculated on share capital increases carried out from 2011 through the current year of approx. EUR 18.5 bn but within the limits of the accounting net equity at the end of the year of each company that benefited from the aforementioned capital increases.

For completeness of information, the 2020 Budget Law introduced further measures that impacted the Bank, however with marginal effects with regard to the Probability test measurements. This refers to:

- the deferral to 4 equal instalments from 2022 to 2025 of the amount due in 2019 for loan adjustments pursuant to Law Decree 83/2015 (article 1, paragraph 712);
- the deferral to 2028 of the amount due in 2019 for loan adjustments form IFRS 9 FTA (article 1, paragraph 713);
- the deferral to 5 equal instalments from 2025 to 2029 of the amount due in 2019 for goodwill and other intangible assets (article 1, paragraph 714).

With regard to the change in internal long-term projections(2020-2024) of income statement and balance sheet values, note that this change was necessary to take into account the negative developments in the macroeconomic scenario that occurred in the second half of the year, in particular, expected trends in interest rates, industrial output and household consumption indicators, and consensus on GDP growth estimates. Therefore, based on this context compared to the assumption in the previous scenario, the forecasted taxable income was reduced, resulting in a lower capacity for future re-absorption of DTAs recognised in the financial statements; this led to a further partial write-down of the aforementioned DTAs.

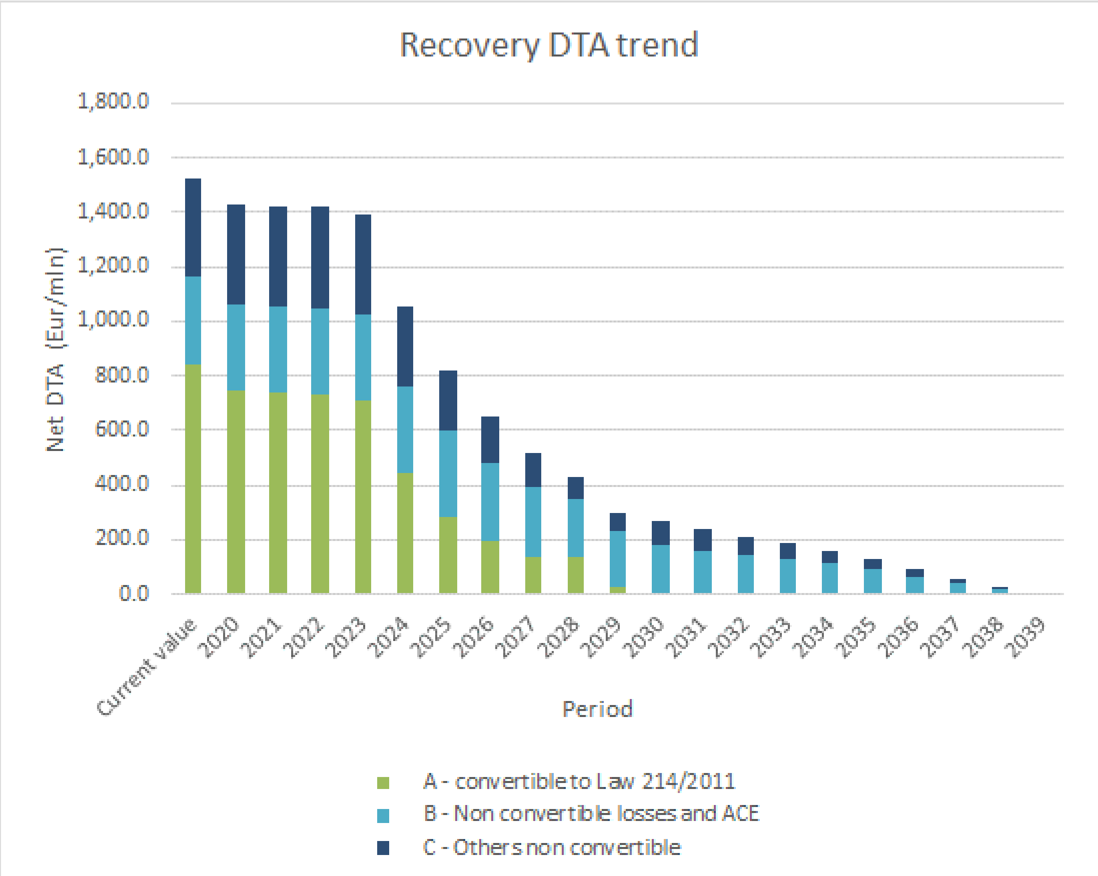
Note that the write-downs resulting from the two non-recurring factors described above were recorded in the fourth quarter of 2019. The following table shows the change in the economic effect of the DTA valuation for the year, showing the result of the (ordinary) cumulative valuation through 30 September 2019 and the negative component recognised in the fourth quarter:

	DTA effects "Tax losses and ACE"	DTA effects " non convertible	Net DTA decreases
Total DTA effects at 30/09/2019	108	124	232
DTA effects on fourth quarter			
introduction of the "Business incentive for capitalisation"	(537)	(7)	(544)
change in internal long-term projections of income statement and balance sheet values	(451)	(247)	(698)
Total DTA effects fourth quarter	(988)	(254)	(1,242)
Total DTA effects 2019	**(880)**	**(130)**	**(1,010)**

As a result of the above-mentioned assessment, the Bank had a total of EUR 2,892.7 mln in DTAs not recognised in the Balance Sheet assets as at 31 December 2019 (EUR 1,803.0 mln as at 31 December 2018).

For the Bank, this amount is a potential asset not subject to any time limits according to current tax legislation, whose recognition in balance sheet assets will be evaluated at the future financial statement dates based on the Bank's and the Group's profit outlook.

The sizeable amount of MPS Group's tax losses, equal to EUR 10,101 mln, was accrued mainly in 2016 and 2017, corresponding to the start of the Bank's restructuring process, and derives essentially from significant loan adjustments for both years. In particular, for 2016 the methodologies and parameters used in measuring loans had to be updated (carried out to also take into account the instructions contained in the "Draft Guidance to Banks on Non-Performing Loans" published by the ECB in September 2016) and for 2017 the realisable value of non-performing loans sold during 2018 had to be adjusted. Therefore, pursuant to the provisions of IAS 12, paragraph 36, letter c), it is believed that these unused tax losses derive from "identifiable causes that are unlikely to recur" and in this sense have been included in the valuation process for DTAs that can be partially recognised in financial statements. The following chart shows the expected trend related to the DTAs recognised in the financial statements as at 31 December 2019, both quantitatively and over time, broken down between convertible DTAs pursuant to Law 214/2011, DTAs from non-convertible losses and other non-convertible DTAs.



The probability test model in use in MPS Group includes some input data whose fluctuations in value can significantly influence the final result of the DTA valuation recognised in financial statements. Specifically, these are:

1) forecasted taxable income in the plan's last year (2024);
2) notional rate of return of the business incentive for capitalisation;
3) discount rate of future results (coefficient used in the risk-adjusted profits approach;
4) tax rates for IRES, additional IRES and IRAP.

Certain relevant indications on the sensitivity of the results of the valuation model are provided below, assuming both an increase and decrease in each of the input data listed above. The effects shown in the table refer to the difference that would have occurred for the tax item of the 2019 income statement, compared to what was actually recognised, changing the individual variable as indicated; the change in taxable income is understood to apply to the amount indicated for each year of the time horizon (twenty years) considered in the probability test.

Input data for variable modelDati di input variabili m	Variations in decrease	Economi effect on DTA due to variation in decrease (€/mln)	Variations in increas	Economi effect on DTA due to variation in increase (€/mln)
Taxable income of 2024	-100 mln	(73)	+100 mln	110
Tax rates for ACE	-0.5%	181	+0,5%	(83)
Discount rate of future results	-1.0%	127	+1%	(91)
Tax rates for IRES	-1.0%	(47)	+1%	47

Current tax assets

Items/Amounts	Total 31 12 2019	Total 31 12 2018
Prepayments of corporate income tax (IRES and IRAP)	-	-
Other tax credits and withholdings	576,056	583,878
Gross current tax assets	**576,056**	**583,878**
Offsetting with current tax liabilities	-	-
Net current tax assets	**576,056**	**583,878**

In 2019 the Bank did not make any down payments for IRES, the IRES additional tax and IRAP, having ended the previous tax period with negative taxable amounts with reference to all taxes mentioned.
"Other tax credits and withholdings" consist of IRES/IRAP credits resulting from prior tax declarations which can be used as an offset for EUR 123.7 mln, income tax credits claimed for refund for EUR 365.0 mln, tax credits for loans to parties affected by natural disasters for EUR 47.4 mln, the tax credit arising from DTA conversion (Law no. 214/2011) for the residual portion yet to be used for EUR 31.5 mln, and withholdings incurred totalling EUR 8.5 mln.

Current tax liabilities

Items/Amounts	31 12 2019			31 12 2018		
	Booked to net equity	Booked to P&L	Total	Booked to net equity	Booked to P&L	Total
Corporate income tax (IRES IRAP) payables	-	-	-	-	-	-
Other current income tax payables	-	304	304	-	-	-
Gross current tax payables	**-**	**304**	**304**	**-**	**-**	**-**
Offsetting with current tax asset	-	-	-	-	-	-
Net current tax payables	**-**	**304**	**304**	**-**	**-**	**-**

Section 11 - Non-current assets held for sale and discontinued operations and associated liabilities - Item 110 (assets) and 70 (liabilities)

11.1 Non-current assets held for sale and discontinued operations: breakdown by type of assets

	Total	
	31 12 2019	31 12 2018
A. Individual assets		
A.1 Financial assets	62,636	29,562
A.2 Equity investments	-	34,558
A.3 Tangible assets	12,597	7,563
of which: obtained through the enforcement of the guarantees received		
A.4 Intangible assets	-	-
A.5 Other non-current assets	-	-
Total A	**75,233**	**71,683**
of which valued at cost	74,315	71,455
of which designated at fair value (level 1)	-	-
of which designated at fair value (level 2)	-	-
of which designated at fair value (level 3)	917	228
B. Asset groups (discontinued operations)		
of which: obtained through the enforcement of the guarantees received		
C. Liabilities associated with individual assets held for sale and discontinued operations		
D. Liabilities included in groups of assets held for sale and discontinued operations		

Line "A.1 Financial assets", equal to EUR 62.6 mln, refers to disposals of loans classified as unlikely to pay for EUR 55.3 mln and disposals of bad loans for EUR 7.2 mln. These transactions are expected to be closed by the first half of 2020.

Line "A.3 Property, plant and equipment", equal to EUR 12.6 mln, includes the disposal of these types of assets, held both for investment purposes for EUR 10.3, as well as for use in the Bank's business activities for EUR 2.3 mln.

At the reporting date or for the year of comparison, there are no equity securities of clearly poor credit quality.

11.2 Other information

At the reporting date, there is no information to report pursuant to IFRS 5.42. There are also no "Discontinued operations".

Section 12 - Other assets - Item 120

12.1 Other assets: breakdown

	Total 31 12 2019	Total 31 12 2018*
Tax credits from the Revenue and other tax levying authorities	195,785	197,110
Third party cheques held at the cashier's for collection	9,875	10,968
Cheques drawn on the Company held at the cashier's for collection	1,768	2,126
Gold, silver and precious metals	57,406	23,984
Items in transit between branches	2,675	4,130
Items in processing	670,624	681,616
Improvements and incremental costs on third party assets other than those included under tangible assets	40,106	103,059
Prepaid expenses and accrued income not attributable to other line items	457,940	410,543
Credits for consolidated income tax return	8,188	9,209
Other	193,618	284,154
Total	**1,637,985**	**1,726,899**

* The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 16.

The lines "Items in processing" and "Other" include transactions which were cleared in early 2019.

It should be noted that the decrease in the item "Improvements and incremental expenses incurred on third-party assets other than those included in 'Property, plant and equipment'" is due to the merger by incorporation of the subsidiary Perimetro Gestione Proprietà Immobiliari S.p.A. into the Parent Company, which entailed a recognition of the improvements previously classified under Other assets since they were posted in the real estate assets of the previous subsidiary under item "Property, plant and equipment".

The line "Accrued income and prepaid expenses not attributable to its own separate item" includes a total of EUR 175 mln as prepaid expenses for outsourced services, provided continuously over the contract term and financially settled by the Bank with decreasing amounts over time. For further details on the methods for identifying these types of services, please refer to Part A, paragraph "Other Information - Costs for constant services and decreasing payments" of these Notes to the financial statements.

The table above does not include cases attributable to the definitions of "contract assets" and "contract liabilities" at either the reporting date or for the comparison year, which would require disclosure pursuant to IFRS 15.116 and 118.

LIABILITIES

Section 1 - Financial liabilities measured at amortised cost - Item 10

1.1 Financial liabilities measured at amortised cost: breakdown of deposits from banks

Items/accounts	total 31 12 2019				total 31 12 2018*			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Deposits from central banks	16,001,495	X	X	X	16,502,345	X	X	X
2. Deposits from banks	12,029,120	X	X	X	11,561,101	X	X	X
2.1 Current accounts and demand deposits	5,241,939	X	X	X	5,614,534	X	X	X
2.2 Time deposits	1,826,892	X	X	X	598,363	X	X	X
2.3 Loans	4,724,040	X	X	X	5,134,475	X	X	X
2.3.1 Repurchase agreements	4,665,704	X	X	X	4,976,975	X	X	X
2.3.2 Other	58,336	X	X	X	157,500	X	X	X
2.4 Liabilities for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
2.5 Debts for leasing	546	X	X	X	-	X	X	X
2.6 Other liabilities	235,703	X	X	X	213,279	X	X	X
Total	**28,030,615**	**-**	**28,030,615**	**-**	**28,063,446**	**-**	**28,063,446**	**-**

* *The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 16.*

The balance of the item "Deposits from central banks", equal to EUR 16.0 bn, refers to refinancing operations carried out as part of Eurosystem financing, guaranteed by securities pledged by the Bank using the pooling mechanism.

Line 2.3.1 "Repurchase agreements" contains the financial liabilities arising from repo transactions with banks on both treasury securities and securities made available through reverse repurchase agreements or securities lending transactions.

1.2 Financial liabilities measured at amortised cost: breakdown of deposits from customers

Items/accounts	total 31 12 2019				total 31 12 2018*			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Current accounts and demand deposits	53,376,979	X	X	X	50,379,142	X	X	X
2. Time deposits	8,190,710	X	X	X	7,136,453	X	X	X
3. Loans	3,657,214	X	X	X	9,939,023	X	X	X
3.1 Reverse repurchase agreements	-	X	X	X	5,874,012	X	X	X
3.2 Others	3,657,214	X	X	X	4,065,011	X	X	X
4. Liabilities for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
5. Debts for leasing	232,527	-	-	-	n.d	-	-	-
6. Other liabilities	1,596,146	X	X	X	889,307	X	X	X
Total	**67,053,576**	**-**	**67,053,576**	**-**	**68,343,925**	**-**	**68,343,925**	**-**

* *The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 16.*

Line "3.3.1 Repurchase agreements" contains the financial liabilities arising from repo transactions with customers on both treasury securities and securities made available through reverse repurchase agreements or securities lending transactions.

1.3 Financial liabilities measured at amortised cost: breakdown of debt securities issued

Type of Securities/ Amounts	Total 31 12 2019					Total 31 12 2018				
	Book value	Fair value				Book value	Fair value			
		Level 1	Level 2	Level 3	Total		Level 1	Level 2	Level 3	Total
A. Listed securities										
1. Bonds	12,741,047	11,948,548	1,000,312	-	12,948,860	10,984,728	7,061,825	3,590,939	-	10,652,764
1.1 Structured	-	-	-	-	-	-	-	-	-	-
1.2 Other	12,741,047	11,948,548	1,000,312	-	12,948,860	10,984,728	7,061,825	3,590,939	-	10,652,764
2. Other securities	3,536,348	-	3,536,348	-	3,536,348	2,341,626	-	2,341,626	-	2,341,626
2.1 Structured	-	-	-	-	-	-	-	-	-	-
2.2 Other	3,536,348	-	3,536,348	-	3,536,348	2,341,626	-	2,341,626	-	2,341,626
Total	**16,277,395**	**11,948,548**	**4,536,660**	**-**	**16,485,208**	**13,326,354**	**7,061,825**	**5,932,565**	**-**	**12,994,390**

The table shows funding represented by securities, including bonds and certificates of deposit (outstanding and maturities).

Liabilities are net of bonds and repurchased CDs. In this regard, on 31 December 2019, there were State-guaranteed bonds in place, issued and concurrently repurchased, for a nominal amount of EUR 4,799 mln, part of which, for a nominal EUR 3,076 mln, were then pledged as collateral for financing transactions.

Note that EUR 8,362.9 mln were subject to micro-hedging of the fair value (EUR 6,513.9 mln as at 31 December 2018), of which EUR 8,316.5 mln to hedge interest rate risk and EUR 45.4 mln to hedge several risks (respectively, EUR 6,469.1 mln and EUR 44.8 mln as at 31 December 2018).

The Bank also proceeded with operational hedging of interest rate risk for EUR 4.3 bn in securities issued by the Bank through the purchase of Italian government securities with residual life not lower/higher than six months in relation to the maturities of the matching liabilities.

1.4 Details of subordinated liabilities/securities

Type/Item	Issue Date	Maturity Date	Early termination	Grandfathering	Currency	Rate	Step up	31 12 2019 Nominal Value	31 12 2019 Book Value	31 12 2018 Nominal Value	31 12 2018 Book Value
Details of deposits from banks-subordinated liabilities											
Details of deposits from customers-subordinated liabilities											
Details of debt securitied issued subordinated liabilites								1,050,000	1,098,369	750,000	787,784
Subordinated Bond	*18/01/18*	*18/01/28*	*18/01/23*	*NO*	*Eur*	*5,375% fisso*	*NO*	*750,000*	*787,801*	*750,000*	*787,784*
Subordinated Bond	*23/07/19*	*23/07/29*	*NO*	*NO*	*Eur*	*10,5% fisso*	*NO*	*300,000*	*310,568*	-	-
	-							**1,050,000**	**1,098,369**	**750,000**	**787,784**

Subordinated liabilities refer to the issue by the Bank of two Tier 2 subordinated bonds in January 2018 (EUR 750 mln) and July 2019 (EUR 300 mln).

1.5 Details of structured liabilities

This table was not completed as the Bank has no such liabilities to report for either the current or the previous year.

1.6 Lease payables

Type of transaction/Amount	Total 31 12 2019
Leasing debts	264,103
Payments due included in the lease liabilities not discounted up 5 years	**193,857**
Up to 1 month	7,421
From 1 to 3 months	4,875
From 3 months to 1 year	34,585
From 1 year to to 5 year	146,977
Total cash flow out for leasing over 5 years	**70,246**

The table shows the non-discounted outgoing cash flows for lease liabilities broken down by time bracket.

Section 2 - Financial liabilities held for trading - Item 20

2.1 Financial liabilities held for trading: breakdown

Type of transaction/ Group item	Total 31 12 2019					
	NV	FV				FV*
		Level 1	Level 2	Level 3	Total	
A. Balance-sheet liabilities						
1. Deposits from banks	-	-	-	-	-	-
2. Deposits from customers	-	-	-	-	-	-
3. Debt securities issued	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	-	X
3.1.2 Other	-	-	-	-	-	X
3.2 Other securities	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	-	X
3.2.2 Other	-	-	-	-	-	X
Total A	**-**	**-**	**-**	**-**	**-**	**-**
B. Derivatives						
1. Financial derivatives		-	582,307	-	582,307	
1.1 Trading	X	-	579,603	-	579,603	X
1.2 Fair value option (FVO)	X	-	2,704	-	2,704	X
1.3 Other	X	-	-	-	-	X
2. Credit derivatives		-	1,200	-	1,200	
2.1 Trading	X	-	1,200	-	1,200	X
2.2 Fair value option (FVO)	X	-	-	-	-	X
2.3 Other	X	-	-	-	-	X
Total B	**X**	**-**	**583,507**	**-**	**583,507**	**X**
Total (A+B)	**-**	**-**	**583,507**	**-**	**583,507**	**X**

Legend
NV = Nominal or Notional Value
FV = Fair Value
FV*= Fair value calculated excluding value adjustments due to variations in the credit rating of the issuer since the date of issue

Criteria adopted for classification of financial instruments in the three levels of the "fair value hierarchy" are reported in Section A.4, "Fair value disclosure" of Part A, "Accounting policies" of the notes to the financial statements.

Derivatives connected with fair value option instruments are also included in the trading book: these cover the risks of funding designated at fair value arising from possible interest rate fluctuations and from any embedded options in the structured and fixed rate bonds issued by the Bank (natural and systematic hedging). The fair value of these derivatives, amounting to EUR 2.7 mln (EUR 7.6 mln as at 31 December 2018) is shown in the table in line "B1.1.2- Fair value option".

By convention, such derivatives are classified in the trading book. In terms of their representation in the income statement, positive and negative spreads or margins settled or accrued until the balance sheet date are recognised as interest income and expense, while valuation profits and losses are posted under item "80 - Net profit (loss) from trading".

Fair value calculated on financial derivatives includes the value adjustments owing to changes in the creditworthiness of the Bank, Debit Value Adjustment (i.e. DVA), of EUR 4.4 mln (EUR 7.1 mln as at 31 December 2018).

Type of transaction/ Group item	NV	Total 31 12 2018				FV*
		FV				
		Level 1	Level 2	Level 3	Total	
A. Balance-sheet liabilities						
1. Deposits from banks	-	-	-	-	-	-
2. Deposits from customers	-	-	-	-	-	-
3. Debt securities issued	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	-	X
3.1.2 Other	-	-	-	-	-	X
3.2 Other securities	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	-	X
3.2.2 Other	-	-	-	-	-	X
Total A	**-**	**-**	**-**	**-**	**-**	**-**
B. Derivatives						
1. Financial derivatives		-	615,836	-	615,836	
1.1 Trading	X	-	608,241	-	608,241	X
1.2 Fair value option (FVO)	X	-	7,595	-	7,595	X
1.3 Other	X	-	-	-	-	X
2. Credit derivatives		-	7,196	-	7,196	
2.1 Trading	X	-	7,196	-	7,196	X
2.2 Fair value option (FVO)	X	-	-	-	-	X
2.3 Other	X	-	-	-	-	X
Total B	**X**	**-**	**623,032**	**-**	**623,032**	**X**
Total (A+B)	**-**	**-**	**623,032**	**-**	**623,032**	**X**

Legend

NV = Nominal or Notional Value
FV = Fair Value
FV*= Fair value calculated excluding value adjustments due to variations in the credit rating of the issuer since the date of issue

2.2 Details of item 20 "Financial liabilities held for trading": subordinated liabilities

This table was not completed as the Bank has no such liabilities to report for either the current or the previous year.

2.3 Details of item 20 "Financial liabilities held for trading": structured liabilities

This table was not completed as the Bank has no such liabilities to report for either the current or the previous year.

Section 3 - Financial liabilities measured at fair value - Item 30

3.1 Financial liabilities measured at fair value: breakdown

Type of transaction / Amount	Total 31 12 2019					
	NV	FV				FV*
		Level 1	Level 2	Level 3	Total	
1. Deposits from banks	-	-	-	-	-	-
1.1 Structured	-	-	-	-	-	X
1.2 Other	-	-	-	-	-	X
2. Deposits from customers	-	-	-	-	-	-
2.1 Structured	-	-	-	-	-	X
2.2 Other	-	-	-	-	-	X
3. Debt securities issued	339,899	-	372,837	-	372,837	429,271
3.1 Structured	126,434	-	121,797	-	121,797	X
3.2 Other	213,465	-	251,040	-	251,040	X
Total	**339,899**	**-**	**372,837**	**-**	**372,837**	**429,271**

Legend

NV = Nominal or Notional Value
FV = Fair Value

FV*= Fair value calculated excluding value adjustments due to variations in the credit rating of the issuer since the date of issue

The table shows the financial liabilities represented by fixed-rate and structured bonds which have been classified at fair value and are systematically subject to hedging. Hedging occurs through derivative contracts and is used to cover the risk of interest rate fluctuations and the risk resulting from embedded options.

The fair value option has been adopted for fixed-rate and structured debt securities issued by the Bank, for which the risk of fair value changes has been hedged by derivatives upon issuance, with the aim of maintaining the hedge for the contractual duration of the hedged securities; derivatives used under the fair value option are classified in the trading book.

Funding subject to hedging with derivative instruments under the fair value option is thus measured at fair value, in accordance with all the relative hedging derivatives which, for the purposes of the financial statements, have been classified under specific sub-items in the trading book.

In the income statement, positive and negative spreads or margins relative to derivative contracts until the balance sheet date are recognised as interest income and expense, while valuation profits and losses are posted under item "80 - Net profit (loss) from trading". Profit/loss from financial liabilities measured at fair value is recognised:

- among other revenue items without reversal to the income statement for the amount referring to changes in own creditworthiness;
- in item 110 "Net profit (loss) from other financial assets and liabilities measured at fair value through profit and loss" of the income statement for the residual portion of the fair value change.

The above recognition method does not create nor expand accounting asymmetry in the profit (loss) for the year, as the effects of changes in the credit risk of the Bank's liabilities are not offset in profit and loss by a change in the fair value of another financial instrument measured at fair value through profit and loss for the year.

Type of transaction / Amount	Total 31 12 2018					
	NV	FV				FV*
		Level 1	Level 2	Level 3	Total	
1. Deposits from banks	-	-	-	-	-	-
1.1 Structured	-	-	-	-	-	X
1.2 Other	-	-	-	-	-	X
2. Deposits from customers	-	-	-	-	-	-
2.1 Structured	-	-	-	-	-	X
2.2 Other	-	-	-	-	-	X
3. Debt securities issued	359,142	-	370,200	-	370,200	432,778
3.1 Structured	138,098	-	126,658	-	126,658	X
3.2 Other	221,044	-	243,542	-	243,542	X
Total	*359,142*	*-*	*370,200*	*-*	*370,200*	*432,778*

Legend

NV = Nominal or Notional Value
FV = Fair Value

FV*= Fair value calculated excluding value adjustments due to variations in the credit rating of the issuer since the date of issue

3.1.a Financial liabilities measured at fair value: fair value option approach

Liabilities for which the fair value option was adopted include natural hedges through debt security derivatives for a book value of EUR 372.8 mln (EUR 370.2 mln as at 31 December 2018).

3.1.b Financial liabilities measured at fair value: structured debt securities

Items/Amount	31 12 2019				Total
	Structured loan to banks	Structured loan to customers	Structured securities	Total	31 12 2018
Index Linked	-	-	121,797	121,797	126,658
Total	**-**	**-**	**121,797**	**121,797**	**126,658**

The table reports the main types of structured bonds issued and measured at fair value. Since bonds are measured at fair value through profit and loss, embedded derivatives are not reported separately.

3.2 Details of "Financial liabilities measured at fair value": subordinated liabilities

This table was not completed as the Bank has no such liabilities to report for either the current or the previous year.

Section 4 - Hedging derivatives - Item 40

4.1 Hedging derivatives: breakdown by type of contract and underlying asset

	Fair value 31 12 2019				NV
	Level 1	Level 2	Level 3	Total	
A. Financial derivatives	**-**	**1,315,905**	**-**	**1,315,905**	**39,733,932**
1) Fair value	-	1,315,905	-	1,315,905	39,733,932
2) Cash flows	-	-	-	-	-
3) Foreign investments	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-
2) Cash flows	-	-	-	-	-
Total	**-**	**1,315,905**	**-**	**1,315,905**	**39,733,932**

Legend

NV = Nominal or Notional Value

The table displays the negative book value (fair value) of hedging derivatives for hedges carried out through hedge accounting.

In 2019, compared to 2018, there was an increase in negative fair value of hedging derivatives due to the reduction of the market rats, which impacted on fair value of hedged itmes.

Information on the underlying strategies and objectives of hedge transactions can be found in Section 2 “Market risks” of Part E “Information on risks and hedging policies”.

	Fair value 31 12 2018				NV
	Level 1	Level 2	Level 3	Total	
A. Financial derivatives	**-**	**907,617**	**-**	**907,617**	**32,092,504**
1) Fair value	-	748,501	-	748,501	31,092,504
2) Cash flows	-	159,116	-	159,116	1,000,000
3) Foreign investments	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-
2) Cash flows	-	-	-	-	-
Total	**-**	**907,617**	**-**	**907,617**	**32,092,504**

Legend

NV = Nominal or Notional Value

4.2 Hedging derivatives: breakdown by hedged portfolios and type of hedging

Operazioni/Tipo di copertura	Fair Value							Cash flow Hedge		Foreign investments	Total
	Micro Hedge						Macro-hedge	Micro-hedge	Macro-hedge		31 12 2019
	Debt securities and interest rate	Equity instruments and stock indicies	currencies and gold	Credit	Goods	Others					
1. Financial assets available for sale	68,055	-	-	-	X	X	X	-	X	X	68,055
2. Loans and receivables	365,813	X	37,647	-	X	X	X	-	X	X	403,460
3. Financial assets held to maturity	X	X	X	X	X	X	790,401	X	-	X	790,401
4. Portfolio	-	-	-	-	-	-	X	-	X	-	-
Total assets	**433,868**	**-**	**37,647**	**-**	**-**	**#**	**790,401**	**-**	**-**	**-**	**1,261,916**
1. Financial liabilities	47,435	X	-	-	-	-	X	-	X	X	47,435
2. Portfolio	X	X	X	X	X	X	6,554	X	-	X	6,554
Total liabilities	**47,435**	**-**	**-**	**-**	**-**	**#**	**6,554**	**-**	**-**	**-**	**53,989**
1. Expected transactions	X	X	X	X	X	X	X	-	X	X	-
2. Financial assets and liabilities portfolio	X	X	X	X	X	X	-	X	-	-	-
Total	**481,303**	**-**	**37,647**	**-**	**-**	**#**	**796,955**	**-**	**-**	**-**	**1,315,905**

The tables show the negative fair values of hedging derivatives, classified by hedged assets or liabilities and type of hedging implemented.

In particular, on the assets side, fair value micro-hedging was used to hedge against interest rate risk on bonds classified in the portfolio "*Financial assets measured at fair value through other comprehensive income*" and on securities and loans classified in the portfolio "*Financial assets measured at amortised cost*", in order to protect them from unfavourable interest rate changes. Fair value macro-hedging was carried out on fixed-rate and capped floating rate mortgage loan portfolios.

With reference to financial liabilities, fair value micro-hedging of the interest rate risk refers primarily to hedges of liabilities represented by securities; fair value macro-hedging of the interest rate risk refers to hedges of liabilities represented by deposit accounts.

More information on hedged assets and liabilities can be found in the tables contained in Part B of the notes for each section of the balance sheet items to which the hedged items are posted.

Section 5 - Changes in value of macro-hedged financial liabilities - Item 50

5.1 Change in value of hedged liabilities: breakdown by hedged portfolios

Fair value change of financial liabilities in hedged portfolios / Values	Total 31 12 2019	Total 31 12 2018*
1. Positive fair value change of financial liabilities	**31,390**	**18,145**
2. Negative fair value change of financial liabilities	-	-
Total	**31,390**	**18,145**

The balance of changes in value of the liabilities subject to macro-hedging of interest rate risk is recognised in this item.

Section 6 - Tax liabilities - Item 60

Please refer to section 10 of the assets.

Section 7 - Liabilities associated with non-current assets held for sale and discontinued operations - Item 70

Please refer to section 11 of the assets.

Section 8 - Other liabilities - Item 80

8.1 Other liabilities: breakdown

	Total 31 12 2019	Total 31 12 2018
Due to the Revenue and other tax levying authorities	144,102	123,953
Due to social security authorities	307,154	325,226
Amounts available to customers	43,658	42,191
Other amounts due to employees	19,740	25,185
Items in transit between brances	5,324	12,351
Items in processing	506,609	669,330
Payables in relation to the payment of supplies of goods and servic	211,176	204,059
Accrued expenses and unearned revenues not attributable to other	79,128	71,960
Payables for consolidated income tax return	500,578	512,093
Other	1,224,147	1,336,079
Total	**3,041,616**	**3,322,427**

Sub-items “Items in processing” and “Other” include transactions which were cleared during the first days of 2020.

For the disclosures pursuant to IFRS 15.116 and IFRS 15.118, please refer to section 12 of the assets.

Section 9 - Provision for employee severance pay - Item 90

9.1 Provision for employee severance pay: annual changes

	Total 31 12 2019	Total 31 12 2018
A. Opening balance	**185,483**	**192,525**
B. Increases	**7,084**	**2,284**
B.1 Provision for the year	2,232	2,284
B.2 Other increases	4,852	-
C. Decreases	**19,811**	**9,326**
C.1 Severance payments	19,338	4,066
C.2 Other decreases	473	5,260
D. Closing balance	**172,756**	**185,483**

9.2 Other information

Provision for employee severance pay is considered as a defined benefit fund for the purpose of international accounting standards.

In accordance with the provisions of art. 2120 of the Italian Civil Code, employee severance pay would amount to EUR 149.8 mln.

The provision for the year, as clarified by the Bank of Italy, does not include amounts which, as a result of the reform introduced by Legislative Decree no. 252 of 5 December 2005, are paid directly by the Bank, depending on the various employee options, to complementary pension schemes or to the treasury fund managed directly by the Italian National Social Security Institute, INPS. These items are recognised in personnel expenses, as "contributions to external pension funds: defined contribution".

9.2.a Changes in net defined benefit liability during the year: Severance pay

The table below reports the information required by paragraphs 140 and 141 of IAS 19.

Item/Amount	Present value of DBO	
	31 12 2019	31 12 2018
Opening balance	**185,483**	**192,525**
Current service cost	-	-
Interest income/expense	2,232	2,284
Remeasurement of net defined benefit liability (asset):	4,852	(4,633)
Return on plan assets excluding interest	-	-
Actuarial gains (losses) arising from changes in demographic assumptions	-	139
Actuarial gains (losses) arising from experience adjustments	(2,274)	(1,516)
Actuarial gains (losses) arising from changes in financial assumptions	7,126	(3,256)
Payments from plan	(19,338)	(4,066)
Other changes	(473)	(627)
Closing balance	**172,756**	**185,483**

9.2.b Key actuarial assumptions used

Key actuarial assumptions/percentage	31 12 2019	31 12 2018
Discount rates	0.3%	1.00%
Expected rates of salary increases	X	X

9.2.c Sensitivity of defined benefit obligation of severance pay to changes in key actuarial assumptions

Actuarial assumptions	31 12 2019		31 12 2018	
	Change in DBO	Change (%) in DBO	Change in DBO	Change (%) in DBO
Discount rates				
Increase of 0.25%	(3,489)	-2.02%	(3,746)	-2.02%
Decrease of 0.25%	3,279	1.90%	3,521	1.90%

Section 10 - Provisions for risks and charges - Item 100

10.1 Provisions for risks and charges: breakdown

Item/Amount	Total 31 12 2019	Total 31 12 2018
1. Provisions for credit risk on commitments and financial guarantees issued	156,891	238,255
2. Provisions for other commitments and guarantee issued	-	5,200
3. Post employment benefits	32,093	33,392
4. Other provisions for risks and charges	929,349	1,107,990
4.1 legal disputes	511,791	572,227
4.2 personnel charges	56,812	209,813
4.3 other	360,746	325,950
Total	**1,118,333**	**1,384,837**

For further details of the sub-item 4.3 "others", please refer to table 10.6 below "Provisions for risks and charges - Other provisions".

10.2 Provisions for risks and charges: annual changes

Item/Amount	Total 31 12 2019			
	Provisions for other commitments and guarantee issued	Post employment benefits	Other Provisions for risks and charges	Total
A. Opening balance	**5,200**	**33,392**	**1,107,990**	**1,146,582**
B. Increases	**-**	**21,942**	**461,441**	**483,383.00**
B.1 Provision in the year	-	59	439,603	439,662.00
B.2 Changes due to the time value of money	-	-	8	8.00
B.3 Changes due to discount rate variation	-	21,883	5	21,888.00
B.4 Other increases	-	-	21,825	21,825.00
C. Decreases	**5,200**	**23,241**	**640,082**	**668,523.00**
C.1 Use during the year	5,200	2,777	412,140	420,117.00
C.2 Changes due to discount rate changes	-	-	-	-
C.3 Other decreases	-	20,464	227,942	248,406.00
D. Closing balance	**-**	**32,093**	**929,349**	**961,442**

Following the full early repayment of securities in classes A, B and Z and the simultaneous closing of the Casaforte securitisation that occurred on 12 June 2019, the provisions for other commitments and guarantees given was entirely released in the amount of EUR 5.2 mln.

10.2 bis Provisions for risks and charges: annual changes

Voci/Componenti	Totale 31 12 2019			
	Provisions for legal disputes	Provisions for personnel charges	Others Provisions	Total
A. Opening balance	**572,227**	**209,813**	**325,950**	**1,107,990**
B. Increases	**191,937**	**31,197**	**238,307**	**461,441**
B.1 Provision in the year	191,929	31,192	216,483	439,603
B.2 Changes due to the time value of money	8	-	-	8
B.3 Changes due to discount rate variation	-	5	-	5
B.4 Other increases	-	-	21,825	21,825
C. Decreases	**252,373**	**184,198**	**203,511**	**640,082**
C.1 Use during the year	63,170	175,180	173,790	412,140
C.2 Changes due to discount rate changes	-	-	-	-
C.3 Other decreases	189,204	9,019	29,720	227,942
D. Rimanenze finali	**511,791**	**56,812**	**360,747**	**929,350**

Provisions in line B.1, "Other Provisions" column, are mainly attributable to allocations for commitments assumed by the Bank against the compensation relating to transactions in diamonds. These are in addition to the provisions for indemnity requests associated with the loan disposal transactions and for the estimate of the reimbursements related to operations with customers, as well as the allocations envisaged by IFRS 15 for contracts with customers that entail the return of all or part of the payment should certain events occur.

For further details, please refer to Section 5 "Operational risks" of Part E of the Notes to the financial statements.

10.3 Provisions for credit risk relative to commitments and financial guarantees given

	Provisions for credit risk on commitments and financial guarantees issued			
	1 Stage	2 Stage	3 Stage	Totale 31 12 2019
Commitments to lend funds	2,197	2,021	1	4,219
Financial guarantees given	4,534	5,785	142,353	152,672
Totale 31 12 2019	**6,731**	**7,806**	**142,354**	**156,891**
Total	**8,360**	**7,249**	**222,646**	**238,255**

10.4 Provisions on other commitments and guarantees given

As at 31 December 2019, the Bank held no provisions of this type. In 2018, this provision amounted to EUR 5.2 mln.

10.5 Defined benefit company pension funds

10.5.1. Description of funds and related risks

The information provided below concerns defined benefit pension funds in favour of employees and terminated employees, i.e. funds in which the obligation of future payment of retirement benefits is undertaken by the fund itself and indirectly by the Bank, which may be required to increase the value of the obligation in the event of inadequate capital assessed in accordance with actuarial criteria.

For each definite benefit plan the Bank relies on analyses carried out by an independent certified actuary.

In accounting for the plans, the surplus or deficit was determined using the credit unitary projection method; therefore, the fair value of the assets servicing the plan, if any, was deducted from the current value of the obligation, as shown in the statement of financial position (*see Part A of the Notes - Accounting Policies*).

The valuations concerned those participating, which form a closed group of retired or active employees, and were carried out on the basis of these groups of employees as measured in December 2019 (with the exclusion of the Section of the Cassa di Previdenza Aziendale - Company's Pension Scheme) for employees of Monte dei Paschi di Siena, valued as at 30 November 2019).

In accordance with IAS 19, revised by amendments issued by IASB on 16 June 2011 and approved by EU Regulation no. 475/2012 dated 5 June 2012, in determining the total cost of each defined benefit plan, which - as is well-known - may be influenced by many variables, objective and prudential technical bases were adopted in formulating both demographic and financial assumptions.

In view of the evolutionary nature of the main relevant aggregates, actuarial valuations were performed under dynamic conditions, so as to subsume in the medium-long term both the average annual changes in the benefits defined in each plan, and the interest rate trends expected in the financial market.

Some of the main actuarial assumptions that were formulated and used as valuation bases are mentioned below:

1) technical mortality basis: using death probability data as provided in ISTAT's 2018 tables, broken down by gender and age, with mortality reduced by 20%;
2) economic-financial basis: using as annual relative interest rate the interpolated EUR Composite AA rate curve (BFV) as at 31 December 2019.

For each defined benefit plan, the balance sheet equity resulting from valuations carried after reconciliation of actuarial assets and liabilities as at 31 December 2019 underwent a sensitivity analysis to examine the effects of changes in the key technical assumptions included in the calculation model (average annual discount rate and inflation rate), and the results were presented in specific tables.

The theoretical future increase in INPS pensionable earnings, which in any case is considered in the calculation model in an average annual percentage of 0.75%, was not included in the sensitivity analysis because it is essentially irrelevant for the preparation of the technical financial statements as, given that all defined benefit pensions funds are closed to new participants and taking into account the progressive decrease in the active population due to retirements during the year, the ratio between active and retired participants has now reduced to a percentage of less than 0.1%.

The defined benefit plans, in which the Bank is co-obliged within the limits set out in the by-laws or in the regulations of each plan, are either internal plans, divided in the description below between unfunded and funded, or independent external funds.

Unfunded internal funds

Supplementary pension provision for staff in the former tax collection division of Banca Monte dei Paschi di Siena S.p.A.

(Bank Register no. 9185)

This is a defined benefit plan designed to provide retired staff of the former Direct Management division of Banca MPS with supplementary pension in the form of annuity.

The entitled population, consisting solely of retirees whose number is 307, is made up of staff of the former business unit, divested in 2006, who retired after the year 1982.

For the purposes of the preparation of the technical financial statements, the liabilities were valued taking into account INPS pension payment regulations issued by Law no. 335/95 as amended and the Plan Regulations.

The valuations concerning participants were carried out on the basis of the positions of retirees, taking into account details on currently paid pensions, types of pension, personal data of the beneficiary and amount of the annuity paid by the Fund and that paid by INPS.

In the event that the agreed benefits are more costly than expected, the Bank remains responsible for providing additional funds to meet the financial requirements of the retirement plans.

The valuations show an actuarial loss of EUR 1.0 mln at the date of 31 December 2019.

National insurance (INPS) for former Banca Operaia di Bologna staff

(Bank Register no. 9142)

The fund is intended to supplement benefits paid out under INPS pension schemes for retired employees of former Banca Operaia di Bologna.

The Plan's Regulations, signed on 23 September 1980, provide for supplementary benefit up to a certain percentage of the last salary earned. For the purposes of pension calculation, annual salary means a set of items paid on a continuous basis and on which benefits are paid out to surviving dependents. For the purposes of the preparation of the technical financial statements, the liabilities were valued taking into account INPS pension payment regulations issued by Law no. 335/95 as amended.

The valuations concerning participants were carried out taking into account details on currently paid pensions, personal data of the beneficiary and the ratio between the annuity paid by the Fund and that paid by INPS.

In the event of deficit, the Bank remains responsible for providing additional funds to meet the financial requirements of the retirement plans.

The valuations show an actuarial loss of EUR 0.43 mln at the date of 31 December 2019.

The plan applies to a population made up exclusively of non-active participants, of which 65 are retired and 3 are active employees.

Pension provision for employees of former Banca di Credito Popolare e Cooperativo di Reggio Emilia

(Bank Register no. 9178)

The sole aim of the fund is to supplement compulsory schemes in order to guarantee higher levels of insurance coverage for ex-employees of former Banca di Credito Popolare e Cooperativo di Reggio Emilia, as the direct beneficiaries of a life annuity or as the surviving spouse of a former employee.

The pension provision for employees participating in the Fund is governed by the Regulations issued in 1977 and later amended to reflect subsequent laws. It provides for payment of supplementary benefits so as to reach a certain percentage of the last salary earned.

The valuations concerning participants were carried out taking into account details on currently paid pensions, personal data of the beneficiary and the ratio between the annuity paid by the Fund and that paid by INPS.

The obligation to pay the benefits lies with the Bank, which must provide the wherewithal to cover the liability over time.

The valuations show an actuarial loss of EUR 0.05 mln at the date of 31 December 2019.

The Plan applies to a population of only 11 retirees.

Pension provision for employees of former Banca Popolare Veneta

(Bank Register no. 9066)

The pension plan, which applies to a residual population of 18 retirees, is aimed at supplementing the benefits paid out by INPS for employees already retired at 7 December 1989 and their assignees, under labour agreements signed on 4 February 1956 and on 1 January 1982 for executive staff, as amended.

The valuations concerning participants were carried out taking into account details on currently paid pensions, personal data of the beneficiary and the ratio between the annuity paid by the Fund and that paid by INPS.

In the event of deficit, the Bank is responsible for providing additional funds to meet the financial requirements of the retirement plans.

The valuations show an actuarial loss of EUR 0.09 mln at the date of 31 December 2019.

Funded internal funds

Pension provision for employees of former Banca Nazionale Agricoltura

(Bank Register no. 9047)

The purpose of this Provision is to pay additional retirement benefits over and above those paid by INPS to employees of the former Banca Nazionale dell'Agricoltura, who retired before 1 October 2000 or whose employment was terminated after this date without their having exercised the right, provided under the agreement of 12 September 2000, to transfer their contributions to another individual capitalisation, defined contribution fund.

The Plan applies to a population of 218 retirees and 3 employees on deferred retirement.

The Plan's Regulations, first approved in 1966, provide for supplementary benefit up to a certain percentage of the last salary earned, to be paid to the direct beneficiaries and their surviving dependants.

The valuations concerning participants were carried out taking into account details on currently paid pensions, personal data of the beneficiary and the ratio between the annuity paid by the Fund and that paid by INPS.

Although the Fund has its own separate and independent allocation capital, the guarantee of performance of the benefit payment obligation lies with the Bank, which must ensure the wherewithal to cover the liability over time.

At the valuation date of 31 December 2019, the actuarial calculations show that the capital adequacy of the Fund satisfies the obligation to pay benefits with respect to the participants.

Supplementary pension provision for employees of former Banca Toscana

(Bank Register no. 9110)

This defined benefit supplementary pension fund is reserved for employees of the former Banca Toscana who were already retired at 1 January 1999 and to active employees hired before 27 April 1993 who did not opt at the time to transfer their contributions to an individual capitalisation and defined contribution fund.

The population of employees eligible for the present and future benefits is composed of 778 retirees and 5 active employees.

The current Fund Regulations set out the rules concerning the retirement benefits to be paid to eligible employees, distinguishing between old age, seniority and disability pensions. Calculation of the supplementary benefits is based on the average of the last three years of employment, taking into account only the items specified in the Regulations.

The guarantee of performance of the benefit payment obligation lies with the Bank, which must ensure the wherewithal to cover the liability over time, although the Fund has its own, separate accounting and capital, with the effects set out in art. 2117 of the Italian Civil Code.

At the valuation date of 31 December 2019, the actuarial calculations show that the capital adequacy of the Fund satisfies the obligation to pay benefits with respect to the participants.

External funds

Cassa di Previdenza Aziendale for Monte dei Paschi di Siena employees

(Bank Register no. 1127)

The Fund has legal personality and full independence in terms of capital and operation.

It is reserved for employees and retirees of the Bank hired until 31 December 1990 who, following the agreement of 30 June 1989, opted to remain in the specific complementary benefit Section under a defined benefit regime.

The Fund's governance consists of a Board of Directors and a Board of Statutory Auditors with joint membership (some of the members are appointed by the Bank and others are appointed by the participants) supported by the General Manager.

The Bank provides, free of charge, the employees, premises and other resources required for the autonomous management of the Cassa and incurs all the related costs and expenses, including those for the functioning of the governing and control bodies.

In terms of guarantees given, in accordance with art. 26 of the By-laws, any deficits in Section coverage which should be identified during actuarial checks will be made up by the Bank only to the extent necessary to maintain tier 1 services, in accordance with the guarantee to the participants undertaken in compliance with Law no. 218/90 and referred to in the agreement of 24 June 1991.

The supplementary benefits, which are determined by subtracting the benefits paid out by INPS from the annual amount of the supplementary benefits, are made up of two components. The first component increases the benefits to be paid by the Cassa up to 70% of the fixed items of the salary of an employee of the same level, and the second component increases the supplementary benefits by a further 9%.

The assets that comprise the reference capital consist primarily of investments in securities, managed almost entirely under a financial management agreement, and properties.

The population is composed of 2,536 retirees, 162 active employees and 41 employees on deferred retirement.

The technical report prepared in accordance with IAS 19 criteria by the designated actuary shows the capital adequacy of the Supplementary Section which, against an asset fair value calculated at 30 November 2019 (*) of EUR 330.29 mln, takes into consideration a defined benefit obligation (DBO) as at 31 December 2019 of EUR 140.28 mln.

(*) most recent figure available

Pension Fund for personnel of former Banca Agricola Mantovana S.p.A.

(Bank Register no. 1341)

The Fund, which operates on a defined benefit basis, has legal personality and full independence in terms of capital and operation, as its legal form is that of an unincorporated association under art. 36 of the Italian Civil Code.

The sole purpose of the Fund is to pay to eligible participants supplementary benefits over and above those paid out by INPS; the participants include 31 retirees and 3 employees on deferred retirement.

At the valuation date of 31 December 2019, the actuarial calculations highlight a DBO (Defined Benefit Obligation) of EUR 0.93 mln against capital meant to satisfy the pension obligation (Asset Fair Value) of EUR 0.80 mln.

Pension Fund for personnel of former Banca Antonveneta S.p.a.

(Bank Register no. 1033)

The Fund, whose legal form is that of an unincorporated association in accordance with article 36 of the Italian Civil Code, has the sole purpose of providing benefits in addition to AGO (General Compulsory Insurance) cheques, was established in 1966 and has continued to operate to date.

The currently limited group of pensioners entitled to benefits refers to those who at the time did not accept the proposal for the settlement in capital of the value of the position recognised.

The population eligible to receive the benefits is composed of only 29 retirees.

At the valuation date of 31 December 2019, the value of the DBO (Defined Benefit Obligation) indicated by the actuarial calculations was EUR 1.98 mln against capital meant to satisfy the pension obligation of EUR 1.74 mln.

$$$

The defined benefit pension fund for personnel of the former London branch (BMPS UK Pension Fund) is designed to pay for the employees' benefits upon reaching normal retirement age as well as benefits to other surviving beneficiaries. The pension plan is administered by a Trustee, whose members also include active employees; the financial resources are managed by a specialised company. The technical report prepared in accordance with IAS 19 criteria by the designated actuary at the valuation date of 31 December 2019 shows the capital adequacy of the plan, with a DBO (Defined Benefit Obligation) of EUR 51.05 mln against an asset fair value of EUR 60.79 mln.

$$$

IAS 19 was also applied to calculate the actuarial values that could be used to determine the liability relating to the supplementary benefits associated with the former Credito Lombardo Spa. Considering the contractual nature of the obligation, the economic costs are incurred directly by the Parent Company. The currently limited group of people eligible for benefits regards a total of 92 immediate pensions, of which 58 direct and 34 indirect. The actuarial calculations show a DBO (Defined Benefit Obligation) of EUR 2.63 mln at the valuation date of 31 December 2019.

Finally, there is one position referring to a former General Manager of the Parent Company to whom specific economic benefits other than pension benefits are disbursed. In any event, they are assessed on the basis of actuarial parameters in order to determine the value of the Parent Company's obligation. This type of remuneration, known as "ex contractu", consists of payment of monthly benefits revalued on the basis of automatic pension equalisation indexes.

$$$

As required by the Bank of Italy, the internal fund statements can be found in the annexes to the financial statements.

10.5.2 Changes in net defined liability (asset) and reimbursement rights during the year

The following tables show movements for the year in internal and external funds which, according to international accounting standards, come under the heading of defined benefit funds.

10.5.2a Changes in net defined liability (asset) and reimbursement rights during the year - Internal Funds

Item/Amount	31 12 2019			
	A (-) Plan assets	B (+) Present value of DBO	C (+) Effect of asset ceiling	D=A+B+C Net defined benefit liability (asset)
Opening balance	**(113,844)**	**127,172**	**19,009**	**32,337**
Current service cost	X	4	X	4
Interest income/expense	(774)	875	132	233
Remeasurement of net defined benefit liability (asset):	(178)	7,464	(5,600)	1,686
Return on plan assets excluding interest	(178)	X	X	(178)
Actuarial gains (losses) arising from changes in demographic assumptions	X	1,641	X	1,641
Actuarial gains (losses) arising from experience adjustments	X	(102)	X	(102)
Actuarial gains (losses) arising from changes in financial assumptions	X	5,925	X	5,925
Changes in effect of limiting net defined benefit asset to asset ceiling	X	X	(5,600)	(5,600)
Past service cost and gains (losses) arising from settlements	X	-	X	-
Changes in foreign exchange rates	-	-	-	-
Contributions to plan:	-	-	-	-
by employer	-	-	X	-
by employee	-	-	X	-
Payments from plan	8,589	(11,366)	X	(2,777)
Effect of business combinations and disposals	-	-	-	-
Effect of any plan curtailments	-	-	X	-
Effect of any plan settlements	-	-	X	-
Other changes	-	3	(3)	-
Closing balance	**(106,207)**	**124,152**	**13,538**	**31,483**

Item/Amount	31 12 2018			
	A (-)	B (+)	C (+)	D=A+B+C
	Plan assets	Present value of DBO	Effect of asset ceiling	Net defined benefit liability (asset)
Opening balance	**(122,059)**	**144,136**	**14,489**	**36,566**
Current service cost	X	21	X	21
Interest income/expense	(763)	925	77	239
Remeasurement of net defined benefit liability (asset):	(116)	(5,939)	4,443	(1,612)
Return on plan assets excluding interest	(116)	X	X	(116)
Actuarial gains (losses) arising from changes in demographic assumptions	X	(2,017)	X	(2,017)
Actuarial gains (losses) arising from experience adjustments	X	(1,765)	X	(1,765)
Actuarial gains (losses) arising from changes in financial assumptions	X	(2,157)	X	(2,157)
Changes in effect of limiting net defined benefit asset to asset ceiling	X	X	4,443	4,443
Past service cost and gains (losses) arising from settlements	X	-	X	-
Changes in foreign exchange rates	-	-	-	-
Contributions to plan:	-	-	-	-
by employer	-	-	X	-
by employee	-	-	X	-
Payments from plan	9,094	(11,971)	X	(2,877)
Effect of business combinations and disposals	-	-	-	-
Effect of any plan curtailments	-	-	X	-
Effect of any plan settlements	-	-	X	-
Other changes	-	-	-	-
Closing balance	**(113,844)**	**127,172**	**19,009**	**32,337**

10.5.2b Changes in net defined liability (asset) and reimbursement rights during the year: External Funds

Item/Amount	31 12 2019			
	A (-) Plan assets	B (+) Present value of DBO	C (+) Effect of asset ceiling	D=A+B+C Net defined benefit liability (asset)
Opening balance	**(393,367)**	**191,158**	**203,264**	**1,055**
Current service cost	X	56	X	56
Interest income/expense	(5,420)	3,764	1,656	-
Remeasurement of net defined benefit liability (asset):	(3,778)	10,692	(5,206)	1,708
Return on plan assets excluding interest	(3,778)	X	X	(3,778)
Actuarial gains (losses) arising from changes in demographic assumptions	X	863	X	863
Actuarily gains (losses) arising from experience adjustments	X	(5,896)	X	(5,896)
Actuarial gains (losses) arising from changes in financial assumptions	X	15,725	X	15,725
Change in effect of limiting net defined benefit asset to asset ceiling	X	X	(5,206)	(5,206)
Past service cost and gains (losses) arising from settlements	X	(152)	X	(152)
Changes in foreign exchange rates	(2,834)	2,554	280	-
Contributions to plan:	(2,427)	-	-	(2,427)
by employer	(2,427)	-	X	(2,427)
by employee	-	-	X	-
Payments from plan	13,842	(13,842)	X	-
Effect of business combinations and disposals	-	-	-	-
Effect of any plan curtailments	-	-	X	-
Effect of any plan settlements	-	-	X	-
Other changes	368	-	2	370
Closing balance	**(393,616)**	**194,230**	**199,996**	**610**

Item/Amount	31 12 2018			
	A (-) Plan assets	B (+) Present value of DBO	C (+) Effect of asset ceiling	D=A+B+C Net defined benefit liability (asset)
Opening balance	**(437,547)**	**240,662**	**204,532**	**7,647**
Current service cost	X	724	X	724
Interest income/expense	(5,874)	4,793	1,595	514
Remeasurement of net defined benefit liability (asset):	32,042	(30,822)	(2,863)	(1,643)
Return on plan assets excluding interest	32,042	X	X	32,042
Actuarial gains (losses) arising from changes in demographic assumptions	X	(2,510)	X	(2,510)
Actuarily gains (losses) arising from experience adjustments	X	(20,196)	X	(20,196)
Actuarial gains (losses) arising from changes in financial assumptions	X	(8,116)	X	(8,116)
Change in effect of limiting net defined benefit asset to asset ceiling	X	X	(2,863)	(2,863)
Past service cost and gains (losses) arising from settlements	X	220	X	220
Changes in foreign exchange rates	(100)	356	-	256
Contributions to plan:	(7,426)	-	-	(7,426)
by employer	(7,426)	-	X	(7,426)
by employee	-	-	X	-
Payments from plan	25,238	(25,238)	X	-
Effect of business combinations and disposals	-	-	-	-
Effect of any plan curtailments	-	(415)	X	(415)
Effect of any plan settlements	-	878	X	878
Other changes	300	-	-	300
Closing balance	**(393,367)**	**191,158**	**203,264**	**1,055**

10.5.2c Changes in net defined liability (asset) and reimbursement rights during the year - Total

Item/Amount	31 12 2019			
	A (-)	B (+)	C (+)	D=A+B+C
	Plan assets	Present value of DBO	Effect of asset ceiling	Net defined benefit liability (asset)
Internal funds	(106,207)	124,152	13,538	31,483
External funds	(393,616)	194,230	199,996	610
Total defined benefit funds	**(499,823)**	**318,382**	**213,534**	**32,093**

Item/Amount	31 12 2018			
	A (-)	B (+)	C (+)	D=A+B+C
	Plan assets	Present value of DBO	Effect of asset ceiling	Net defined benefit liability (asset)
Internal funds	(113,844)	127,172	19,009	32,337
External funds	(393,367)	191,158	203,264	1,055
Total defined benefit funds	**(507,211)**	**318,330**	**222,273**	**33,392**

10.5.3 Information on the fair value of plan assets

Item	31 12 2019			
	Internal pension plans		External pension plans	
	Listed in active markets	Not listed in active markets	Listed in active markets	Not listed in active markets
Cash and cash equivalents	80,039	-	8,523	-
of which: used by the Bank	*80,039*	-	*2,542*	-
Equity instruments	-	-	37,282	-
of which: used by the Bank	-	-	-	-
Debt instruments	26,168	-	124,340	-
of which: used by the Bank	-	-	-	-
Real estate	-	-	-	56,394
of which: used by the Bank	-	-	-	-
Derivatives	-	-	-	-
UCITS	-	-	167,077	-
Asset-backed securities	-	-	-	-
Structured debt	-	-	-	-
Total	**106,207**	**-**	**337,222**	**56,394**
of wich: own instruments/assets used by the Group	*80,039*	-	*2,542*	-

The table shows, for funded defined benefit plans, the total amount of plan assets. In particular, the assets refer to the following funds:

- Pension Fund for personnel of former Banca Agricola Mantovana S.p.A.,
- Pension Fund for personnel of former Banca Toscana S.p.A.,
- Pension Fund for personnel of former Banca Nazionale dell'Agricoltura S.p.A.,
- Pension Fund for personnel of former Banca Antonveneta,
- Cassa di Previdenza Aziendale for Monte dei Paschi di Siena employees, defined benefit section,
- Pension Fund for personnel of the Parent Company of the London branch,

The assets for Cassa, Banca Agricola Mantovana and Banca Antonveneta Funds exceed the obligations outstanding as at the end of the year.

Item	31 12 2018			
	Internal pension plans		External pension plans	
	Listed in active markets	Not listed in active markets	Listed in active markets	Not listed in active markets
Cash and cash equivalents	87,550	-	6,065	-
of which: used by the Bank	*87,550*	-	*2,796*	-
Equity instruments	-	-	33,818	-
of which: used by the Bank	-	-	-	-
Debt instruments	26,294	-	149,271	-
of which: used by the Bank	-	-	*5,974*	-
Real estate	-	-	-	59,682
of which: used by the Bank	-	-	-	-
Derivatives	-	-	-	-
UCITS	-	-	144,531	-
Asset-backed securities	-	-	-	-
Structured debt	-	-	-	-
Total	**113,844**	**-**	**333,685**	**59,682**
of wich: *own instruments/assets used by the Group*	*87,550*	-	*8,771*	-

10.5.4 Key actuarial assumptions used

Key actuarial assumptions/percentages	31 12 2019		31 12 2018	
	Defined benefit funds		Defined benefit funds	
	Internal pension plans	External pension plans	Internal pension plans	External pension plans
Discount rates	0.13%	0.95%	0.76%	2,90%
Expected rates of salary increases	0.75%	1.43%	0.75%	1.98%

A discount rate of 0.13% was used for internal plans and of 0.95% for external ones (0.3% for Provision for severance pay, see table 9.2b), calculated as a weighted average of interest rates in EUR Composite AA yield curve as at 31 December 2019, using, as weights, the ratio between the amount paid/paid in advance for each maturity and the total amount to be paid/paid in advance for the entire duration of the population considered.

10.5.5 Information on amount, timing and uncertainty of cash flows

31 12 2019

Actuarial assumption	Change in DBO	Change (%) in DBO
Discount rate		
Increase of 0.25%	(7,414)	-2.33%
Decrease of 0.25%	7,845	2.46%
Expected rates of salary increases		
Increase of 0.25%	5,875	1.85%
Decrease of 0.25%	(5,593)	-1.76%

31 12 2018

Actuarial assumption	Change in DBO	Change (%) in DBO
Discount rate		
Increase of 0.25%	(3,925)	-1.23%
Decrease of 0.25%	3,452	1.09%
Expected rates of salary increases		
Increase of 0.25%	2,122	0.67%
Decrease of 0.25%	(1,869)	-0.59%

With respect to pay increases, it is not possible to conduct any sensitivity analysis given the static nature of the benefits linked to the choice of participants to stay in the fund.

10.5.6 Plans covering multiple employers

The table in this section was not completed since there are no plans covering multiple employers to report for either the current or previous year.

10.5.7 Defined benefit plans sharing risks among entities under common control

The table in this section was not completed since there are no defined benefit plans sharing risks among entities under common control to report for either the current or previous year.

10.6 Provisions for risks and charges: other provisions

Items/Amounts	Total 31 12 2019	Total 31 12 2018
2.1 Legal and tax disputes	511,791	572,227
- Revocatory	29,822	55,157
- Other legal disputes	467,548	485,940
- Tax disputes	14,421	31,130
2.2 Personnel charges	56,812	209,813
- Job disputes	34,768	30,870
- Leaving incentives	3,326	159,728
- Other	18,718	19,215
2.3 Other	360,746	325,950
- Risks related to the sale of business units	23,700	22,985
- Charges due to corporate restructuring	9,116	15,055
- Compensations due to credit sale operations	22,257	-
- Charges for embezzlement	5,835	6,949
- Claims and Court agreements	4,118	2,628
- Compensation iniziative connected to the offers of diamonds	97,660	125,600
- Claw back clause (IFRS 15)	34,236	29,763
- Customer reimbursement	45,755	4,801
- Estimated legal fees for legal assistance services	41,972	24,553
- Other	76,097	93,616
Total	**929,349**	**1,107,990**

The amount of EUR 22.2 mln in line “2.3 Other – Compensations due to credit sale operations” represent the provision of the bank to cover the risks for the claims received in relation credit sale operations.

10.7 Provisions for risks and charges: potential liabilities

Typology	31 12 2019	31 12 2018
Legal and tax disputes	**1,538,706**	**959,500**
Revocatory	2,332	-
Other legal disputes	1,506,004	930,923
Tax disputes	30,370	28,577
Personnel charges	**9,984**	**515**
Job disputes	9,984	515
Others	**24,345**	**138,749**
Total	**1,573,035**	**1,098,764**

A contingent liability is defined as i) a possible obligation arising from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not totally under control, or ii) a current obligation that arises from past events but is not recognised because use of resources aimed at producing economic benefits will likely not be required to settle the obligation or because the amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are not subject to recording but, if deemed "possible", are solely subject to disclosure. Conversely, contingent liabilities that are deemed to be of "remote" likelihood do not require any disclosure, pursuant to the provisions of IAS 37. Hence, the table above show only "possible" liabilities.

Similar to "possible" liabilities, contingent liabilities are also monitored because they may, over time, become "remote" or "probable", with the need, in the latter case, to make the necessary provisions.

In this context, it should be noted that the classification of contingent liabilities and the relative amount is based on non-objective judgements that require recourse to sometimes extremely complex estimation procedures; therefore, they may be subject to redetermination over time.

Specifically, in reference to the dispute, the table shows the claim, where quantified; this value cannot be considered a measurement of the expected disbursement in accordance with IAS 37. In fact, the Bank does not deem it practical to provide an estimate of the expected disbursement, as the calculation would be complex and onerous.

For further details, please refer to Section 1.5 "Operational risks" of Part E in the Notes to the financial statements.

Section 11 - Redeemable shares - Item 120

The tables in this section have not been completed as no data is present for the current year or for the previous year.

Section 12 - Company equity - Items 110, 130, 140, 150, 160, 170, 180

12.1 “Share capital” and “Treasury shares”: breakdown

12.1.a “Share capital” breakdown

Items/Amounts	31 12 2019		31 12 2018	
	Implied par value share (a)	Par value of fully paid shares	Par value per share	Par value of fully paid shares
Ordinary shares	9.06	10,328,618,260	9.06	10,328,618,260
Preferred shares	-	-	-	-
Savings shares	-	-	-	-
Total		**10,328,618,260**		**10,328,618,260**

On 6 June 2011 the Bank's Extraordinary Shareholders' Meeting resolved that indication of the par value of the classes of shares be eliminated; accordingly, as at 31 December 2011, the so-called “Implied par value" is indicated, which is obtained by dividing the total share capital amount by the number of shares in the same category, outstanding at the reference date.

Ordinary shares are registered and indivisible. Each share entitles to one vote. Information on the number of fully paid-up shares can be found in the notes to Table “12.2 Share capital - number of shares: annual changes”.

At the reporting date, the Bank’s share capital amounted to EUR 10,328,628,260, represented by 1,140,290,072 ordinary shares without a nominal value, of which 1,118,778,319 outstanding.

12.1.b “Treasury shares”: breakdown

At the date of these financial statements, the Bank holds 21,511,753 treasury shares for a total value of EUR 185.96 mln.

12.2 Share capital - Number of shares: annual changes

Item/Type		31 12 2019	31 12 2018
		Ordinary	Ordinary
A.	**Shares outstanding as at the beginning of the year**	**1,140,290,072**	**1,140,290,072**
	- fully paid	1,140,290,072	1,140,290,072
	- not fully paid	-	-
A.1	Treasury shares (-)	21,511,753	21,511,753
A.2	**Shares outstanding: opening balance**	**1,118,778,319**	**1,118,778,319**
B.	**Increases**	-	-
B.1	New issuances	-	-
	- Against payment:	-	-
	- Business combinations	-	-
	- Bond converted	-	-
	- warrants exercised	-	-
	- other	-	-
	- without payment:	-	-
	- to employees	-	-
	- to directors	-	-
	- other	-	-
B.2	Sale of treasury shares	-	-
B.3	Other increases	-	-
C.	**Decreases**	-	-
C.1	Cancellation	-	-
C.2	Purchase of treasury shares	-	-
C.3	Business transferred	-	-
C.4	Other decreases	-	-
D.	**Shares outstanding: closing balance**	**1,118,778,319**	**1,118,778,319**
D.1	Treasury shares (+)	21,511,753	21,511,753
D.2	Shares outstanding as at the end of the year	1,140,290,072	1,140,290,072
	- fully paid	1,140,290,072	1,140,290,072
	- not fully paid	-	-

The number of shares outstanding and the number of treasury shares did not change during 2019.

At the date of these financial statements, the share capital is fully paid in.

12.3 Share capital: other information

12.3.a Equity instruments: breakdown and annual changes

As at 31 December 2019, the Bank held no equity instruments.

12.4 Retained earnings: other information

12.4.a Item "Reserves" - breakdown

See "Part F - Information on shareholders' equity" of these Notes to the financial statements.

12.4 b Information on Equity items under art. 2427.7bis of the Italian Civil Code

		Note	31 12 2019	Under tax suspension	Available for use	Amounts used in the last 5 years to cover losses
130 Valuation reserves	Equity instruments measured at fair value through other comprehensive income		(18,819)	-	-	-
	Financial assets (other than equity instruments) measured at fair value through other comprehensive income	(1)	4,230	-	-	-
	Cash flow Hedges	(1)	56,004	-	-	-
	Exchange differences	(1)	2,715	-	-	-
	Actuarial gains (losses) on defined benefit plans		(110,423)	-	-	-
	Valuation reserve of own credit risk	(1)	37,894	-	-	-
	Revaluation Law 185/2008 art.15 paragraph 16 et seq.		-	-	-	34,056
	Revaluation Law 266/2005		-	-	-	11,704
	Valuation reserves		**(28,399)**	**-**	**-**	**45,760**
150 Equity Instruments	**Equity instruments**		**-**	**-**	**-**	**3,002**
	- FTA reserve		-	-	-	-
	- Extraordinary reserve		-	-	-	9,566
	- Revaluation ex art 6 lett a) D.lgs. 38/05 (fair value option)	(2)	-	-	-	-
	- Merger surplus reserve	(3)	130,573	-	-	588,521
	- Indemnity 2009		-	-	-	-
	- Reserve for IAS 8 restatement		-	-	-	-
	- Reserve of FTA classified to other comprehensive income reserve transfered to other component of equity		325	-	-	-
	- Reserve of equity instruments classified to other comprehensive income reserve transfered to other component of equity		(20,427)	-	-	-
	- Other reserves		(30,707)	-	-	-
	- Profit (loss) carried forward		(1,441,754)	-	-	-
	Reserves		**(1,361,990)**	**-**	**-**	**598,087**
170 Share premium reserve	**Share premium reserve**		**-**	-	**-**	**8,616**
180. Share capital	**Share capital**		**10,328,618**	-	**-**	**13,718,948**
190. Treasury shares	**Treasury shares**		**(185,958)**	-	**-**	**-**
200. Profit (Loss) for the year	**Profit (Loss) for the year**		**(1,174,539)**	-	**-**	**-**
Total shareholders' equity			**7,577,732**	**-**	**-**	**14,374,413**

Notes:

1) The reserve is unavailable pursuant to art. 6 of Italian Legislative Decree no. 38/2005;
2) As at 31 December 2019, the Bank is obliged to replenish the reserve under art. 6.1 a) of Italian Legislative Decree no. 38/2005 for an amount of EUR 2.9 mln;
3) Art. 2431 of the Italian Civil Code allows the distribution of only the part exceeding the limit required to cover the missing part of the Legal Reserve to reach the threshold indicated by art. 2430 of the Italian Civil Code.

12.4.c Proposal to cover losses under art. 2427.22septies of the Italian Civil Code

Dear Shareholders,

In compliance whit the provisions of art. 2364 of Italian civil code and art. 13 and 30 of Statute of Association, the Shareholder's meeting is called to discuss ad pass resolution in order to approve the Financial Statements of Banca Monte dei Paschi di Siena as at 31 decembre 2019, that close whit a net loss of EUR 1,174,539,220.

It is proposed to carry forward the 2019 loss in the amount of EUR 1,174,539,220.

If the formulated proposal obtains your approval, the capital and reserves of Banca Monte dei Paschi di Siena Spa, will be as indicated in the table below.

	Financial statement 2019	Change	Share capital and reserves of Financial statement 2019 after Board's deliberation
Share capital	**10,328,618,260**		**10,328,618,260**
Reserves	(1,361,989,957)	(1,174,539,220)	(2,536,529,178)
Valuation reserves	(28,398,878)		(28,398,878)
Treasury shares	(185,957,994)		(185,957,994)
Total reserves	**(1,576,346,829)**	**(1,174,539,220)**	**(2,750,886,049)**
Total shareholders'equity	**8,752,271,431**	**(1,174,539,220)**	**7,577,732,211**

Siena, 25 February 2020

The Board of Directors

12.5 Equity instruments: breakdown and annual changes

As at 31 December 2019, the Bank held no equity instruments.

12.6 Other information

There is no additional information apart from what was already provided in the Notes to the Financial Statements.

Other information

1 Commitments and financial guarantees given (other than those measured at fair value)

Nominal Amount	31 12 2019			
	Stage 1	Stage 2	Stage 3	Total
Commitments to lend funds	30,231,116	352,467	738,622	31,322,205
a) Central banks	10	-	-	10
b) Public entities	1,177,160	11	120,177	1,297,348
c) Banks	6,270,815	-	3,120	6,273,935
d) Other financial companies	1,235,107	1,205	4,061	1,240,373
e) Non-financial companies	19,098,639	228,273	585,951	19,912,863
f) Families	2,449,385	122,978	25,313	2,597,676
Financial guarantees given to	4,130,884	579,356	469,335	5,179,575
a) Banks	60	-	-	60
b) Public entities	40,281	1,658	-	41,939
c) Banks	475,304	41,582	3,172	520,058
d) Other financial companies	134,854	9,844	1,043	145,741
e) Non-financial companies	3,382,807	514,419	457,530	4,354,756
f) Families	97,578	11,853	7,590	117,021
Total	**34,362,000**	**931,823**	**1,207,957**	**36,501,780**

2 Other commitments and guarantees given

	Nominal value	
	31 12 2019	31 12 2018
Other guarantees given to	1,344,831	1,421,765
of which: non-performing exposures	-	-
a) Central Banks	-	-
b) Public entities	-	-
c) Banks	20,903	20,903
d) Other financial companies	1,323,928	1,400,862
e) Non-financial companies	-	-
f) Families	-	-
Other commitments	-	5,200
of which: non-performing exposures	-	-
a) Central Banks	-	-
b) Public entities	-	-
c) Banks	-	-
d) Other financial companies	-	5,200
e) Non-financial companies	-	-
f) Families	-	-
Total	**1,344,831**	**1,426,965**

The table shows the maximum risk of any indemnities to pe paid to counterparties in relation to any claims resulting from the violation of declarations and guarantees issued by the Bank, in Credit impaired sales transactions.

3 Assets pledged as collateral for liabilities and commitments

Portfolios	31 12 2019	31 12 2018
1. Financial assets measured at fair value through profit and loss	20,815	23,751
2. Financial assets measured at fair value through other comprehensive income	1,209,452	6,368,841
3. Financial assets measured at amortised cost	34,197,197	32,240,114
4. Tangible assets	-	-
Of which: inventories of tangible assets	-	-

The table summarises the assets pledged by the Bank as collateral for its liabilities, mainly represented by repurchase agreements. The amount in line "3. Financial assets measured at amortised cost" includes approx. EUR 20.4 bn related to loans transferred to the vehicles MPS Covered Bond S.r.l. and MPS Covered Bond 2 S.r.l. as part of two programmes for the issue of covered bonds.

4 Asset management and trading on behalf of third parties

	Amount 31 12 2019
1. Trading of financial instruments on behalf of third parties	**3,582,106**
a) Purchases	1,677,270
1. Settled	1,677,270
2. Unsettled	-
b) Sales	1,904,836
1. Settled	1,904,836
2. Unsettled	-
2. Asset management accounts	**2,762,710**
a) individual	2,762,710
b) collective	-
3. Custody and administration of securities	**123,471,468**
a) third party securities on deposit associated with custodian bank transactions (excluding asset management)	-
b) Other third party securities on deposit (excluding asset management)	49,084,501
1. Securities issued by companies included in consolidation	781,381
2. Other securities	48,303,120
c) third party securities deposited with third parties	38,981,673
d) own securities deposited with third parties	35,405,294
4. Other transactions	**20,540,056**

5 Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

Type	Gross amount of financial assets (a)	Amount of financial liabilities offset in balance sheet (b)	Net amount of financial assets recognised in the balance sheet (c=a-b)	Related amounts not subject to balance sheet offsetting		Net amount (f=c-d-e) 31 12 2019	Net amount 31 12 2018
				Financial instruments (d)	Deposits of cash collateral received (e)		
1. Derivatives	762,578	148,811	613,767	401,907	153,811	58,049	60,660
2. Repurchase agreements	4,919,339	-	4,919,339	4,919,339	-	-	0
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total as at 31 12 2018	**5,681,917**	**148,811**	**5,533,106**	**5,321,246**	**153,811**	**58,049**	**X**
Total as at 31 12 2017	**6,532,275**	**126,613**	**6,405,662**	**6,231,531**	**113,471**	**60,660**	**X**

6 Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

Type	Gross amount of financial liabilities (a)	Amount of financial assets offset in balance sheet (b)	Net amount of financial liabilities recognised in the balance sheet (c=a-b)	Related amounts not subject to balance sheet offsetting		Net amount (f=c-d-e) 31 12 2019	Net amount 31 12 2018
				Financial instruments (d)	Deposits of cash collateral received (e)		
1. Derivatives	1,953,037	148,811	1,804,226	401,907	1,056,382	345,937	254,393
2. Repurchase agreements	4,665,704	-	4,665,704	4,573,478	-	92,226	0
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total as at 31 12 2018	**6,618,741**	**148,811**	**6,469,930**	**4,975,385**	**1,056,382**	**438,163**	**X**
Total as at 31 12 2017	**12,277,962**	**126,613**	**12,151,349**	**11,324,942**	**572,014**	**254,393**	**X**

IFRS 7 requires disclosure of information for all financial instruments that:

- were offset in the balance sheet pursuant to IAS 32;
- could potentially be offset, given certain conditions, but presented in the balance sheet as open balances as they are governed by “framework offsetting agreements or similar agreements” which do not meet the criteria established in IAS 32 for offsetting.

The amount offset in the financial statement refers to trading in OTC derivatives through central counterparties.

For the purposes of reconciliation of the amounts shown in the column (c) “net amount of financial assets/liabilities recognised in the balance sheet” with the opening balances shown in “Part B - Information on the balance sheet”, it should be noted that:

- the amount related to both trading and hedging derivative financial instruments, aided by netting agreements or similar, is represented in asset items 20 a) “Financial assets held for trading” and 50 “Hedging derivatives” and in liability items 20 “Financial liabilities held for trading” and 40 “Hedging derivatives”;
- the amount related to repurchase agreements subject to netting agreements or similar is shown in line “Repurchase agreements/Reverse repurchase agreements” in the tables containing a breakdown of asset item 40 “Financial assets measured at amortised cost” and liability item 10 “Financial liabilities measured at amortised cost”.

It should also be noted that:

- with regard to securities lending transactions, in these tables transactions involving the payment of cash collateral fully owned by the lender are included in the item "Repurchase agreements”;

- the repurchase agreements are recognised in the tables at amortised cost, while the financial collateral and derivative transactions are reported at their fair value.

7 Securities lending transactions

The Bank has in place, as borrower, securities lending transactions guaranteed by other securities, amounting to approximately EUR 1.3 bn, signed with leading market counterparties.

The Bank has also in place, as borrower, securities lending transactions (mainly Italian government securities) with customers, amounting to approximately EUR 1.9 bn. The main purpose of the operations is government securities that the Bank, in turn, transfers to the subsidiary MPS Capital Services.

These transactions, which in accordance with current accounting regulations have no impact on the balance sheet, are primarily carried out with the aim of increasing the counter-balancing capacity of the Bank.

8 Information on joint control activities

This paragraph was not completed as no such activities are present for the Bank.

Part C - Information on the Income Statement

Section 1 - Interest income/expense and similar revenues/charges - Items 10 and 20

1.1 Interest income and similar revenues: breakdown

Itme/Type	Debt securities	Loans	Other transactions	Total 31 12 2019	Total 31 12 2018
1. Financial asset measured at fair value through profit and loss	16,127	10,501	5,131	31,759	59,834
1.1 Finanicial asset held for trading	-	-	5,131	5,131	4,768
1.2 Financial assets designated at fair value	-	-	-	-	-
1.3 Financial assets measured at fair value mandatory	16,127	10,501	-	26,628	55,066
2. Financial asset measured at fair value through other comprehensive income	80,009	-	X	80,009	129,733
3. Financial assets measured at amortised cost	181,432	1,655,933	X	1,837,365	1,944,308
3.1. Loans to banks	36,218	156,812	X	193,030	193,153
3.2 Loans to customers	145,214	1,499,121	X	1,644,335	1,751,155
4. Hedging derivatives	X	X	(21,263)	(21,263)	22,656
5. Other assets	X	X	2,777	2,777	2,830
6. Financial liabilities	X	X	X	9,623	27,271
Total	**277,568**	**1,666,434**	**(13,355)**	**1,940,270**	**2,186,632**
of which interest income on credit impaired assets	-	*177,588*	-	*177,588*	*218,812*
of which interest income on financial leasing	-	-	-	-	*n.d*

Line 1.1 “Financial assets held for trading”, in the “Other transactions” column, includes the positive net balance of spreads relating to derivatives connected with financial liabilities measured at fair value (fair value option), for an amount of EUR 5.13 mln (EUR 4.7 mln as at 31 December 2018).

Line 5 “Hedging derivatives”, in the “Other transactions” column, includes the spread related to hedging derivatives rectifying the interest income recognised on the hedged financial instruments.

The amount in line 5 “Other assets”, in the “Other transactions” column, mainly shows interest accrued on tax credits.

Line 6 “Financial liabilities” shows the interest income accrued on financial liabilities in the amount of EUR 9.6 mln (EUR 27.3 mln as at 31 December 2018).

Interest income, calculated for financial assets measured at amortised cost under the effective interest rate method, is entered in different columns based on the original 'technical form'. The amount accrued during the year for positions that are classified as “non-performing” as at the reporting date totalled EUR 177.6 mln (EUR 218.8 mln as at 31 December 2018).

Interest on arrears accrued is posted to interest income only for the portion actually collected.

For a trend analysis of the concerned items, reference should be made to the Report on Operations.

1.2 Interest income and similar revenues: other information

1.2.1 Interest income from financial assets denominated in foreign currency

Interest income from financial assets denominated in foreign currency for 2019 amounted to EUR 22.8 mln as compared to EUR 38.3 mln in 2018.

1.2.2 Interest income from finance leases

This table was not compiled since the Bank had no finance leases on which interest accrued for either the period under review or the previous year.

1.3 Interest expense and similar charges: breakdown

	Deposits	Securities	Other transactions	Total 31 12 2019	Total 31 12 2018*
1. Fiancial liabilities measured at amortised cost	(399,107)	(257,828)	-	(656,935)	(615,485)
1.1 Deposits from central banks	-	X	X	-	-
1.2 Deposits from banks	(135,715)	X	X	(135,715)	(102,556)
1.3 Deposits from customers	(263,392)	X	X	(263,392)	(249,453)
1.4 Debt securities issued	X	(257,828)	X	(257,828)	(263,476)
2. Financial liabilities held for trading	-	-	(2,810)	(2,810)	-
3. Financial liabilities designated at fair value	-	(9,244)	-	(9,244)	(9,136)
4. Other liabilities	X	X	(99)	(99)	(3,904)
5. Hedging derivatives	X	X	27,136	27,136	-
6. Fiancial assets	X	X	X	(55,790)	(36,180)
Total	**(399,107)**	**(267,072)**	**24,227**	**(697,742)**	**(664,705)**
of which interest debt for leasing	6,293	-	-	6,293	n.d

** The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 16.*

Lines 1.2, "Deposits from banks" and 1.3, "Deposits from customers", in the "Deposits" column, include interest on payables under repurchase agreements on: treasury securities recognised in the balance sheet or securities not recognised in the balance sheet obtained through repo transactions or from self-securitisations without derecognition.

Line 1.4, "Debt securities issued", indicates the interest expense accrued during the year on bonds and certificates of deposit valued at amortised cost.

Line 5 "Hedging derivatives", in the "Other transactions" column, includes the spread related to hedging derivatives rectifying the interest expense recognised on the hedged financial instruments.

Line 6 "Financial assets", which amounts to EUR 55.8 mln, highlights the negative interest accrued on financial assets.

For a trend analysis of the concerned items, reference should be made to the Report on Operations.

1.4 Interest expense and similar charges: other information

1.4.1 Interest expense on liabilities denominated in foreign currency

Interest expense on financial liabilities denominated in foreign currency for 2019 amounted to EUR 5.0 mln as compared to EUR 32.9 mln in 2018.

1.5 Spreads on hedging transactions

Items	Total 31 12 2019	Total 31 12 2018
A. Positive spreads on hedging transactions	198,868	254,451
B. Negative spreads on hedging transactions	(192,994)	(231,795)
C. Balance (A+B)	**5,874**	**22,656**

In line with its hedging objectives and consequent minimisation of risks in the banking book, the Bank carries out both fair value and cash flow hedging transactions.

Section 2 - Fee and commission income/expense - Items 40 and 50

2.1 Fee and commission income: breakdown

Type of service / Amount	Total 31 12 2019	Total 31 12 2018
a) guarantees issued	48,956	52,957
b) credit derivatives	-	-
c) management, brokerage and advisory services:	775,591	821,996
1. trading of financial instruments	18,576	19,755
2. currency trading	4,619	4,648
3. asset management	32,894	39,403
4. custody and administration of securities	6,504	7,079
5. custodian bank	-	-
6. placement of securities	3,469	5,791
7. client instructions	21,719	22,391
8. advisory on	12,529	16,524
8.1 investments	8,673	7,768
8.2 financial structure	3,855	8,756
9. distribution of third-party services	675,280	706,405
9.1. asset management	-	-
9.1.1 individual accounts	-	-
9.1.2 collective investment schemes	-	-
9.2 insurance products	213,731	202,255
9.3 other products	461,549	504,150
d) collection and payment services	227,045	229,345
e) servicing of securitisations	417	1,248
f) factoring transaction services	-	-
g) tax collection services	-	-
h) management of multilateral trade systems	-	-
i) current account keeping	407,750	441,247
j) other services	118,382	114,467
Total	**1,578,141**	**1,661,260**

For an analysis of the fee and commission income and for the disclosure on disaggregation of revenues, as required by IFRS 15.114-115, please refer to Part C of the Notes to the consolidated financial statements, which outlines the trend in fees and commissions for each of the operating segments identified, for the services rendered and according to geographic area served.

The disclosure for performance obligations is provided for the main services offered by the Bank, in accordance with IFRS 15.113 and 119:

- collection and payment services, including the offer to customers of credit and debit cards issued by the Bank. For this services, the customer pays, an annual fee in advance for the administrative management of the card, recognised over time, as well as fees calculated on the individual transactions linked to the card's configuration, which, if not included in the annual fee, are recognised at a point in time as regards the individual performance obligation carried out at a specific time. Collection and payment services also include all foreign currency trading services, as well as other generic collection services that entail the collection of fees against the performance obligation made at consumption and recognised at a point in time;
- administration of current accounts: this category includes fees received for various products offered to customers, which may include a periodic fee for the current account management service that may or may not include a package of services, as well as fees received on individual transactions performed by customers that are not included in the annual

fee. The first type of fee is structured as a performance obligation over time, while the second, as it relates to services performed at a specific time and compensated separately from the quarterly fee, are structured as a performance obligation performed at a point in time;

- distribution of third-party products and services based on partnership agreements with external counterparties, for which placement commissions are collected, recorded at a point in time as they are compensation for the intermediation performance obligation provided by the Bank, and continuing commissions connected to the Bank's administrative management of the customer in the network, recorded over time, as it represents compensation for the performance obligation rendered over the course of the investment's duration. Some distribution agreements also include variable commissions (Rappel), recognised by external counterparties upon achieving certain annual placement volumes envisaged in the distribution agreements. Based on the various contractual provisions and in accordance with provisions contained in IFRS 15, if conditions apply in the interim periods, analyses are carried out in order to determine if there are conditions that allow the advance accounting of the revenue or a portion thereof. The advance recognition is carried out exclusively if it is highly likely that, once the uncertainty has been resolved, there is no downward adjustment of the recorded amount. Lastly, some contracts contain claw-back clauses, which entail, in the event certain conditions apply, the full or partial reimbursement of placement commissions previously recognised upon execution of the initial performance obligation (i.e. point in time): in this case, the claw-back clause represents a variable component of the transaction price, since the amount recognised upon product placement is not definitive, but will depend on future events that are beyond the control of the Bank. In such situations the amount of the commissions that could potentially be subject to restitution is estimated, charging the amount that is expected to be returned to the third party to a specific risk provision; the income that is posted to the income statement is equal to the amount recognised against the performance obligation for the placement activity carried out during the year, net of the amount set aside in the provision;
- individual portfolio management, which mainly include management fees, calculated by applying a percentage proportional to the assets under management, recognised over time as they compensate a service that was provided over a period of time.

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With regard to the breakdown in revenues (IFRS 15.116-118), it should be noted that EUR 1.4 mln was recorded as the adjustment price component accrued during the year on commissions collected for placement of third-party services carried out by the Bank in the previous year.

This line includes the reversal of revenues for EUR 19.7 mln made against the set up of a risk provision pursuant to IFRS 15, in consideration of the claw-back clauses present in a third-party product placement contract.

2.2 Fee and commission income: distribution channels of products and services

Channel/Sectors	31 12 2019	31 12 2018
a) Group branches	**700,063**	**743,668**
1. portfolio management	32,894	39,403
2. placement of securities	3,469	5,791
3. third party services and products	663,699	698,474
b) "Door-to-door" sales	**-**	**-**
c) Other distribution channels	**11,582**	**7,932**
1. portfolio management	-	-
2. placement of securities	-	-
3. third party services and products	11,582	7,932

2.3 Fee and commission expense: breakdown

Type of service / Amount	Total 31 12 2019	Total 31 12 2018
a) guarantees received	(97,214)	(98,251)
b) credit derivatives	-	-
c) management, brokerage and advisory services:	(9,798)	(11,235)
1. trading of financial instruments	(4,107)	(3,999)
2. currency trading	(3)	(4)
3. asset management:	-	-
3.1 own portfolio	-	-
3.2 third-party portfolios	-	-
4. custody an administration of securities	(4,263)	(5,639)
5. placement of financial instruments	-	-
6. off-site marketing of financial instruments, products and services	(1,426)	(1,593)
d) collection and payment services	(38,685)	(36,602)
e) other services	(43,748)	(41,756)
Total	**(189,445)**	**(187,844)**

Line “a) guarantees received” includes EUR 94.4 mln (EUR 95.9 mln as at 31 December 2018) of fees and commissions paid to the MEF for the guarantee pledged by the Italian Government on securities issued by the Bank in first quarter 2017, for a residual nominal amount of EUR 8,000 mln as at 31 December 2019.

Line “e) other services” includes fee and commission expense for an amount of EUR 7.8 mln (EUR 4.3 mln as at 31 December 2018) on securities lending.

For a trend analysis of the concerned items, reference should be made to the Report on Operations.

Section 3 - Dividends and similar income - Item 70

3.1 Dividends and similar income: breakdown

Item/Income	31 12 2019			31 12 2018		
	Dividends	Income from units of UCITS	Total	Dividends	Income from units of UCITS	Total
A. Financial assets held for trading	23	-	23	7	-	7
B. Other financial assets measured at fair value mandatory	179	-	179	39	-	39
C. Financial assets measured at fair value through other comprehensive income	9,317	-	9,317	9,997	-	9,997
D. Investments	59,886	-	59,886	89,240	-	89,240
Total	**69,405**	**-**	**69,405**	**99,283**	**-**	**99,283**

Line “C. Financial assets measured at fair value through other comprehensive income” includes the dividend of EUR 8.5 mln collected on the investment in the Bank of Italy.

The line “D. Equity investment” includes EUR 30 mln resulting from repayments following the reduction in share capital - represented by previous profit reserves - carried out by the subsidiary MPS Tenimenti S.p.A. and EUR 20 mln referring to the subsidiary AXA MPS Assicurazione Danni S.p.A.

Section 4 - Net profit (loss) from trading - Item 80

4.1 Net profit (loss) from trading: breakdown

Transactions / P&L items	Unrealized Profits	Trading Profits	Unrealized Losses	Trading Losses	31 12 2019 Net Profit (Loss)	31 12 2018 Net Profit (Loss)
1. Financial assets held for trading	7	18,088	(97)	(15,551)	2,447	824
1.1 Debt securities	1	696	(95)	(2)	600	(609)
1.2 Equity instruments	6	30	(2)	(8)	26	(24)
1.3 Units of UCITS	-	-	-	-	-	-
1.4 Loans	-	-	-	-	-	-
1.5 Other	-	17,362	-	(15,541)	1,821	1,457
2. Financial liabilities held for trading	-	-	-	-	-	-
2.1 Debt securities	-	-	-	-	-	-
2.2 Deposits	-	-	-	-	-	-
2.3 Other	-	-	-	-	-	-
3. Other financial assets and liabilities: exchange differences	X	X	X	X	23,868	15,993
4. Derivatives	231,389	354,107	(250,569)	(308,570)	25,204	15,480
4.1 Financial derivatives:	224,074	354,107	(243,254)	(308,570)	25,204	15,480
- on debt securities and interest rates	220,009	329,329	(243,020)	(299,314)	7,004	1,046
- on equity instruments and stock indices	4,065	314	(234)	(308)	3,837	(52)
- on currency and gold	X	X	X	X	(1,153)	21
- other	-	24,464	-	(8,948)	15,516	14,465
4.2 Credit derivatives	7,315	-	(7,315)	-	-	-
of which related to fair value option	X	X	X	X	-	-
Total	**231,396**	**372,195**	**(250,666)**	**(324,121)**	**51,519**	**32,297**

“Gains” and “Losses” include the results of the measurement of derivatives connected operationally with financial liabilities measured at fair value through profit and loss (FVO).

The impact on this item deriving from the application of the Credit Value Adjustment (CVA) on OTC derivatives is a positive EUR 0.6 mln; likewise, the application of the Debt Value Adjustment (DVA) on OTC derivatives entailed a negative impact of EUR 2.8 mln.

Section 5 - Net profit (loss) from hedging - Item 90

5.1 Net profit (loss) from hedging: breakdown

P&L items/Values	Total 31 12 2019	Total 31 12 2018
A. Gains on:		
A.1 Fair value hedging instruments	55,718	114,491
A.2 Hedged financial assets (fair value)	713,079	201,389
A.3 Hedged financial liabilities (fair value)	45,591	25,657
A.4 Cash-flow hedging derivatives	-	-
A.5 Assets and liabilities denominated in foreign currency	-	-
Total gains on hedging activities (A)	**814,388**	**341,537**
B. Losses on:		
B.1 Fair value hedging instruments	768,075	223,887
B.2 Hedged financial assets (fair value)	30,287	72,464
B.3 Hedged financial liabilities (fair value)	17,898	44,325
B.4 Cash-flow hedging derivatives	4,334	17,861
B.5 Assets and liabilities denominated in foreign currency	-	-
Total losses on hedging activities (B)	**820,594**	**358,537**
C. Net profit (loss) from hedging activities (A - B)	**(6,206)**	**(17,000)**
of which: resulting from net position helding	-	-

For information on hedging derivatives, the gains and losses on which are indicated in lines A.1 and A.4, B.1 and B.4 of this table, see Section 5, “Hedging derivatives - Item 50” of the Assets and Section 4, “Hedging derivatives - item 40” of the Liabilities in Part B of these Notes to the financial statements.

More information on hedged assets and liabilities can be found in the tables in Part B of the notes for each section of the accounts to which hedges are posted.

Section 6 - Gains/(losses) on disposal/repurchase - Item 100

6.1 Gains (losses) on disposal/repurchase: breakdown

Items / P&L items	Total 31 12 2019			Total 31 12 2018		
	Gains	Losses	Net Profit (Loss)	Gains	Losses	Net Profit (Loss)
Financial assets						
1. Financial assets measured at amortis	87,484	(28,864)	58,620	40,073	(35,741)	4,332
1.1 Loans to banks	11	-	11	-	-	-
1.2 Loans to customers	87,473	(28,864)	58,609	40,073	(35,741)	4,332
2.. Financial assets measured at fair value through other comprehensive income	52,580	(129)	52,451	41,396	(16,894)	24,502
2.1 Debt securities issued	52,580	(129)	52,451	41,396	(16,894)	24,502
2.2 Loans	-	-	-	-	-	-
Total assets	**140,064**	**(28,993)**	**111,071**	**81,469**	**(52,635)**	**28,834**
Financial liabilities	-	-	-	-	-	-
1. Deposits from banks	-	-	-	-	-	-
2. Deposits from customers	6,425	-	6,425	-	-	-
3. Debt securities issued	7	(46)	(39)	10,605	(134)	10,471
Total liabilities	**6,432**	**(46)**	**6,386**	**10,605**	**(134)**	**10,471**

The gains posted under item Financial assets measured at amortised cost, Line 1.2 Loans to customers refer, for EUR 21.4 mln to loans and for EUR 66.1 mln to debt securities; the losses of this item refer almost fully to loans.

Section 7 - "Net profit (loss) from other financial assets and liabilities measured at fair value through profit and loss" - Item 110

7.1 Net changes in other financial assets and liabilities measured at fair value through profit and loss: breakdown of financial assets and liabilities measured at fair value

Transaction/P&L items	Unrealized profits (A)	Realized profits (B)	Unrealized Losses (C)	Realized losses (D)	Net Profit (loss) as at 31 12 2019	Net Profit (loss) as at 31 12 2018
1. Financial assets	-	-	-	-	-	-
1.1 Debt securities issued	-	-	-	-	-	-
1.2 Loans	-	-	-	-	-	-
2. Financial liabilities	1,569	583	(13,353)	-	(11,201)	3,959
2.1 Debt securities issued	1,569	583	(13,353)	-	(11,201)	3,959
2.2. Deposits from banks	-	-	-	-	-	-
2.3. Deposits from customers	-	-	-	-	-	-
3. Other financial assets and liabilities: exchange differences	X	X	X	X	-	-
Total	**1,569**	**583**	**(13,353)**	**-**	**(11,201)**	**3,959**

The item includes solely the profit, loss, capital gains and capital losses from structured fixed-rate bonds included in the fair value option. The balances of the economic valuations of derivatives through which said securities are subject to natural hedging are instead recognised under item 80 "Net profit (loss) from trading".

Note that the changes in fair value due to changes in own creditworthiness are recognised under other revenue items without reversal to the income statement.

7.2 Net changes in other financial assets and liabilities measured at fair value through profit and loss: breakdown of other financial assets measured at fair value as per mandatory requirements

Transaction/P&L items	Unrealized profits (A)	Realized profits (B)	Unrealized losses (C)	Realized losses (D)	Net profit (loss) [(A+B) - (C+D)] 0 01 1900
1. Financial assets					
1.1 Debt securities issued	157,694	-	(17,131)	(7,575)	132,988
1.2 Equity instruments	187	65	(1,528)	-	(1,276)
1.3 Units of UCITS	5,485	11	(14,120)	(1)	(8,625)
1.4 Loans	14,189	413	(76,328)	(581)	(62,307)
2. Other financial assets: exchange differences	X	X	X	X	-
Totale	**177,555**	**489**	**(109,107)**	**(8,157)**	**60,780**

Line "1.1 Financial assets - debt securities", in the column "Capital gains" refers, for EUR 155 mln, to the revaluation of convertible bonds issued by Sorgenia S.p.A. and by Sorgenia Power S.p.A., by the SFP of Nuova Sorgenia Holding S.p.A. and of Tirreno Power S.p.A.

Section 8 - Net impairment (losses)/reversals for credit risk - Item 130

8.1 Net impairment (losses)/reversal for credit risk on financial assets measured at amortised cost: breakdown

Transaction/P&L items	Value adjustments (1)			Write-backs (2)		Total 31 12 2019	Total 31 12 2018
	Stage 1 Stage 2	Stage 3		Stage 1 Stage 2	Stage 3		
		write-off	Altre				
A. Loans to banks	**(448)**	**-**	**(220)**	**1,057**	**1,788**	**2,177**	**(1,560)**
- Loans	(445)	-	(220)	1,031	1,788	2,154	(1,998)
- Debt securities	(3)	-	-	26	-	23	438
Of which: purchased or originated credit impaired financial assets	-	-	-	-	-	-	-
B. Loans to customers	**(145,376)**	**(75,103)**	**(1,505,137)**	**216,217**	**889,913**	**(619,486)**	**(557,866)**
- Loans	(143,590)	(75,103)	(1,505,137)	215,792	889,913	(618,125)	(554,357)
- Debt securities	-	-	-	-	-	(271,189)	(278,177)
Of which: purchased or originated credit impaired financial assets	-	-	-	-	-	(409,882)	(333,917)
C. Total	**-**	**-**	**-**	**-**	**-**	**(9,256)**	**(23,702)**

8.2 Net impairment (losses)/reversals for credit risk on financial assets measured at fair value through other comprehensive income: breakdown

Transactions/ P&L items	Value Adjustments			Write - backs		Total 31 12 2019	Total 31 12 2018
	Stage 1 and Stage 2	Stage 3		Stage 1 and Stage 2	Stage 3		
		Write-off	Others				
A. Debt securities issued	(2,679)	-	(3,268)	*362*	-	*(5,585)*	*5,101*
B. Loans	-	-	-	-	-	-	-
- to banks	-	-	-	-	-	-	-
- to customers	-	-	-	-	-	-	-
of which: purchased or originated credit impaired assets	-	-	-	-	-	-	-
F. Total	**(2,679)**	**-**	**(3,268)**	**362**	**-**	**(5,585)**	**5,101**

Section 9 - Modification gains/(losses) without derecognition - Item 140

9.1 Modification gains/(losses): breakdown

This item, negative for EUR 4.2 mln as at 31 December 2019 (negative for EUR 8.2 mln as at 31 December 2018) includes the impacts related to contractual changes on medium/long term loans to customers which, without any substantial change, according to the provisions of IFRS 9, as well as the Group's accounting regulations, do not entail an accounting derecognition of the assets but rather the recognition to profit and loss of the changes made to the contractual cash flows. For further details, see Part A.2 - Par. 16 - "Other information - Renegotiations" in these Notes to the financial statements.

Section 10 - Administrative expenses - Item 160

10.1 Personnel expenses: breakdown

Type of Expense / Area	Total 31 12 2019	Total 31 12 2018
1. Employees	(1,348,658)	(1,506,341)
a) wages and salaries	(982,251)	(1,008,569)
b) social-welfare charges	(267,798)	(274,952)
c) severance pay	(58,110)	(43,822)
d) social security expenses	-	-
e) provision for staff severance pay	(2,232)	(2,284)
f) pension fund and similar obligations:	(237)	(260)
- defined contribution	-	-
- defined benefit	(237)	(260)
g) contributions to external pension funds:	(22,243)	(19,458)
- defined contribution	(21,969)	(17,237)
- defined benefit	(274)	(2,221)
h) costs related to share-based payments	167	147
i) other employee benefits	(15,954)	(157,143)
2. Other staff	(463)	(530)
3. Directors and Statutory Auditors	(1,650)	(1,596)
4. Retired personnel	(4,344)	(5,129)
5. Recovery of expenses for employees of the Bank: seconded to other entities	79,925	77,137
6. Reimbursement of expenses for employees of other entities: seconded to the bank	(16,705)	(16,109)
Total	**(1,291,895)**	**(1,452,568)**

Line “b) social-welfare charges” includes recoveries from INPS for the two tranches used for the Solidarity Fund of 2017 (approx. EUR 22.0 mln).

Line f) “Pension fund and similar obligations” includes amounts set aside for internal funds, while line g) “contributions to external pension funds” includes contributions paid and adjustments made to external pension funds.

Line “h) costs related to share-based payments” reflects the reduction in provisions for performance shares assigned to the Bank’s “key employees” with regard to incentive plans in effect for the previous years.

Line “i) other employee benefits”, for the period 2018, includes the provision recognised for the early retirement incentives/solidarity fund envisaged for the first half of 2019, pursuant to the agreement of 31 December 2018 entered into with the trade unions, for EUR 150 mln.

Line “5. Recovery of expenses for employees of the Bank seconded to other entities” includes for an amount of approximately EUR 6.0 mln (EUR 3.6 mln at 31 december 2018) the recovery of the cost of employees seconded by the Bank to Juliet S,p.A., pursuant the agreement signed on 11 may 2018.

10.2 Average number of employees by category

Category / Average Number	31 12 2019	31 12 2018
Employees:	**19,636**	**20,250**
a) executives	219	219
b) middle managers	7,609	7,835
c) remaining staff	11,808	12,196
Other personnel	**-**	**-**
Total	**19,636**	**20,250**

10.3 Defined benefit company pension funds: costs and revenues

Items/Amounts	31 12 2019			31 12 2018		
	Defined benefit company pension funds		Provision for staff severance pay	Defined benefit company pension funds		Provision for staff severance pay
	Internal pension plan	External pension plan		Internal pension plan	External pension plan	
Interest income/expense	(233)	-	(2,232)	(239)	(514)	(2,284)
Current service cost and gains (losses) arising from settlements°	(4)	(56)	-	(21)	(724)	-
Past service cost	-	152	-	-	(220)	-
Gains (losses) arising from settlements°°	-	-	-	-	(878)	-
Other operating costs	-	(370)	-	-	115	-
Total	**(237)**	**(274)**	**(2,232)**	**(260)**	**(2,221)**	**(2,284)**

° *Pursuant to par. 100 of IAS 19, note that the past service cost and the amount of gains and losses arising from settlements need not be distinguished if they occur together.*

°° *Only in the event of settlement not set out in the terms of the plan.*

10.4 Other employee benefits

No information to report pursuant to sections 53, 158 and 171 of IAS 19.

10.5 Other administrative expenses: breakdown

Items/Amounts	31 12 2019	31 12 2018*
Stamp duties	(160,994)	(168,486)
Indirect taxes and duties	(34,261)	(25,257)
Municipal real estate property tax	(20,948)	(8,396)
Property rental*	(1,399)	(152,194)
Cleaning service contracts	(12,067)	(12,160)
Insurance	(47,420)	(40,181)
Rentals	(95,712)	(95,297)
Remuneration of external professionals	(133,958)	(114,635)
Lease of equipment	(11,331)	(17,089)
Utilities	(26,468)	(24,186)
Maintenance of movable and immovable properties (used in the business)	(29,362)	(34,516)
Postage	(22,630)	(25,497)
Advertising, sponsorships and promotions	(2,182)	(2,578)
Membership dues	(2,967)	(3,697)
Reimbursement of employee car and travel expenses	(5,517)	(5,262)
Security services	(7,126)	(7,375)
expenses for personnel training	(3,750)	(4,148)
Charges for services provided by companies and entities of the MPS Group	(247,864)	(286,920)
Representation expenses	(607)	(782)
Printing and stationery	(4,837)	(7,691)
Telephon, telefax and telegraph	(7,527)	(6,002)
Transportation	(23,851)	(31,691)
Sundry occupancy expenses and refunds for release of immovable property used in the business	(4,120)	(4,336)
Contributions Resolution Funds (SRF) and Deposits Guarantee Schemes (DGS)	(96,243)	(108,078)
DTA fee	(70,598)	(70,863)
Others	(8,954)	(8,031)
Total	**(1,082,693)**	**(1,265,348)**

** The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 16.*

The line "Sundry lease payments and rentals" includes EUR 74 mln referring to costs for outsourced services regarding back office and accounting and administrative activities related to the management and provision of specific services of the Bank. These services entail decreasing payments over the duration of the contract, against a constant volume of services received by the Bank. In accordance with the accounting policies of the Group (see Part A, Other information - Costs for constant services and decreasing payments), the recognition of the afore-mentioned costs in the income statements follows a linear trend over the contract duration with the consequent necessity for the Bank to recognise a prepayment. The cumulated figure as at 31 December 2019 amounted to EUR 175 mln and is shown under item "Other assets", line "Accrued income and prepaid expenses not attributable to its own separate item" of the Part B of these Notes to the Financial Statement.

The line "Contributions Resolution Funds (SRF) and Deposits Guarantee Systems (DGS)" equal to EUR 96.2 mln, comprises EUR 57.1 mln for charges associated with the SRF and NRF (National Resolution Fund) and EUR 39.1 mln for contributions to the DGS.

The line "DTA fees" includes the expenses related to the fee 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.

Section 11 - Net provisions for risks and charges - Item 170

11.1 Net provisions for credit risk relative to commitments to disburse funds and financial guarantees given: breakdown

Transaction/P&L items	Stage 1	Stage 2	Stage 3	Total 31 12 2019	Total 31 12 2018
1) financial guarantees issued	505	5,051	36,437	41,993	(53,056)
Provision for the year	(2,266)	(3,177)	(29,990)	(35,433)	(102,989)
Write-backs	2,771	8,229	66,427	77,427	49,934
2) Commitments to disburs funds	2,790	1,280	35,300	39,370	8,085
Provision for the year	(1,560)	(1,945)	(1)	(3,506)	(3,595)
Write-backs	4,350	3,225	35,301	42,876	11,680
E. Totale	**3,295**	**6,331**	**71,737**	**81,363**	**(44,971)**

11.2 Net provisions relative to other commitments and guarantees issued: breakdown

Transaction/P&L items	Total 31 12 2019	Total 31 12 2018
1) financial guarantees issued	-	-
Provision for the year	-	-
Write-backs	-	-
2) Commitments to disburs funds	5,200	47,861
Provision for the year	-	(5,200)
Write-backs	5,200	53,061
E. Totale	**5,200**	**47,861**

The line “Write-backs” of EUR 5.2 mln refers to the closing of the Casaforte Securitisation occurring on 12 June 2019, with an advance concurrent full repayment of the Securities of Classes A, B and Z.

11.3 Other net provisions for risks and charges: breakdown

Items/Amount	31 12 2019			31 12 2018		
	Provisions for the year	Write-backs	Net Provisions	Provisions for the year	Write-backs	Net Provisions
Legal and tax disputes	(191,937)	189,204	(2,733)	(86,469)	59,612	(26,857)
- cost	(191,929)	189,204	(2,725)	(86,328)	59,612	(26,716)
- discounting effect	(8)	-	(8)	(140)	-	(140)
Personnel expenses	(15,324)	9,019	(6,305)	(5,513)	10,467	4,954
Other risks and charges	(172,463)	25,493	(146,970)	(78,864)	22,176	(56,688)
Total	**(379,724)**	**223,716**	**(156,008)**	**(170,846)**	**92,255**	**(78,591)**

The line “Tax and Legal disputes - discounting effect” includes changes due to the passing of time, namely to the amount of time value accrued during the year due to the expected imminent maturity of the estimated liability.

Section 12 - Net value adjustments to (recoveries on) property, plant and equipment - Item 180

12.1 Net value adjustments to property, plant and equipment: breakdown

Assets / P&L items	Amortization	Impairment losses	Write-backs	Net Profit (loss) 31 12 2019	Net Profit (loss) 31 12 2018*
Tangible assets					
1 Used in the business	(124,836)	(8,691)	-	(133,527)	(58,089)
- *owned*	(79,054)	(8,691)	-	(87,745)	(58,089)
- *right of use leasing*	(45,782)	-	-	(45,782)	-
2 held for investment	(7,631)	(2,807)	-	(10,438)	(13,408)
- *owned*	(7,631)	(2,807)	-	(10,438)	(13,408)
- *right of use leasing*	-	-	-	-	-
3 Inventories	-	-	-	-	(4,727)
Total	**(132,467)**	**(11,498)**	**-**	**(143,965)**	**(76,224)**

** The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 16.*

Property and equipment with a finite life are tested for impairment.

Section 13 - Net value adjustments to (recoveries on) intangible assets - Item 190

13.1 Net value adjustments to intangible assets: breakdown

Assets/P&L items	Amortization (a)	Impairment losses (b)	Write-backs (c)	Net profit (loss) (a+b-c) 31 12 2019	Net profit (loss) 31 12 2018
A. Intangible assets					
A.1 Owned	(10,822)	-	-	(10,822)	(24,672)
- generated internally by the company	-	-	-	-	-
- other	(10,822)	-	-	(10,822)	(24,672)
A.2 Right of use leasing	-	-	-	-	-
Total	**(10,822)**	**-**	**-**	**(10,822)**	**(24,672)**

Amortisation mainly relates to intangible assets, all with a finite life, recognised in the 2008 financial statements identified during the PPA process for former subsidiary Banca Antonveneta.

Section 14 - Other operating expenses/income - Item 200

14.1 Other operating expenses: breakdown

Items/Amounts	Total 31 12 2019	Total 31 12 2018
Costs of robberies	(1,527)	(2,180)
Amortisation on improvements of third-party goods recognized as "Other Assets"	(6,137)	(15,778)
Costs from judgments and settlement agreements	(90,556)	(48,032)
Other expenses	(25,099)	(30,174)
Total	**(123,319)**	**(96,164)**

It should be noted that the lower depreciation amount for improvement of third-party assets recognised under other assets is due to the merger by incorporation of the subsidiary Perimetro Gestione Proprietà Immobiliari S.p.A. into the Parent Company, which entailed a recognition of the improvements previously classified under Other assets since they were posted in the real estate assets of the previous subsidiary under item "Property, plant and equipment". Consequently, the depreciation of these improvements are recognised under item 210 "Net value adjustments to (recoveries on) property, plant and equipment".

14.2 Other operating income: breakdown

Items/Amounts	Total 31 12 2019	Total 31 12 2018
Rental income	23,617	14,792
Other revenues from real estate (real estate inventory)	-	337
Recovery of taxes	183,607	191,106
Recovery of insurance premiums	37,891	31,547
Recovery of other expenses	47,626	52,980
Others	45,872	52,461
Total	**338,613**	**343,223**

The amount of EUR 47.6 mln classified under "Recoveries of other expenses" includes the "fast-track facility fee" introduced by Law Decree 201/2011 ("Save Italy Decree") amounting to EUR 3 mln (EUR 9.1 mln as at 31 December 2018) and the compensation of legal fees incurred for the enforced recovery of bad loans of EUR 15.5 mln (EUR 10.0 mln as at 31 December 2018).

"Other operating income" does not include any revenues under the scope of IFRS 15.

The Bank does not have any variable income not related to an index or a rate deriving from leasing activities (IFRS 16.90 b).

The Bank does not have any income deriving from sub-leasing obtained right of use (IFRS 16.53 (f))

Section 15 - Gains (losses) on investments - Item 220

15.1 Gains (losses) on investments: breakdown

P&L items/Sectors	Total 31 12 2019	Total 31 12 2018
A. Income	3,024	119,818
1. Revaluations	-	-
2. Gains on disposal	52	51,260
3. Write-backs	-	68,558
4. Other income	2,972	-
B. Expense	(55,405)	(453,572)
1. Write-downs	-	-
2. Impairment losses	(30,516)	(451,372)
3. Losses on disposal	(15,616)	-
4. Other expenses	(9,273)	(2,200)
Net Profit (Loss)	**(52,381)**	**(333,754)**

Line B2 "Impairment losses" refers to the subsidiaries Widiba S.p.A. (EUR 30.4 mln), Consumit Securitisation S.r.l. (EUR 0.35 mln) and the associate S.i.t. Sviluppo imprese e territorio S.p.A. (EUR 0.81 mln)

Losses from disposal refer for EUR 15.4 mln to the disposal of the subsidiary BMP Belgio S.A., finalised in June 2019.

The amount of EUR 9.2 mln posted to line "B.4 Other expenses" includes EUR 8.7 mln in costs related to the closing of the vehicle MPS Preferred Capital I LLC.

For further information on the methodology for determining impairment losses, please see section 10.5, part B, of these notes to the financial statements.

Section 16 - Net gains (losses) on property, plant and equipment and intangible assets measured at fair value - Item 230

16.1 Net gains (losses) on property, plant and equipment and intangible assets measured at fair value (or revalued) or at presumed realisable value: breakdown

The tables for this section were not completed since the Group has no property, plant and equipment and intangible assets measured at fair value to report for either the current or previous year.

Section 17 - Impairment of goodwill - Item 240

17.1 Impairment of goodwill: breakdown

In 2019 the Bank did not recognise any impairment as all the goodwill allocated to the different CGUs (Cash Generating Units) had been fully written down in the financial statements of previous years.

Section 18 - Gains (losses) on disposal of investments - Item 250

18.1 Gains (losses) on disposals of investments: breakdown

P&L items/Sectors	Total 31 12 2019	Total 31 12 2018
A. Property	2,827	1,721
- Gains on disposal	3,098	1,721
- Losses on disposal	(271)	-
B. Other assets	-	(1,239)
- Gains on disposal	-	-
- Losses on disposal	-	(1,239)
Net Profit (Loss)	**2,827**	**482**

Section 19 - Tax (expense)/recovery on income from continuing operations - Item 270

19.1 Tax (expense)/recovery on income from continuing operations: breakdown

P&L items/Sectors	Total	
	31 12 2019	31 12 2018
1. Current tax (-)	18,995	(17,778)
2. Adjustments to current tax of prior years (+/-)	3,777	15,232
3. Reduction of current tax for the year (+)	-	-
3.bis Reduction in current tax for the period due to tax credits under Law 214/2011	11,342	252,750
4. Changes in prepaid taxes (+/-)	(1,057,619)	120,714
5. Changes in deferred taxes (+/-)	(3,811)	23,808
6. Tax expense for the year (-) (-1+/-2 +3+/-4+/-5)	**(1,027,316)**	**394,726**

The amount under line 4. "Changes in deferred taxes" which, net of the reduction in deferred tax assets transformed into tax credit of EUR 11.3 mln, equals EUR -1,046.3 mln, and includes:

- the overall impact of the DTA valuations resulting from the outcomes of the probability test, in the amount of EUR -1,010.3 mln;
- the recognition of deferred tax assets relative to the ACE benefit accrued for the year 2019 of EUR 27.5 mln.

19.2 Reconciliation of theoretical to actual tax charge

Items/Amounts	31 12 2019	%	31 12 2018	%
Pre-tax profit (loss) from continuing operations	(147,223)		(506,648)	
Theoretical IRES Payable	-		-	
Pre-tax profit (loss) from continuing operations	(147,223)		(506,648)	
Theoretical IRES Payable	**40,486**	**27.5%**	**139,328**	**27.5%**
Permanent decreases	(6,166)	4.2%	(112,095)	22.1%
Losses on the disposal/valuation of subsidiaries and associates classified at fair value through other comprehensive income	(73)	0.0%	-	0.0%
Losses on the disposal/valuation of subsidiaries and associates	(8,392)	5.7%	(105,798)	20.9%
Non deductible administrative expenses (Municipal real estate property tax, vehicles, telephone etc)	2,299	1.6%	(6,297)	1.2%
Permanent decreases	55,855	37.9%	58,697	11.6%
Gains on the disposal/valuation of subsidiaries and associates classifi	19,416	13.2%	81	0.0%
Gains on the disposal/valuation of subsidiaries and associates	(6,076)	4.1%	335	0.1%
Deduction ACE	27,500	18.7%	35,750	7.1%
Excluded dividends	15,015	10.2%	22,531	4.4%
DTA write-downs related to prior tax losses	(880,116)	597.8%	222,199	43.9%
DTA effects- others	(108,818)	73.9%	(245,889)	48.5%
Splitting effects of FTA IFRS 9 provisions	-	0.0%	273,152	53.9%
Effect due to non-registration of DTA on tax loss of current year	(95,290)	64.7%	(4,410)	0.9%
Other components (IRES relative to previous years, spreads between italian and foreign tax rate, etc)	(10,170)	6.9%	5,901	1.2%
Effective IRES payable	**(1,004,219)**	**682.1%**	**336,883**	**66.5%**
Profit (loss) theoretical IRAP at nominal rate	**6,846**	**4.7%**	**23,559**	**4.6%**
Economic items not relevant for IRAP purposes	(2,432)	1.7%	(18,376)	3.6%
Value adjustments amd credit losses	297	0.2%	(48)	0.0%
Non deductible cost of personnel	(141)	0.1%	(456)	0.1%
Profit (loss) on subisidiares and associates	(2,633)	1.8%	(15,993)	3.2%
Other non - deductible administrative expences (10%)	(5,035)	3.4%	(5,884)	1.2%
Amortization non-deductible (10%)	(643)	0.4%	(341)	0.1%
Other P&L items not relevant	4,189	2.8%	2,143	0.4%
Excluded dividends	1,534	1.0%	2,203	0.4%
Increase regional rates effect	1,342	0.9%	7,836	1.5%
Charge from not recognised tax loss carryforward IRAP	(17,095)	11.6%	(850)	0.2%
DTA valuation effect	(21,350)	14.5%	(15,180)	3.0%
Splitting effect of FTA IFRS 9 provisions	-	0.0%	46,187	9.1%
Tax refunds from previous years	8,814	6.0%	14,427	2.8%
Other components (IRAP relative to previous year, spreads between italian and foreign tax rate, etc)	778	0.5%	239	0.0%
Effective IRAP payable	**(23,097)**	**15.7%**	**57,842**	**11.4%**
Total effective IRES and IRAP tax expenses	**(1,027,316)**	**697.8%**	**394,725**	**77.9%**

The reconciliation relating to IRES includes, aside from the main tax at the rate of 24%, also the additional tax of 3.5% introduced by Law no. 208 of 28 December 2015, paragraphs 65-66.

Section 20 - Profit (loss) after tax from assets held for sale and discontinued operations - Item 290

20.1 Profit (loss) after tax from assets held for sale and discontinued operations: breakdown

20.2 Breakdown of income taxes on discounted operations

The tables in this section are not filled out as no such cases exist in the financial statements as at 31 December 2019 and 31 December 2018.

Section 21 - Other information

No additional disclosure to that presented in accordance with the international accounting standards and Circular no. 262 of the Bank of Italy is required.

Section 22 - Earnings per Share (EPS)

For the following section, see the description in the Consolidated Financial Statements.

Part D - Statement of Comprehensive Income

Statement of Comprehensive Income

	Items	Total 31 12 2019	Total 31 12 2018
10.	**Proft (loss) for the year**	**(1,174,539)**	**(111,922)**
	Other income components without reversal to profit & loss	**(385)**	**19,141**
20.	Equity instruments measured at fair value through other comprehensive income	10,312	9,058
	a) changes in fair value	1,475	(4,233)
	b) Transfer to other component of equity	8,837	13,291
30.	Financial liabilities measured at fair value with impact to profit and loss	(6,145)	9,430
	a) changes in fair value	(6,145)	9,430
	b) Transfer to other component of equity	-	-
40.	Hedges of equity instruments measured at fair value through other comprehensive income	-	-
50.	Tangible assets	-	-
60.	Intangible assets	-	-
70.	Defined benefit plans	(8,248)	7,888
80.	Non-current assets and groups of assets held for sale	-	-
90.	Share of valuation reserves of equity instruments valued at equity	-	-
100.	Tax income related to other income components whitout reversal to profit & loss	3,696	(7,235)
	Other income components with reversal to profit & loss	**248,905**	**(230,916)**
110.	Hedges of foreign investments:	-	-
120.	Exchange differences:	(3,243)	4,300
	a) changes in value	-	4,300
	b) reversal to profit & loss	-	-
	c) other changes	(3,243)	-
130.	Cash flow hedges:	159,132	(25,916)
	a) changes in fair value	(5,528)	(8,055)
	b) reversal to profit & loss	(4,180)	(17,861)
	c) other changes	168,841	-
	Of which;resulted of net position	-	-
140.	Hedging Instruments: (non designated items)	-	-
150.	Fiancial assets (other than equity instruments) measured at fair value through other comprehensive income	214,781	(322,261)
	a) changes in value	139,211	(261,441)
	b) reversal to profit & loss	58,622	(75,527)
	-impairment provisions	5,585	(9,230)
	-relised net gains/losses	53,037	(66,297)
	c) other changes	16,949	14,707
160	Non current assets and group of assets held for sale	-	-
	a) changes in fair value	-	-
	b) reversal to profit & loss	-	-
	c) other changes	-	-
170.	Share of valuation reserves of equity-accounted investments	-	-
180.	Tax income related to other income components whit reversal to profit & loss	(121,765)	112,961
190.	**Other income components**	**248,520**	**(211,775)**
200.	**Total comprehensive income (Item 10 + 130)**	**(926,019)**	**(323,697)**

Part E - Information on risks and hedging policies

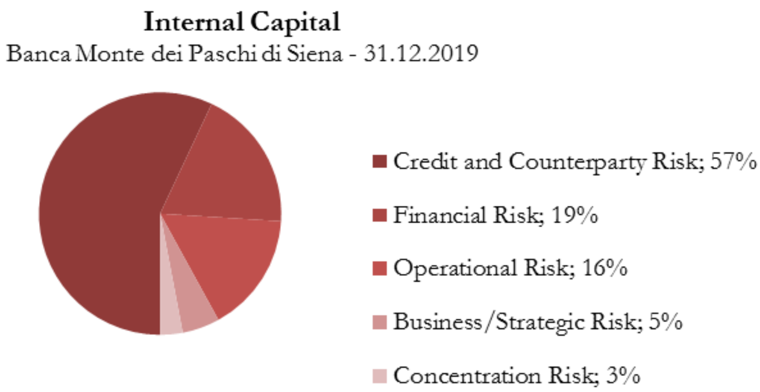
Note: Public Disclosure (Basel III Pillar) is published on the Group website: https://www.gruppomps.it/investor-relations**.**

Foreword

This Part of the Notes to the Financial Statements provides quantitative information on risks referring to Banca Monte dei Paschi di Siena. For qualitative information on the risk management process and on the management and monitoring of risks, please refer to Part E of the Notes to the consolidated financial statements.

Analysis of the Internal Capital

As at 31 December 2019, the Bank's Overall Economic Capital (excluding intragroup transactions) is attributable for approximately 57% to credit and counterparty risk (which already includes the requirements relating to issuer risk on the Banking Book, investment risk and real estate risk), for approximately 3% to concentration risk, for around 19% to financial risk, 5% to strategic risks and approximately 16% to operational risks.



Section 1 - Credit Risk

Qualitative Information

Please refer to Part E of the Notes to the consolidated financial statements.

Methods to measure expected losses

In compliance with the provisions of IFRS 9, based on which the ECL estimate must result from the weighting of a range of possible forward-looking scenarios (“probability weighted”), the impairment model provides for the use of baseline scenarios, i.e. the use of the scenario that is believed to be most likely, together with the best and worst scenarios, with a probability of occurrence assigned to each of them.

The scenarios are provided by an external supplier and are approved by the Board of Directors. The baseline scenario is also adopted in other processes of the Group that use forward looking elements such as the Risk Appetite Framework (RAF), Recovery Plan, budget, forecast, impairment tests of goodwill and investments, and finally tests for DTA recovery.

The scenarios contain macro-economic variables based on a three-year period and are updated at least once a year at the time of preparation of the financial statements and every time the latest baseline scenario, made available by the external supplier, shows, compared with the one already in use, a net cumulated difference of the GDP, over a 3-year period, greater than or equal to 0.5%, in absolute value. The scenarios differentiate based on different degrees of favourable/adverse conditions for economic development and growth. In order to estimate the ECL, the most likely scenario (baseline) and two alternative scenarios (worst/best) were taken into consideration to represent the tail outcomes of the scenarios. The probability of the scenarios is calculated internally, based on the percentile of occurrence assigned by the external supplier. To this end, it should be noted that the Group has assigned a 55% probability to the baseline scenario, a 23% and 22% probability to the worst and best scenarios, respectively. For more details about the inclusion of forward-looking information in the impairment model of the Group, see Part A of these Notes to the consolidated financial statements, Use of estimates and assumptions when preparing financial statements - Methods for calculating impairment on IFRS 9 financial instruments.

Following is information on the average values of the main macro-economic and financial indicators used in the baseline, best and worst scenarios for the three-year period 2020-2022. The GDP is the variable that has the greatest impact on the cost of credit and is therefore the representative variable that drives all the others: the average value within the reference time frame, for the baseline scenario, is 0.74%. Within the same scenario, the real estate price index stands at 1.21% and 1.35% for residential and non-residential properties, respectively. Unemployment rate is forecast at an average 9.7% for the period. The forecast concerning the consumer price index shows an average value of 1.09%.

Macroeconomic variable	Worst scenario	Most likely scenario	Best scenario
Prodotto interno lordo (prezzi costanti 2010)	0.14%	0.74%	1.34%
Index price of residential italian properties (base 2015=100)	-0.01%	1.21%	1.92%
Index price of non residential italian properties (base 2015=100)	0.06%	1.35%	2.20%
Unemployment rate	10.77%	9.70%	8.75%
Consumer price index	1.00%	1.09%	1.30%

The estimates of the forward-looking best and worst scenarios compared with the baseline scenario, show the following differences: the average variation in the three year period in the two extreme scenarios compared with the baseline, stands respectively for the GDP, the price of residential and non-residential properties, the unemployment rate and the consumer price index at: -60 bps, -122 bps,-129 bps, +107 bps and -9 bps for the worst scenario and +60 bps, +71 bps, +85 bps, -95 bps and 21 bps for the best scenario.

The table below shows the sensitivity for the main credit portfolios of the Bank consisting of cash loans to customers belonging to the corporate and retail segments, net of the credits classified in the portfolio of non-current assets and discontinued operations. The analysis shows the impact from each level of risk on gross exposures, on the adjustments and on the coverage ratio in the cases where a weight equal to 100% of the baseline, worst and best scenarios, respectively, is used instead of the scenario defined as weighted - i.e. based on different weights that the Group has attributed to each scenario - used by the Bank for estimating the level of risk and valuation adjustments as at 31 December 2019.

		Scenarios (Delta in €/mln)		
	Weighting	**Worst**	**Baseline**	**Best**
STAGE 1 Gross exposure	**48,600.41**	**(138.03)**	**2.99**	**134.08**
of which CORPORATE	20,944.15	(130.51)	2.71	125.27
of which RETAIL	27,656.26	(7.52)	0.27	8.81
STAGE 1 Value adjustment	**45.35**	**0.27**	**(0.77)**	**(2.01)**
of which CORPORATE	35.31	0.06	(0.34)	(1.00)
of which RETAIL	10.05	0.21	(0.43)	(1.01)
STAGE 1 coverage ratio (%)	**0.093%**	**0.001%**	**-0.002%**	**-0.004%**
of which CORPORATE	0.169%	0.001%	-0.002%	-0.006%
of which RETAIL	0.036%	0.001%	-0.002%	-0.004%
STAGE 2 Gross exposure	**8,875.41**	**138.03**	**(2.99)**	**(134.08)**
of which CORPORATE	7,262.10	130.51	(2.71)	(125.27)
of which RETAIL	1,613.31	7.52	(0.27)	(8.81)
STAGE 2 Value adjustment	**309.61**	**12.58**	**(3.42)**	**(19.24)**
of which CORPORATE	265.24	9.92	(2.55)	(15.24)
of which RETAIL	44.37	2.65	(0.87)	(3.99)
STAGE 2 coverage ratio (%)	**3.488%**	**0.086%**	**-0.037%**	**-0.167%**
of which CORPORATE	3.652%	0.070%	-0.034%	-0.149%
of which RETAIL	2.750%	0.151%	-0.053%	-0.234%
STAGE 3 Gross exposure	**8,237.21**	**-**	**-**	**-**
of which CORPORATE	6,283.10	-	-	-
of which RETAIL	1,954.11	-	-	-
STAGE 3 Value adjustment	**3,845.79**	**74.68**	**1.53**	**(76.19)**
of which CORPORATE	3,330.18	45.80	2.92	(49.41)
of which RETAIL	515.60	28.88	(1.39)	(26.78)
STAGE 3 coverage ratio (%)	**46.688%**	**0.907%**	**0.019%**	**-0.925%**
of which CORPORATE	53.002%	0.729%	0.047%	-0.786%
of which RETAIL	26.385%	1.478%	-0.071%	-1.370%
TOTALE Value adjustment	**4,200.75**	**87.53**	**(2.66)**	**(97.44)**
of which CORPORATE	3,630.74	55.78	0.03	(65.65)
of which RETAIL	570.01	31.75	(2.69)	(31.78)

As regards particularly the valuation adjustments, to be noted is the substantial symmetry of the differences in the worst and best scenarios compared with the baseline scenario, in line with the previous observations concerning changes in the average GDP value over the three-year period 2020-2022.

Quantitative Information

A. Credit quality

For the purposes of quantitative information on credit quality:

- the term "balance sheet exposure" refers to all on-balance sheet financial assets with regard to banks or customers, regardless of their portfolio of accounting recognition (measured at fair value through profit and loss, measured at fair value through other comprehensive income, measured at amortised cost, non-current assets held for sale and discontinued operations);
- the term "off-balance sheet exposure" refers to all financial transactions other than on-balance sheet ones (financial guarantees given, revocable and irrevocable commitments, derivatives, etc.) that involve the assumption of credit risk, regardless of the purpose for such transactions (trading, hedging, etc.). Off-balance sheet exposures also include the counterparty risk connected to securities lending transactions and repurchase agreements and to the granting or assumption of goods on a loan basis, as well as to transactions with margins included within the notion of Securities Financing Transactions as defined by prudential regulations.

Non-performing loans (on and off-balance sheet) do not include financial assets held for trading and hedging derivatives, which are therefore traditionally recognised among performing exposures.

Equity securities and units of UCITS are excluded.

A.1 Non-performing and performing loans: amounts, value adjustments, changes, trend and breakdown by business sector

A.1.1 Breakdown of financial assets by portfolio and credit quality (book values)

31 12 2019

Portfolio/Quality	Bad loans	Unlikely to pay	Past-due Impaired exposures	Past-due not impaired exposures	Performing exposures	Total
1. Financial assets measured at amortised cost	2,306,861	2,208,146	45,400	759,907	101,716,184	107,036,498
- of which forborne	*681,086*	*1,134,860*	*2,826*	*57,710*	*1,528,628*	*3,405,110*
2. Financial assets measured through other comprehensive income	-	1,589	-	-	6,318,813	6,320,402
- of which forborne	-	-	-	-	-	-
3. Financial assets designated at fair value	-	-	-	-	-	-
- of which forborne	-	-	-	-	-	-
4. Fiancial assets measured at fair value mandatory	64,143	69,397	3	8,275	401,734	543,552
- of which forborne	*63,780*	*66,561*	-	-	*238,866*	*369,207*
5. Financial asset held for sale	7,218	55,307	-	-	1	62,526
- of which forborne	*7,000*	*28,543*	-	-	-	*35,543*
Total 31 12 2019	2,378,222	2,334,439	45,403	768,182	108,436,732	113,962,978
Total 31 12 2018	2,437,648	3,430,427	108,342	838,334	106,665,270	113,480,021

As at 31 December 2019, the Bank has outstanding forborne positions for a total value of EUR 3.8 bn, of which EUR 1.9 bn referring to non-performing exposures (EUR 2.7 bn as at 31 December 2018) and EUR 1.8 bn to performing exposures (EUR 1.6 bn as at 31 December 2018).

A.1.2 Breakdown of financial assets by portfolio and credit quality (gross and net values)

Portfolio/quality	Non perfoming assets				Performing assets			Total (Net exposure)
	Gross exposure	Specific write-downs	Net exposure	Partial Write-off*	Gross exposure	Portfolio adjustments	Net exposure	
1. Financial assets measured at amortised cost	8,548,374	3,987,968	86,368		102,856,090	379,998	102,476,092	107,036,498
2. Financial assets measured through other comprehensive income	9,514	7,925	-		6,325,099	6,286	6,318,813	6,320,402
3. Financial assets designated at fair value	-	-	-		X	X	-	-
4. Financial assets measured at fair value mandatory	334,297	200,753	4,906		X	X	410,010	543,554
5. Financial asset held for sale	252,624	190,099	9,439		2	1	1	62,526
Total 31 12 2019	**9,144,809**	**4,386,745**	**4,758,064**	**100,713**	**109,181,191**	**386,285**	**109,204,916**	**113,962,978**
Total 31 12 2018	**12,368,911**	**6,392,493**	**5,976,418**	**142,126**	**106,721,838**	**505,426**	**107,503,604**	**113,480,021**

* Value to be presented for disclosure purposes

At the reporting date of these financial statements, the Bank had 234 positions relating to creditors who had filed a request for a voluntary early arrangement with creditors (268 in 2018) for a net exposure of around EUR 99.34 mln (EUR 271 mln in 2018), and 11 positions relating to creditors who have filed a request for a composition with creditors on a going concern basis (2 positions in 2018) for a net exposure of approximately EUR 2.39 mln (EUR 0.6 mln in 2018).

Following transfer of the shareholding in the subsidiary BPM Belgio S.A., the Bank acquired some non-performing credits, one of which classified in the portfolio "Financial assets measured at amortised cost" for a nominal value of EUR 4.17 mln, at the price of EUR 1.5 mln.

	Low quality assets		Other assets
	Cumulative losses	Net exposure	Net exposure
1 Financial assets held for trading	50,982	778	679,335
2 Hedging derivatives	-	-	71,392
Total 31 12 2019	**50,982**	**778**	**750,727**
Totale 31 12 2018	**52,619**	**1,507**	**1,056,676**

In particular, please note that item "1. Financial assets held for trading" includes exposures generated by derivative contracts with low credit quality for a net value of EUR 0.78 mln; impairment losses recognised on these instruments to take into account the fair value credit adjustment amount to EUR 1.67 mln.

A.1.3 - Breakdown of financial assets by past due ranges (book values)

Portfolio/staging	Stage 1			Stage 2			Stage 3		
	Up to 30 days	from 30 to 90 days	Over 90 days	Up to 30 days	from 30 to 90 days	Over 90 days	Up to 30 days	from 30 to 90 days	Over 90 days
1. Financial assets measured at amortised cost	270,177	-	-	273,242	105,014	111,474	67,879	65,282	3,550,363
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
3 Financial asset held for sale	-	-	-	-	-	-	1	1	42,023
Total 31 12 2019	270,177	-	-	273,242	105,014	111,474	67,880	65,283	3,592,386
Total 31 12 2018	155,676	4,393	3,870	174,481	345,751	147,146	60,541	194,142	4,120,967

A.1.4 Financial assets, commitments to disburse funds and financial guarantees given: changes in overall value adjustments and total allocations

Causali/stadi rischio	Overall value adjustments																Total provision on loans committments and financial guarantees issued			Total
	Assets included in Stage 1					Assets included in Stage 2					Assets included in Stage 3									
	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	*of which: specific writedowns*	*of which: collective writedowns*	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	*of which: specific writedowns*	*of which: collective writedowns*	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	*of which: specific writedowns*	*of which: collective writedowns*	*Of which: purchased or originated credit impaired*	Stage 1	Stage 2	Stage 3	
Overall value adjustments, opening balance	66,267	10,087	-	-	*76,353*	428,943	130	-	-	*429,072*	5,966,280	4,130	45,989	*4,020,390*	*1,996,010*	*28,395*	8,360	7,249	222,645	6,760,080
Increase in purchased or originated financial assets	4,439	1,447	-	-	*5,886*	11,347	464	-	-	*11,811*	1,439	-	-	*1,439*	-	*1,439*	445	625	712	20,918
Derecognitions different from write - off	(3,165)	(5,951)	-	-	*(9,116)*	(29,963)	(110)	-	-	*(30,073)*	(2,453,433)	-	(35,099)	*(1,234,736)*	*(1,253,796)*	*(6,936)*	(768)	(933)	(7,194)	(2,536,616)
Net losses (recoverise) on impairment	(70,444)	(30)	-	-	*(70,474)*	(140,351)	(16)	-	-	*(140,367)*	875,324	3,795	26,777	*190,985*	*714,911*	*5,721*	(3,161)	(5,775)	(65,316)	620,803
Modification gains/losses	-	-	-	-	-	(63)	-	-	-	*(63)*	(898)	-	-	*(667)*	*(230)*	-	-	-	-	(961)
Change in estimate methodology	66	-	-	-	*66*	377	-	-	-	*377*	(26,804)	-	-	*(26,804)*	-	*82*	-	-	-	(26,361)
Write - off	-	-	-	-	-	-	-	-	-	-	(178,560)	-	-	*(122,868)*	*(55,692)*	*(184)*	-	-	-	(178,560)
Others	63,566	(11)	-	-	*63,555*	48,978	277	-	-	*49,254*	(195,383)	-	142,241	*(56,903)*	*3,762*	*(5,844)*	1,854	6,638	(8,492)	59,668
Overall value adjustments, closing balance	60,729	5,542	-	-	*66,270*	319,268	745	-	-	*320,011*	3,987,965	7,925	179,908	*2,770,836*	*1,404,965*	*22,673*	6,730	7,804	142,355	4,718,971
Recovered collection from write - off	130	-	-	-	*130*	32	-	-	-	*32*	766	-	-	*766*	-	-	-	-	-	928
Write - off direct recorded in income statement	-	-	-	-	-	-	-	-	-	-	(75,103)	-	-	*(75,103)*	-	*(829)*	-	-	-	(75,103)

The provision for trade receivables, valued using the simplified method in accordance with IFRS 9, amounts to EUR 0.01 mln, in line with the figure at the beginning of the year.

For details on the calculation method adopted to determine impairment on financial assets, please refer to the paragraph "Methods for calculating impairment on IFRS 9 financial instruments" in Part A of these Notes to the financial statements.

In 2019, total impairment provisions posted a total reduction, compared with 1 January 2019, of around EUR 2.0 bn - of which EUR 81.0 mln related to commitments to disburse funds and guarantees given - due almost entirely (EUR -1.8 bn) to financial assets measured at amortised cost classified in stage 3. In particular, with reference to this accounting portfolio and to the portfolio of assets held for disposal, the following elements contributed to this trend:

- reduction of provisions for "Derecognitions other than write-offs" of approximately EUR 2.5 bn due to transaction for the disposal of non-performing loans of which EUR 1.7 bn to be attributed to bad loans and EUR 0.8. bn to unlikely to pay;
- reduction of provisions for "Write-offs" for EUR 0.2 bn. Note that the derecognitions not covered by the provision generated an impact of EUR 75.1 mln in the income statement;
- net increase of EUR 691 mln in the item "Net impairment (losses)/reversals for credit risk". Financial assets included in stages 1 and 2 recorded a downward change of EUR 211 mln, due in part to the exercise of right to withdraw from the servicing agreement entered into with Juliet. The assets included in stage 3 show an increase of EUR 902 mln referring to the annual update of the risk parameters used for the collective/statistical valuation of non-performing loans below the threshold, to the downward revision of GDP growth estimates for 2019, incorporated into the forward-looking scenarios, as well as to the adjustment to the realizable values of the loans under disposal;
- net decrease of EUR 26 mln attributable to "Changes in estimation methodologies", essentially referring to the change in the threshold used for statistical valuations of non-performing loans.

A.1.5 - Financial assets, commitments to disburse funds and financial guarantees given: transfers among the different stages of credit risk (gross and nominal values)

Portfolio/Staging	Gross value /nominal value					
	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3	
	From Stage 1 to Stage 2	From Stage 2 to Stage 1	From Stage 2 to Stage 3	From Stage 3 to Stage 2	From Stage 1 to Stage 3	From Stage 3 to Stage 1
1. Financial assets measured at amortised cost	2,062,068	1,721,305	792,412	523,373	149,196	16,597
2. Financial assets measured at fair value through other comprehensive income	6,559	-	-	-	-	-
3 Financial asset held for sale	-	-	-	-	-	-
4. Commitments to disburs funds and financial guarantees issued	743,645	638,837	114,634	94,031	17,447	54,551
Total 31 12 2019	2,812,272	2,360,142	907,046	617,404	166,643	71,148
Total 31 12 2018	2,025,324	3,544,353	1,268,780	558,719	262,652	47,928

A.1.6 - Balance sheet and off-balance sheet credit exposure to banks: net and gross values

31 12 2019

Portfolio/quality	Gross exposure: Non-performing Exposures	Gross exposure: Performing Exposures	Porfolio adjustments	Net Esposures	Partial Write-off*
A. Balance-sheet exposure					
a) Bad loans	12,441	X	12,205	236	-
- of which forborne	-	*X*	-	-	-
b) Unlikely to pay	-	X	-	-	-
- of which forborne	-	*X*	-	-	-
c) Past-due Impaired exposures	-	X	-	-	-
- of which forborne	-	*X*	-	-	-
d) Past-due not impaired exposures	X	15,931	17	15,914	-
- of which forborne	*X*	-	-	-	-
e) Other assets not impaired	X	32,426,500	6,949	32,419,551	-
- of which forborne	*X*	*2,836*	*5*	*2,831*	-
Total A	12,441	32,442,431	19,171	32,435,701	-
B. Off-balance-sheet exposure					
a) Impaired	6,292	X	-	6,292	-
b) Not Impaired	X	7,767,364	1,006	7,766,359	-
Total B	6,292	7,767,364	1,006	7,772,651	-
Total (A+B)	18,733	40,209,795	20,177	40,208,352	-

* *Value to be presented for disclosure purposes*

At the reporting date for these financial statements, the table does not include purchased or originated impaired financial assets.

A.1.7 - Balance sheet and off-balance sheet credit exposure to customers: net and gross values

31 12 2019

Portfolio/quality	Gross exposure		Porfolio adjustments	Net Esposures	Partial Write-off*
	Non-performing Exposures	Performing Exposures			
A. Balance-sheet exposure					
a) Bad loans	4,928,889	X	2,550,903	2,377,986	5,435
- of which forborne	*1,357,437*	*X*	*605,572*	*751,865*	-
b) Unlikely to pay	4,142,088	X	1,807,649	2,334,439	95,235
- of which forborne	*2,026,026*	*X*	*796,063*	*1,229,963*	*90,787*
c) Past-due Impaired exposures	61,391	X	15,988	45,403	43
- of which forborne	*3,993*	*X*	*1,166*	*2,827*	-
d) Past-due not impaired exposures	X	775,328	23,059	752,268	28
- of which forborne	X	61,811	4,101	57,710	-
e) Other assets not impaired	X	76,373,449	356,259	76,017,190	41,620
- of which forborne	*X*	*1,869,843*	*105,180*	*1,764,663*	*40,909*
Total A	9,132,368	77,148,777	4,753,858	81,527,286	142,361
B. Off-balance-sheet exposure					
a) Impaired	1,201,666	X	142,355	1,059,312	-
b) Not Impaired	X	28,915,967	13,531	28,902,436	-
Total B	1,201,666	28,915,967	155,886	29,961,748	-
Total (A+B)	**10,334,034**	**106,064,744**	**4,909,744**	**111,489,034**	**142,361**

* *Value to be presented for disclosure purposes*

Please see the Report on Operations for quantification of and reporting on capital ratios for coverage of lending relationships.

For the detailed disclosure on purchased or originated impaired financial assets, please refer to Section 1 "Credit risk - Qualitative Information" in the Notes to the consolidated financial statements.

A.1.8 - Balance-sheet exposure to banks: changes in gross non-performing loans

31 12 2019

Source/Categories	Bad loans	Unlikely to pay	Non-performing Past due
A. Goss esposure, opening balance	**17,097**	**-**	**-**
- of which: transferred but not derecognised	-	-	-
B.Increases	**137**	**-**	**-**
B.1 Transfers from performing loans	-	-	-
B.2 Transfers from purchased or originated credit impaired (POCI)	-	-	-
B.3 Transfers from other non performing exposure	-	-	-
B.4 Modification gains/losses	-	-	-
B.5 Other increases	137	-	-
C. Decreases	**4,793**	**-**	**-**
C.1 Transfers to performing loans	-	-	-
C.2 Write-off	1,476	-	-
C.3 Collections	3,301	-	-
C.4 Amounts realised upon disposal of positions	15	-	-
C.5 Losses from disposal	-	-	-
C.6 Transfers from other non performing exposure	-	-	-
C.7 Modification gains/losses	-	-	-
C.8 Other decreases	1	-	-
D.Gross exposure, closing balance	**12,441**	**-**	**-**
- of which: transferred but not derecognised	-	-	-

At the reporting date, there are no impaired financial assets that were purchased during the year through business combination transactions.

A.1.8 bis - Balance-sheet credit exposure to banks: changes in gross forborne exposures broken down by credit quality

31 12 2019

Source/Categories	Non performing forborne exposures	Performing forborne exposures
A. Goss esposure, opening balance	**-**	**2,766**
- of which: transferred but not derecognised	-	-
B.Increases	**-**	**70**
B.1 Transfers from performing loans non forborne exposure	-	-
B.2 Transfers from performing forborne esposures	-	X
B.3 Transfers from Non-performing forborne esposures	X	-
B.4 Transfers from Non-performing loans non forborne exposure	-	-
B.5 Other increases	-	*70*
C. Decreases	**-**	**-**
C.1 Transfers to performing loans non forborne exposure	X	-
C.2 Transfers to performing forborne exposures	-	X
C.3 Transfers to non-performing forborne exposures	X	-
C.4 Write-offs	-	-
C.5 Collections	-	-
C.6 Amounts realised upon disposal of positions	-	-
C.7 Losses from disposal	-	-
C.8 Other decreases	-	-
D.Gross exposure, closing balance	**-**	**2,836**
- of which: transferred but not derecognised	-	-

A.1.9 - Balance-sheet credit exposure to customers: changes in gross non-performing loans

31 12 2019

Source/Categories	Doubtful loans	Unlikely to pay	Non-performing Past due
A. Gross exposure, opening balance	**6,165,574**	**6,051,330**	**134,909**
- of which: transferred but not derecognised	*219,575*	*21,430*	*1,172*
B. Increases	**1,055,934**	**1,258,712**	**85,149**
B.1 Transfers from performing loans	228,687	787,090	72,629
B.2 Transfers from purchased or originated credit impaired (POCI)	-	-	-
B.3 Transfers from other non performing exposure	624,692	88,391	516
B.4 Modification gains/losses	-	86	-
B.5 Other increases	202,555	383,145	12,004
C. Decreases	**2,292,619**	**3,167,955**	**158,668**
C.1 transfers to performing loans	678	582,001	14,578
C.2 write-offs	128,011	260,602	4,015
C.3 collections	239,278	660,552	40,660
C.4 amounts realised upon disposal of positions	216,088	237,611	-
C.5 Losses from disposal	14,993	13,629	-
C.6 transfers to other categories of impaired exposure	3,599	610,728	99,273
C.7 Modification gains/losses	-	2,847	33
C.8 other decreases	1,689,972	799,985	109
D. Gross exposure, closing balance	**4,928,889**	**4,142,087**	**61,390**
- of which: transferred but not derecognised	193,668	118,512	2,871

Line C.8 “Other decreases”, for the columns “Bad loans” and “Unlikely to pay”, is primarily composed of impaired exposures sold during 2019.

Following transfer of the subsidiary BPM Belgio S.A., the Bank acquired some non-performing credits, one of which classified in the portfolio “Financial assets measured at amortised cost” for a nominal value of EUR 4.17 mln, at the price of EUR 1.5 mln.

The amount of collections in 2019, included in Line C.3 referring to non-performing balance-sheet credit exposures to customers (other than bad loans) amounted to EUR 701 mln, of which 11.07% related to repayments on accrued interest. Furthermore, note that EUR 237 mln was forfeited during 2019 following the disposal of non-performing loans.

In reference with bad loans, total revenues consist, by 20%, of judicial recoveries, 62% in extra-judicial transactions and the remaining 18% in payments from Guarantee Institutions; as regards income from disposal, about 42% comes from single name transactions.

A.1.9bis - Balance-sheet credit exposure to customers: changes in gross forborne exposure broken down by credit quality

31 12 2019

Source/Categories	Non performing forborne exposures	Performing forborne exposures
A. Goss esposure, opening balance	**4,539,429**	**1,790,373**
- of which: transferred but not derecognised	*181,804*	*38,299*
B.Increases	**809,977**	**1,122,954**
B.1 Transfers from performing loans non forborne exposure	196,287	330,533
B.2 Transfers from performing forborne esposures	70,151	X
B.3 Transfers from Non-performing forborne esposures	X	480,307
B.4 Transfers from Non-performing loans non forborne exposure	147,998	5,685
B.5 Other increases	395,541	306,429
C. Decreases	**1,961,949**	**981,673**
C.1 Transfers to performing loans non forborne exposure	X	415,418
C.2 Transfers to performing forborne exposures	480,307	X
C.3 Transfers to non-performing forborne exposures	X	196,287
C.4 Write-offs	30,920	3,287
C.5 Collections	447,235	350,285
C.6 Amounts realised upon disposal of positions	192,631	-
C.7 Losses from disposal	12,275	-
C.8 Other decreases	798,581	16,396
D.Gross exposure, closing balance	**3,387,457**	**1,931,654**
- of which: transferred but not derecognised	*228,520*	*36,960*

Line C.8 “Other decreases” includes EUR 662.6 mln in the “Non-performing forborne exposures” column relating to impaired exposures sold during the year.

A.1.10 - Non-performing balance-sheet credit exposures to banks: changes in overall value adjustments

31 12 2019

Source/Categories	Bad loans		Unlikely to pay		Non-performing Past due	
	Total	*of which forborne*	Total	*of which forborne*	Total	*of which forborne*
A. Opening balance of overall adjustments	**15,263**	**-**	**-**	**-**	**-**	**-**
- of which: transferred but not derecognised	-	-	-	-	-	-
B. Increases	**220**	**-**	**-**	**-**	**-**	**-**
B.1 Value adjustments from purchased or originated credit impaired	-	X	-	X	-	X
B.2 Other value adjustment	220	-	-	-	-	-
B.3 Loss from disposal	-	-	-	-	-	-
B.4 Transfers from other categories of impaired exposures	-	-	-	-	-	-
B.5 Modification gains/losses	-	X	-	X	-	X
B.6 Other increases	-	-	-	-	-	-
C. Decreases	**3,279**	**-**	**-**	**-**	**-**	**-**
C.1 Write-backs from valuation	39	-	-	-	-	-
C.2 Write-backs from collection	1,764	-	-	-	-	-
C.3 Profit from disposal	-	-	-	-	-	-
C.4 Write-offs	1,476	-	-	-	-	-
C.5 Transfers to other categories of impaired exposure	-	-	-	-	-	-
C.6 Modification gains/losses	-	X	-	X	-	X
C.7 Other decreases	-	-	-	-	-	-
D. Closing balance of overall adjustments	**12,204**	**-**	**-**	**-**	**-**	**-**
- of which: transferred but not derecognised	-	-	-	-	-	-

At the reporting date, there are no impaired financial assets purchased during the year through either business combination transactions.

A.1.11 - Non-performing balance-sheet credit exposure to customers: changes in overall value adjustments

31 12 2019

Source/Categories	Bad loans		Unlikely to pay		Non-performing Past due	
	Total	*of which forborne*	Total	*of which forborne*	Total	*of which forborne*
A. Opening balance of overall adjus	**3,729,760**	**626,206**	**2,620,902**	**1,281,071**	**26,569**	**1,924**
- of which: transferred but not derecognised	*109,492*	*94,323*	*3,505*	*1,554*	*99*	*20*
B. Increases	**941,631**	**221,921**	**944,504**	**445,494**	**19,327**	**1,191**
B.1 Value adjustments from purchased or originated credit impaired	-	X	-	X	-	X
B.2 Other value adjustment	690,248	152,859	893,933	361,658	17,253	1,157
B.3 Loss from disposal	14,993	2,120	13,629	10,155	-	-
B.4 Transfers from other categories of impaired exposures	230,844	61,477	14,972	1,451	86	4
B.5 Modification gains/losses	-	X	17	X	-	X
B.6 Other increases	5,546	5,465	21,953	72,230	1,988	30
C. Decreases	**2,120,488**	**242,555**	**1,757,757**	**930,503**	**29,907**	**1,950**
C.1 Write-backs from valuation	365,329	97,403	363,174	236,505	8,985	433
C.2 Write-backs from collection	65,785	26,652	78,124	45,006	52	-
C.3 Profit from disposal	11,965	2,562	9,652	5,945	-	-
C.4 Write-offs	128,011	13,219	260,602	17,676	4,015	25
C.5 Transfers to other categories of impaired exposure	561	139	228,792	61,394	16,548	1,399
C.6 Modification gains/losses	-	X	910	X	5	X
C.7 Other decreases	1,548,837	102,580	816,503	563,977	302	93
D. Closing balance of overall adjust	**2,550,903**	**605,572**	**1,807,649**	**796,062**	**15,989**	**1,165**
- of which: transferred but not derecognised	93,599	77,419	31,490	20,583	584	-

At the reporting date, there are no impaired financial assets that were purchased during the year through business combination transactions.

Exposure to sovereign debt risk

Below are the net sovereign credit risk exposures in government bonds, loans and credit derivatives held by the Bank as at 31 December 2019 pursuant to the criteria of the European Securities and Markets Authority (ESMA).

The exposures are broken down by accounting categories. For securities and loans classified as "Financial assets measured at amortised cost", only the book value is reported.

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
France	-	-	175.0	175.0	-	-	-
Italy	-	-	5,451.5	5,526.7	5,642.1	1,904.0	-
Spain	-	-	200.0	200.0	1,058.0	-	-
Total 31 12 2019	**-**	**-**	**5,826.5**	**5,901.7**	**6,700.1**	**1,904.0**	**-**
Total 31 12 2018	**100.00**	**100.00**	**9,963.00**	**9,925.50**	**4,317.00**	**2,099.00**	**-**

Details on the Bank's exposure is presented taking into consideration that, according to instructions from the European Securities and Market Authority (ESMA), "sovereign debt" is defined as bonds issued by central and local Governments and by government Entities, as well as loans disbursed to said entities.

These financial instruments were measured according to the standards applicable to the category to which they belong.

As at 31 December 2019, the exposure to sovereign debt was of 3.99 years.

The overall exposure on debt securities and loans, amounted to approximately EUR 14,056 mln, and can be broken down between financial assets measured at fair value through other comprehensive income and financial assets measured at amortised cost. Exposures to Italy are nearly exclusively level 1, with the exception of EUR 630 mln under level 2, attributable for EUR 518 mln to government bonds.

Following are the details of reserves on financial assets measured at fair value through other comprehensive income and of Italian credit derivatives (in EUR/mln):

Financial assets measured at fair value through other comprehensive income: Italy	**31 12 2019**	**31 12 2018**
Book value	5,526.7	9,404.6
OCI reserve (after tax)	(0.5)	(127.4)
of which: hedging effect (after tax)	*(95.0)*	*(122.0)*

Credit derivatives - Italy	**31 12 2019**	**31 12 2018**
Purchase of protection		
Nominal	(130.0)	(130.0)
Positive fair value	1.2	7.2
Negative fair value	-	-
Sale of protection	-	-
Nominal	130.0	130.0
Positive fair value	-	-
Negative fair value	1.2	(7.2)

A.2 Classification of exposure by external and internal ratings

A.2.1 - Breakdown of financial assets, commitments to disburse funds and financial guarantees given by external rating class (gross values)

31 12 2019

Exposures	External rating classes						No Rating	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Financial assets measured at amortised cost	628,558	3,624,055	6,587,759	563,836	59,932	150,221	99,790,103	111,404,464
- Stage 1	628,558	3,504,734	6,572,679	538,670	53,672	-	82,422,644	93,720,957
- Stage 2	-	119,321	15,080	25,166	154	-	8,975,412	9,135,133
- Stage 3	-	-	-	-	6,106	150,221	8,392,047	8,548,374
B. Fiancial assets measured at fair value through other comprehensive income	175,166	200,131	5,774,199	167,975	7,609	9,533	-	6,334,613
- Stage 1	175,166	200,131	5,774,199	151,014	1,050	-	-	6,301,560
- Stage 2	-	-	-	16,961	6,559	19	-	23,539
- Stage 3	-	-	-	-	-	9,514	-	9,514
C. Fiancial assets held for sale	-	-	-	-	-	-	252,626	252,626
- Stage 1	-	-	-	-	-	-	-	-
- Stage 2	-	-	-	-	-	-	2	2
- Stage 3	-	-	-	-	-	-	252,624	252,624
Total (A+B+C)	803,724	3,824,186	12,361,958	731,811	67,541	159,754	100,042,729	117,991,703
of which: purchased or originated impaired financial	-	-	-	-	-	-	63,724	63,724
C. Commitments to disburse funds and financial guarantees issued	173,605	609,878	1,183,581	1,246,163	98,834	164,989	33,024,733	36,501,783
- Stage 1	173,605	600,192	1,180,912	1,218,949	91,663	151	31,096,530	34,362,002
- Stage 2	-	9,686	2,669	27,214	1,171	-	891,083	931,823
- Stage 3	-	-	-	-	6,000	164,838	1,037,120	1,207,958
Total (A+B+C+D)	977,329	4,434,064	13,545,539	1,977,974	166,375	324,743	133,067,462	154,493,486

class 1=AAA/AA- class 2=A+/A- class 3=BBB+/BBB- class 4=BB+/BB- class 5=B+/B- class 6=lower than B-

The external rating categories used to complete the table are those used by Standard & Poor's. Balance-sheet gross exposures correspond to the exposures present in Table E.A.1.2, while off-balance-sheet exposures correspond to those shown in Table E.A.1.6. If multiple external ratings are assigned, the rating is selected based on Bank of Italy's criteria (when two ratings are available, the lower of the two is used, and when three or more ratings are assigned, the second highest rating is selected). To ensure relevance of information, internal cross-reference tables were used to convert classification by various rating agencies into classification by Standard & Poor's.

As at 31 December 2019 the Bank had outstanding trade receivables with a gross value of EUR 16.5 mln, for which the Bank did not use external ratings.

A.2.2 - Breakdown of financial assets, commitments to disburse funds and financial guarantees given per internal rating class (gross values)

Exposures	Internal rating classes							No rating	Total 31 12 2019
	High quality	Average quality	Fair quality	Mediocre quality	Poor quality	Default	Group administrative default		
A. Financial assets measured at amortised cost	9,342,462	18,799,589	21,881,981	6,743,731	658,571	8,548,374	27,096	45,402,660	111,404,464
- Stage 1	9,307,211	18,408,080	19,341,743	1,649,305	3,877	-	1	45,010,739	93,720,956
- Stage 2	35,251	391,509	2,540,238	5,094,426	654,694	-	27,095	391,921	9,135,134
- Stage 3	-	-	-	-	-	8,548,374	-	-	8,548,374
B. Fiancial assets measured at fair value through other comprehensive income	-	142,867	206,829	-	-	9,514	-	5,975,403	6,334,613
- Stage 1	-	132,204	200,531	-	-	-	-	5,968,826	6,301,561
- Stage 2	-	10,663	6,298	-	-	-	-	6,577	23,538
- Stage 3	-	-	-	-	-	9,514	-	-	9,514
C. Fiancial assets held for sale	-	-	1	1	-	252,624	-	-	252,626
- Stage 1	-	-	-	-	-	-	-	-	-
- Stage 2	-	-	1	1	-	-	-	-	2
- Stage 3	-	-	-	-	-	252,624	-	-	252,624
Total (A+B+C)	9,342,462	18,942,456	22,088,811	6,743,732	658,571	8,810,512	27,096	51,378,063	117,991,703
of which: purchased or originated impaired financial assets	-	-	-	11,822	502	51,399	-	-	63,723
C. Commitments to disburse funds and financial guarantees issued	5,733,208	10,082,121	9,054,916	1,903,140	169,201	1,207,958	2,818	8,348,419	36,501,781
- Stage 1	5,697,362	10,009,560	8,701,140	1,474,106	138,371	-	2,517	8,338,945	34,362,001
- Stage 2	35,846	72,561	353,776	429,034	30,830	-	301	9,474	931,822
- Stage 3	-	-	-	-	-	1,207,958	-	-	1,207,958
Total (A+B+C+D)	15,075,670	29,024,577	31,143,727	8,646,872	827,772	10,018,470	29,914	59,726,482	154,493,484

High Quality customers (Master Scale categories AAA and A1), Good Quality Customers (Master Scale categories A2, A3 and B1), Fair Quality customers (Master Scale categories B2, B3, C1 and C2), Mediocre Quality customers (Master Scale categories C3, D1, D2 and D3), Poor Quality customers (Master Scale categories E1, E2 and E3).

The table provides a breakdown of customers of the Bank by risk categories assigned on the basis of ratings arising from internal models. For this purpose, account is given only of exposures (borrowers) for which an internal rating is periodically recorded for models/legal entities/portfolios which have been subject to a validation process with the regulatory authorities without any cross-reference from official ratings to internal ratings especially with regard to the following customer segments: "Banks," "Non-Banking Financial Institutions," and "Governments and Public Administration". Thus, based on this provision, exposures related to the latter segments, even if covered by official ratings, were reported as "unrated" in the internal rating models.

As at 31 December 2019, the Bank had outstanding trade receivables with a gross value of EUR 16.5 mln. With regard to these receivables, the Bank valued the defined loss coverage provision with the simplified method, assigning a benchmark rating (C2), equivalent to the average rating of the AIRB portfolio and a loss rate of 45%.

A.3 Breakdown of secured credit exposures by type of collateral

A.3.1 - Balance sheet and off-balance sheet secured credit exposure to banks

31 12 2019

			collateral security				Personal guarantees									
							Credit derivatives					Unsecured signature loans				
								Other derivatives								
	Amount of gross exposure	Amount of Net Exposure	Real estate mortgages	Real estate leasing	Securities	Other collaterals	CLN	Central counterparties	Banks	Other Financial entities	Other entities	Public entities	Banks	Other financial entities	Other entities	Total collateral security and personal guarantees
1. Secured balance-sheet exposures:	**4,920,613**	**4,920,613**	**1,124**	**-**	**4,916,714**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**24**	**4,917,862**
1.1 totally secured	4,920,481	4,920,481	1,124	-	4,916,714	-	-	-	-	-	-	-	-	-	18	4,917,856
- of which non performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2 partially secured	132	132	-	-	-	-	-	-	-	-	-	-	-	-	6	6
- of which non performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Secured off-balance sheet exposures:	**4,581,495**	4,581,468	-	-	4,409,594	154,335	-	-	-	-	-	-	189	-	-	4,564,118
2.1 totally secured	4,442,825	4,442,825	-	-	4,409,594	32,808	-	-	-	-	-	-	82	-	-	4,442,484
- of which non performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 partially secured	138,670	138,643	-	-	-	121,527	-	-	-	-	-	-	107	-	-	121,634
- of which non performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

In addition to balance-sheet exposures, the table shows the amount of off-balance-sheet exposures to banks (including derivative contracts with banks) which are fully or partially secured. As regards personal guarantees, the economic segments to which guarantors and sellers of protection belong (in the case of unsecured loans and credit derivatives, respectively) are identified making reference to the classification criteria provided for in the brochure "classification of customers by segments and groups of economic activity" published by the Bank of Italy.

Exposures are classified as "fully secured" by comparing the gross exposure with the amount of the guarantee established in the contract; for that purpose, any supplemental guarantees are also considered.

The fair value of collaterals estimated as at the balance sheet date is shown in the columns "Real guarantees" and "Personal guarantees"; if such information is not available, the contractual value is reported. Both values cannot be higher than the book value of secured exposures, in line with the 6th update of Bank of Italy circular 262.

A.3.2 - Balance sheet and off-balance sheet secured credit exposure to customers

31 12 2019

			Collateral security				Personal guarantees										
							Credit derivatives					Unsecured signature loans				
								Other derivatives								
	Amount of Gross Exposure	Amount of Net Exposure	Real estate mortgages	Real estate leasing	Securities	Other collateral security	CLN	Central counterparties	Banks	Other financial entities	Other entities	Central counterparties	Banks	Other financial entities	Other entities	Total collateral securities and personal guarantees
1. Secured balance-sheet exposures:	51,347,030	48,467,134	38,488,174	-	363,934	217,887	-	-	-	-	-	1,064,888	5,246	708,303	6,991,367	47,839,799
1.1 Totally secured	49,728,852	47,103,657	38,475,611	-	315,861	154,416	-	-	-	-	-	659,099	4,770	592,248	6,700,852	46,902,857
- *of which non performing*	6,020,366	3,637,681	2,781,581	-	19,918	6,336	-	-	-	-	-	133,368	100	94,936	489,586	3,525,825
1.2 Partially secured	1,618,178	1,363,477	12,563	-	48,073	63,471	-	-	-	-	-	405,789	476	116,055	290,515	936,942
- *of which non performing*	435,104	188,827	10,193	-	17,114	703	-	-	-	-	-	10,523	16	14,725	73,670	126,944
2. Secured off-balance sheet exposures:	6,565,458	6,529,664	134,185	-	137,684	179,888	-	-	-	-	-	37,671	54,443	357,227	5,218,846	6,119,944
2.1 Totally secured	5,725,305	5,691,378	131,669	-	112,949	152,689	-	-	-	-	-	24,540	54,255	334,816	4,800,551	5,611,469
- *of which non performing*	316,025	286,274	41,233	-	5,368	1,726	-	-	-	-	-	965	52,777	6,487	177,585	286,141
2.2 Partially secured	840,153	838,286	2,516	-	24,735	27,199	-	-	-	-	-	13,131	188	22,411	418,295	508,475
- *of which non performing*	42,448	41,309	980	-	1,828	559	-	-	-	-	-	172	188	313	27,727	31,767

In addition to balance-sheet exposures, the table shows the amount of off-balance-sheet exposures to customers (including derivative contracts) which are fully or partially secured.
As regards personal guarantees, the economic segments to which guarantors (credit commitments) and sellers of protection (credit derivatives) belong are identified by making reference to the classification criteria provided for by the Bank of Italy, Circular no. 140 of 11 February 1991 "Instructions for classifying customers".
Exposures are classified as "fully secured" by comparing the gross exposure with the amount of the guarantee established in the contract; for that purpose, any supplemental guarantees are also considered.
The fair value of collaterals estimated as at the balance sheet date is shown in the columns "Real guarantees" and "Personal guarantees"; if such information is not available, the contractual value is reported. It should be noted that
both values cannot be higher than the book value of secured exposures, in line with the 6th update of Bank of Italy circular 262.

A.4 - Financial and non-financial assets obtained through enforcement of guarantees received

The table was not completed since, for both the current year and the comparison year, this type of asset was not present.

It should be noted however that at the reporting date of 31 December 2019, the Bank held financial equity instruments from the conversion of impaired financial assets recognised in the financial statements in the amount of EUR 94 mln, entirely classified in the accounting portfolio of “Financial assets measured at fair value as per mandatory requirements”.

B. Breakdown and concentration of credit exposures

B.1 - Breakdown of balance sheet and off-balance sheet credit exposures to customers by business segment

Exposure/ Customers	Public administration		Financial companies		Financial companies (of which insurance companies)		Non financial companies		Families	
	Net exposure	Portfolio adjustments	Net exposure	Portfolio adjustments	Net exposure	Portfolio adjustments	Net exposure	Portfolio adjustments	Net exposure	Portfolio adjustments
A. Balance-sheet exposure										
A.1 Bad loans	166	136	12,041	55,627	-	-	1,284,152	1,980,354	1,081,626	514,786
- *of which forborne*	-	-	1,855	7,101	-	-	368,186	460,224	381,824	138,246
A.2 Unlikely to pay	121,675	115,596	40,569	50,029	1	-	1,498,224	1,328,619	673,971	313,406
- *of which forborne*	-	-	29,095	36,295	-	-	870,055	663,235	330,813	96,532
A.3 Past-due Impaired	1,476	1,116	94	32	-	-	14,268	6,129	29,566	8,710
- *of which forborne*	-	-	-	-	-	-	1,545	946	1,282	220
A.4 Other Performing exposures	14,383,699	12,503	5,913,513	5,826	62,572	-	23,741,375	266,798	32,730,872	94,191
- *of which forborne*	4,308	56	84,186	684	-	-	1,145,234	82,185	588,645	26,356
Total A	14,507,016	129,351	5,966,217	111,514	62,573	-	26,538,019	3,581,900	34,516,035	931,093
B. Off-balance-sheet exposures										
B.1 Performing exposure	120,177	-	4,859	245	-	-	906,239	137,243	28,037	4,867
B.2 Non performing exposure	1,373,752	41	1,527,740	116	32,091	-	23,316,823	10,838	2,684,121	2,535
Total B	1,493,929	41	1,532,599	361	32,091	-	24,223,062	148,081	2,712,158	7,402
Total (A+B)□31 12 2019	16,000,945	129,392	7,498,816	111,875	94,664	-	50,761,081	3,729,981	37,228,193	938,495
Total (A+B)□31 12 2018	18,252,987	141,437	8,258,381	289,882	115,500	-	54,111,274	5,287,946	36,595,492	1,391,335

B.2 - Breakdown of balance sheet and off-balance-sheet credit exposures to customers by geographic area

Exposure/Geographic Areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net esposure	Overall value adjustments	Net esposure	Overall value adjustments	Net esposure	Overall value adjustments	Net esposure	Overall value adjustments	Net esposure	Overall value adjustments
A. Balance-sheet esposures										
A.1 Bad loans	2,371,519	2,537,250	5,683	12,628	582	899	-	-	203	126
A.2 Ulikely to pay	2,309,341	1,794,840	12,375	4,100	12,465	8,179	21	159	237	370
A.3 Past-due Impaired	45,148	15,897	124	36	54	11	54	40	23	4
A.4 Other performing exposures	74,704,976	377,424	1,796,042	1,148	154,740	377	93,926	317	19,773	51
Total A	79,430,984	4,725,411	1,814,224	17,912	167,841	9,466	94,001	516	20,236	551
B. Off-balance-sheet exposures										
B.1 Non performing exposures	1,058,414	142,177	898	177	-	-	-	-	-	-
B.2 Performing esposures	28,560,216	13,391	275,291	131	24,424	-	38,691	8	3,814	1
Total B	29,618,630	155,568	276,189	308	24,424	-	38,691	8	3,814	1
Total (A+B) 31 12 2019	109,049,614	4,880,979	2,090,413	18,220	192,265	9,466	132,692	524	24,050	552
Total (A+B) 31 12 2018	115,453,315	7,017,655	1,312,826	59,778	295,274	10,899	147,137	21,498	9,583	772

B.3 - Breakdown of balance sheet and off-balance-sheet credit exposures to banks by geographic area (book value)

Exposure/Geographic Areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net esposure	Overall value adjustments	Net esposure	Overall value adjustments	Net esposure	Overall value adjustments	Net esposure	Overall value adjustments	Net esposure	Overall value adjustments
A. Balance-sheet esposures										
A.1 Doubtful loans	-	-	143	117	93	12,087	-	-	-	-
A.2 Ulikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Past-due Impaired	-	-	-	-	-	-	-	-	-	-
A.4 Other performing exposures	30,098,426	4,837	2,039,622	1,111	168,288	344	110,150	607	18,980	68
Total A	30,098,426	4,837	2,039,765	1,228	168,381	12,431	110,150	607	18,980	68
B. Off-balance-sheet exposures										
B.1 Doubtful loans	-	-	3,120	-	3,172	-	-	-	-	-
B.2 Substandard loans	5,417,695	14	1,424,045	478	220,730	211	598,597	142	105,292	160
Total B	5,417,695	14	1,427,165	478	223,902	211	598,597	142	105,292	160
Total (A+B) 31 12 2019	35,516,121	4,851	3,466,930	1,706	392,283	12,642	708,747	749	124,272	228
Total (A+B) 31 12 2018	29,995,171	4,723	4,240,762	4,817	826,473	14,336	2,194,412	725	603,490	969

B.4 Large exposures

Item/Amount	31 12 2019	31 12 2018
a) Book value	67,321,011	72,225,592
b) Weighted value	3,606,267	3,749,542
c) Number	10	11

Regulations provide for positions to be defined as "large exposures" by making reference to credit-risk unweighted exposures.

An exposure is deemed as a "large exposure" when its amount is equal to or greater than 10% of Regulatory capital.

The decrease of the “Book value” is mainly due to operation whit central counterpartis, excluded from the weighted value as required by - CRR art. 400 (1). The decrease in Weighted value in 2019, compared to the previous year, is attributable to the reduction in SFT whit Bank couterparties

C. SECURITISATION TRANSACTIONS

Qualitative Information

Structures, processes and goals

For qualitative information, please refer to Part E of the Notes to the consolidated financial statements.

More specifically, for the securitisation of performing loans, the Credit Servicing Service and the Securitised PE Portfolio, within the Credit Portfolio Governance Area, is responsible for managing aspects and obligations associated with servicing activities and for monitoring the performance of existing transactions through monthly and quarterly reports on collections of residual principal, positions in arrears and disputed positions arising from securitisation transactions. The same Service prepares the summary statements containing the data of the portfolio sold and, as part of critical situation management, it reports cases that may pose potential risks for noteholders to the relevant functions in the organisation.

For securitisations of non-performing loans, the servicing and debt collection performance control services are handled by market operators outside the Bank.

The paragraphs below describe the characteristics of the Bank's securitisation transactions originated in previous years and ongoing as at 31 December 2019 where the securities were partly placed on the market.

It should be noted that in the first half-year of 2019, the Casaforte transaction was completed with the early redemption of the securitised loan and of the notes.

Own securitisations with derecognition of the underlying assets

Siena NPL 2018 Srl

In the course of 2017, on the basis of what is set forth in the Restructuring Plan and in line with the terms of the agreements entered into with Quaestio Capital Management SGR S.p.A., the Bank completed a transfer through securitisation of a portfolio of bad loans along with other Group companies.

The portfolio was sold on 20 December 2017 to the vehicle Siena NPL 2018 S.r.l., established for this purpose. The vehicle financed acquisition of the portfolio through issuance of the following asset-backed securities (the "Securities"), with limited recourse:

(i) Senior A1 notes for EUR 2,683.5 mln;

(ii) Senior A2 notes for EUR 412.1 mln;

(iii) Mezzanine notes for EUR 847.6 mln;

(iv) Junior notes for EUR 565.0 mln

centralised in dematerialised form at Monte Titoli S.p.A. and initially not listed on any Italian and/or foreign regulated market.

The transaction respected the timing of the 2017-2021 Restructuring Plan and the agreements with Quaestio Capital SGR S.p.A. On 9 January 2018, the transfer of 95% of the mezzanine notes to Quaestio Capital SGR on behalf of the Italian Recovery Fund (Atlante II Fund) was completed. In May 2018, at the end of the rating assignment process, the Senior Notes were restructured into a single class, obtaining an investment grade rating from the 3 ratings agencies involved, as outlined below. Consequently, the securities issued by the vehicle were the following:

(i) Senior A notes for EUR 2,918 mln, rating A3/BBB+/BBB (Moody's/Scope Ratings/DBRS). The outstanding amount as at 31 December 2019 was EUR 2,290 mln;

(ii) Mezzanine B notes for EUR 847.6 mln, without rating and sold to the Italian Recovery Fund managed by Quaestio Capital SGR, for a portion of 95% of the issue; The outstanding amount as at 31 December 2019, due to the capitalisation of the interest, was about EUR 857 mln;

(iii) Junior notes for EUR 565.0 mln, without rating.

In June 2018, with the transfer of 95% of the Junior notes to Quaestio Capital SGR on behalf of the Italian Recovery Fund (Atlante II Fund), in addition to that of the Mezzanine notes, deconsolidation of the entire securitised portfolio was completed. The remaining 5% of the junior and mezzanine notes was retained for the purpose of compliance with the "retention rule".

Lastly, in July 2018, the MEF granted, with its decree, the government guarantee (GACS) on the senior tranche of the securitisation. Obtainment of the GACS completed the entire securitisation process.

Own securitisations without derecognition of the underlying assets

Following is an outline of the Bank's performing securitisation transactions as at 31 December 2019.

Siena Mortgages 10-7 Srl

On 30 September 2010, a portfolio of 34,971 performing residential mortgage loans originated by the Bank was sold for approx. EUR 3,479.5 mln. As at 31 December 2019, the remaining debt balance amounted to EUR 1,505.8 mln (19,710 outstanding mortgage loans).

To fund the acquisition of this portfolio, the vehicle issued RMBS securities; the classes A1 and A2 - to date fully repaid - were sold on the market, while the remaining classes of securities issued were initially subscribed by the Bank which, subsequently, sold on the market also the class A3 securities.

Market placement of these classes did not entail the derecognition of the underlying assets from the balance sheet of the Bank (transferor), which has substantially retained all risks and rewards associated with the ownership of the assets sold.

Norma SPV S.r.l.

On 1 July 2017, as part of a securitisation of non-performing loans, also originated by banks outside the MPS Group, the Bank completed the sale of a portfolio of non-performing loans in the real estate and shipping sectors.

As at the transfer date, the entire portfolio acquired by the vehicle consisted of 54 loans for a value of EUR 495.5 mln, of which 12 loans disbursed by Banca MPS for EUR 24.0 mln in the real estate sector and EUR 145.3 mln in the shipping sector.

As at 31 December 2019, the remaining debt balance (including interest on arrears accrued) of the total portfolio amounted to EUR 127.2 mln, broken down between the real estate sector for EUR 19.8 mln and the shipping sector for EUR 107.4 mln.

To fund the acquisition of this portfolio, on 21 July 2017 the Vehicle issued Class A1, B, C and D ABS securities (the "Securities") for the real estate sector and Class A1, B, C1, C2 and D ABS securities for the shipping sector.

The senior classes of both sectors were placed with institutional investors, while the mezzanine and junior classes were subscribed by each transferring bank in proportion to the transferred loans.

Specifically, the Bank subscribed the following securities:

- *Real Estate:* Class B for a nominal amount of EUR 11.6 mln; Class C for a nominal amount of EUR 2.5 mln; Class D for a nominal amount of EUR 9.2 mln.
- *Shipping:* Class B for a nominal amount of EUR 46.2 mln; Class C1 for a nominal amount of EUR 20.7 mln; Class C2 for a nominal amount of EUR 6.6 mln; Class D for a nominal amount of EUR 66.8 mln.

The placement of part of the notes did not entail the derecognition of the underlying assets from the balance sheet of the Bank, which has substantially retained all risks and rewards associated with the ownership of the assets sold.

Siena PMI 2016 Serie 2 Srl

In 2019 the Group carried out a securitisation through the vehicle named Siena PMI 2016 Srl. The transaction was finalised on 12 April 2019 through the sale by the Parent Company of a portfolio of performing loans to Italian small and medium enterprises, for a total of EUR 2,258.43 mln. As at 31 December 2019, the remaining debt was EUR 1,731.0 mln, for a total of 20,241 loan agreements.

In order to fund the acquisition of the portfolio sold, on 19 June 2019 the Vehicle issued asset-backed securities (ABS) in the following classes, rated by Fitch and DBRS as at 31 December 2019:

(i) Class A1 notes (AA and AAA) for a nominal amount of EUR 519.4 mln, of which EUR 332.07 mln were redeemed;

(ii) Class A2 notes (AA and AAA) for a nominal amount of EUR 813.00 mln;

(iii) Class B notes (AA- and AAL) for a nominal amount of EUR 225.80 mln;

(iv) Class C notes (BB+ and BBH) for a nominal amount of EUR 271.00 mln;

(v) Class D notes (CCC and C) for a nominal amount of EUR 248.50 mln;

(vi) Class J notes (not rated) for a nominal amount of EUR 180.70 mln.

Quantitative Information

C.1 - Exposures arising from major own securitisation transactions broken down by type of securitised asset and type of exposure

31 12 2019

Quality of underlying assets/Exposures	Balance-sheet exposure						Guarantee issued						Lines of credit					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Book Value	Net losses (recoverise) on impairment	Book Value	Net losses (recoverise) on impairment	Book Value	Net losses (recoverise) on impairment	Net exposure	Net losses (recoverise) on impairment	Net exposure	Net losses (recoverise) on impairment	Net exposure	Net losses (recoverise) on impairment	Net exposure	Net losses (recoverise) on impairment	Net exposure	Net losses (recoverise) on impairment	Net exposure	Net losses (recoverise) on impairment
A. Fully derecognised	1,510,801	261	29,759	1,316	14,827	(7,017)	-	-	-	-	-	-	-	-	-	-	-	-
Non-performing loans	1,510,801	261	29,759	1,316	14,827	(7,017)	-	-	-	-	-	-	-	-	-	-	-	-
B. Partially derecognised	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
C. Not derecognised	-	-	1,824,249	-	268,314	(25,025)	-	-	-	-	-	-	-	-	-	-	-	-
Mortgages Loans	-	-	-	-	2,229	(2,541)	-	-	-	-	-	-	-	-	-	-	-	-
Residential mortgages	-	-	946,614	-	69,193	-	-	-	-	-	-	-	-	-	-	-	-	-
Corporate Loans	-	-	877,635	-	180,689	-	-	-	-	-	-	-	-	-	-	-	-	-
Shipping	-	-	-	-	16,203	(22,484)	-	-	-	-	-	-	-	-	-	-	-	-
Total	1,510,801	261	1,854,008	1,316	283,141	(32,042)	-	-	-	-	-	-	-	-	-	-	-	-
of which impaired	*1,510,801*	*261*	*73,500*	*1,316*	*36,914*	*(32,041)*	-	-	-	-	-	-	-	-	-	-	-	-
of which others	-	-	*1,780,508*	-	*246,227*	-	-	-	-	-	-	-	-	-	-	-	-	-

In relation to securitisation transactions with own and third-party underlying assets, the table indicates balance-sheet exposures, unsecured exposures, and other forms of "credit enhancement".

C.2 - Exposures arising from major 'third-party' securitisation transactions broken down by type of securitised asset and type of exposure

Type of securitised asset/Exposure	Balance-sheet exposure						Guarantees issued						Lines of credit					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Book value	Net losses (recoverise) on impairment	Book value	Net losses (recoverise) on impairment	Book value	Net losses (recoverise) on impairment	Book value	Net losses (recoverise) on impairment	Book value	Net losses (recoverise) on impairment	Book value	Net losses (recoverise) on impairment	Book value	Net losses (recoverise) on impairment	Book value	Net losses (recoverise) on impairment	Book value	Net losses (recoverise) on impairment
Other assets	-	-	-	-	28,788	39,946	-	-	-	-	-	-	-	-	-	-	-	-
Non performing loans	335,559	18	5,747	(254)	2,863	1,355	-	-	-	-	-	-	-	-	-	-	-	-
First mortgages real estate loans	-	-	-	-	7,001	(7,979)	-	-	-	-	-	-	-	-	-	-	-	-
Total	335,559	18	5,747	(254)	38,652	33,322	-	-	-	-	-	-	-	-	-	-	-	-

C.3 Special purpose securitisation vehicles

31 12 2019

Securitisation/Vehicle company name	Registered office	Consolidation	Assets			Liabilities		
			Credit	Debt securities	Other	Senior	Mezzanine	Junior
Norma Spv S.r.l.	Via V.Alfieri, 1 Conegliano (TV)	NO	417,242	-	274	8,801	167,217	241,499
Siena Npl 2018 S.r.l.	Via Piemonte, 38 Roma	NO	3,098,657	-	333,302	2,290,364	856,971	565,000
Siena PMI 2016 Serie 2 Srl	Via V.Alfieri, 1 Conegliano (TV)	SI	1,484,985	-	178,457	648,995	817,600	69,193
Siena Mortagages 10-7 S.r.l.	Via V.Alfieri, 1 Conegliano (TV)	SI	1,861,471	-	100,299	1,000,325	745,300	180,700
Fino 1 Securitisation S.r.l.	Viale Luigi Majno, 45 Milano	NO	657,520	-	113,128	545,019	69,640	50,311
Totale			7,519,875	-	725,460	4,493,504	2,656,728	1,106,703

C.4 Non-consolidated special purpose securitisation vehicles

The information referred to in this table is not provided in that the Bank prepares the consolidated financial statements.

C.5 - Servicer activities - own securitisations: collections of securitised loans and redemptions of securities issued by the special purpose vehicle for securitisation

As at 31 December 2019, the Bank does not carry out servicer activities in its own securitisation transactions in which the assets sold have been derecognised in the financial statements pursuant to IFRS 9. For 2018, the Casaforte securitisation, closed with the early redemption of the securitised loan and the notes on 12 June 2019.

D. Information on structured entities not consolidated for accounting purposes (other than special purpose vehicles for securitisation)

Qualitative Information

Quantitative Information

The information referred to in this section is not provided in that the Bank prepares the consolidated financial statements.

E. Transfers

A. Financial assets sold and not fully derecognised

Qualitative Information

In September 2019, the Bank finalised a multi-originator type of sale of a portfolio of loans classified as "unlikely to pay", issued to industrial and service companies located in Italy and with a turnover not less than EUR 50 mln, to a Fund - managed by Clessidra SGR S.p.A with a concurrent subscription of freed up units of the Fund offsetting the credit owed by the Fund for the payment of the price deriving from the transfer transaction.

For details on this transaction, see the corresponding section of the consolidated financial statements.

Quantitative Information

E.1 - Financial assets sold and fully recognised and associated financial liabilities: book values

	Financial assets fully recognised				Financial liabilities		
	Book value	*of which: subject to securitization transactions*	*of which: subject to repurchase agreement*	of which: impaired	Book value	*of which: subject to securitization transactions*	*of which: subject to repurchase agreement*
Fiancial assets held for trading	-	-	-	X	-	-	-
Financial assets measured at fair value mandatory	54,243	*54,243*	-	54,243	3,104	*3,104*	-
1. Debt securities	-	-	-	-	-	-	-
2. Equity instruments	-	-	-	X	-	-	-
3. Loans	54,243	*54,243*	-	54,243	3,104	*3,104*	-
Financial assets designated at fair value	-	-	-	-	-	-	-
Financial assets measured at fair value through other comprehensive income	183,600	-	*183,600*	-	155,739	-	*155,739*
1. Debt securities	183,600	-	*183,600*	-	155,739	-	*155,739*
2. Equity instruments	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
Fiancial assets measured at amortised cost	4,409,794	*3,197,003*	*1,149,578*	189,378	1,968,450	*1,122,887*	*845,563*
1. Debt securities	1,149,578	-	*1,149,578*	189,378	845,563	-	*845,563*
2. Loans	3,260,216	*3,197,003*	-	-	1,122,887	*1,122,887*	-
Totale 31 12 2019	**4,647,637**	***3,251,246***	***1,333,178***	**243,621**	**2,127,293**	***1,125,991***	***1,001,302***
Totale 31 12 2018	**6,952,554**	***1,733,812***	***5,218,742***	**129,104**	**5,293,218**	***191,983***	***5,101,235***

In the sales of receivable to the fund managed by Clessidra SGR, the net book value of loans classified as Unlikely to pay, not subject to accounting derecognition, amount to EUR 71.4 mln. This type of loans are included in the item "Financial assets measuder at amortised cost", line 2 "Loans".

E.2 - Financial assets sold and partially recognised and associated financial liabilities: book values

This table was not completed as the Bank has no assets of this type.

E.3 - Sales transactions relating to financial liabilities with repayment exclusively based on assets sold and not fully derecognised: fair value

	Fully recognised	Partially recognised	Total	
			31 12 2019	31 12 2018
Fiancial assets held for trading	-	-	-	-
Financial assets measured at fair value mandatory	54,243	-	54,243	63,832
1. Debt securities	-	-	-	-
2. Equity instruments	-	-	-	-
3. Loans	54,243	-	54,243	63,832
Financial assets designated at fair value	-	-	-	-
Financial assets measured at fair value through other comprehensive income	-	-	-	-
Fiancial assets measured at amortised cost	3,395,221	-	3,395,221	1,711,437
1. Debt securities	-	-	-	-
2. Loans	3,395,221	-	3,395,221	1,711,437
Total financial assets	**3,449,464**	**-**	**3,449,464**	**1,775,269**
Total financial associated liabilities	**1,125,991**	**-**	**1,125,991**	**191,983**
Net value 31 12 2019	**2,323,473**	**-**	**2,323,473**	**X**
Net value 31 12 2018	**1,583,286**	**-**	**X**	**1,583,286**

Note that all amounts reported in the item "Financial assets measured at amortised cost - Loans" refer exclusively to the fair value of loans sold with own securitisations without derecognition, which continue to be fully recognised in the Bank's balance sheet assets. The amount of EUR 1,126.0 mln reported under associated liabilities refers to the fair value of the portion of senior notes sold to market counterparties as part of the same securitisation. The Bank recognised a liability with the notes-issuing vehicles as an offsetting entry for the cash flows arising from these disposals. Against this liability, the creditor's entitlement to repayment is limited to cash flows arising from the assets underlying senior notes sold.

B. Financial assets sold and fully derecognised with assessment of continuing involvement

Qualitative Information

Quantitative Information

None to report as at 31 December 2019.

C. Financial assets sold and fully derecognised

Qualitative Information

On 27 December 2019, the Bank, UBI Banca and Banco BPM finalised with AMCO and the Prelios Group a transaction named Cuvée which provides for the creation of a multi-originator platform to manage UTP (Unlikely to pay) loans, from EUR 3 mln to 30 mln, issued to companies of the real estate sector that are in a restructuring phase or in financial difficulties. For details on this transaction, see the corresponding section of the consolidated financial statements.

E.4 - Covered bond transactions

Characteristics of the Covered Bond Issuance Programmes

The characteristics of the covered bond issuance programmes are shown in the corresponding section of the consolidated financial statements.

Accounting treatment

The accounting treatment is shown in the corresponding section of the consolidated financial statements.

Risks and Control Measures

The risks and control measures are shown in the corresponding section of the consolidated financial statements.

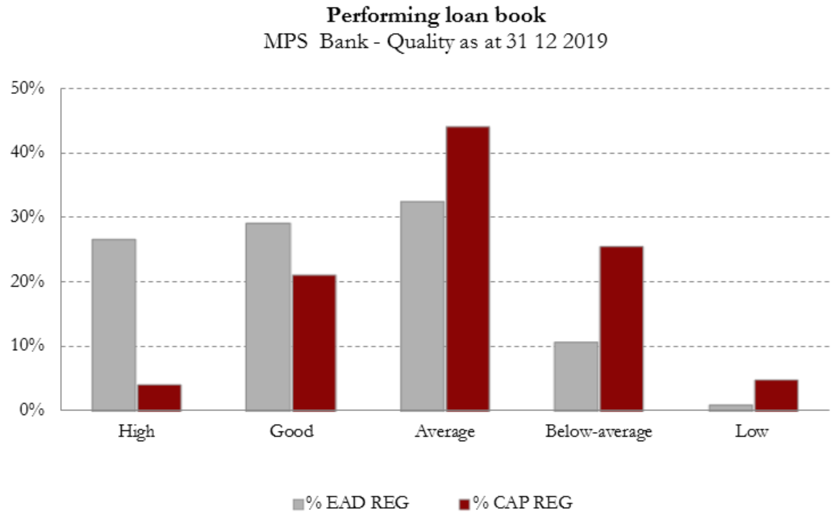
Description of individual issuances

The description of individual issuances is provided in the corresponding section of the consolidated financial statements.

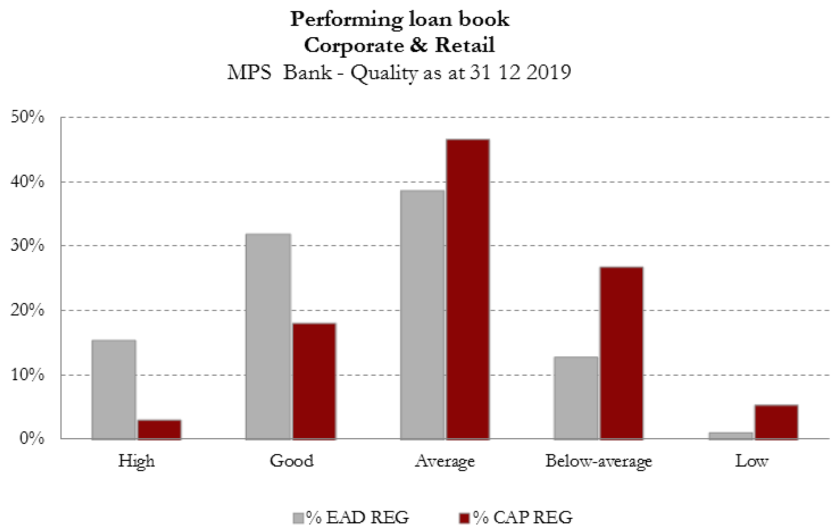
F. CREDIT RISK MEASUREMENT MODELS

This paragraph provides information of a quantitative nature related to the models for the measurement of credit risk, the qualitative characteristics of which have been described in Chapter 2 “Policies for risk management” of Section 2 “Prudential consolidation risk” of the Notes to the consolidated financial statements.

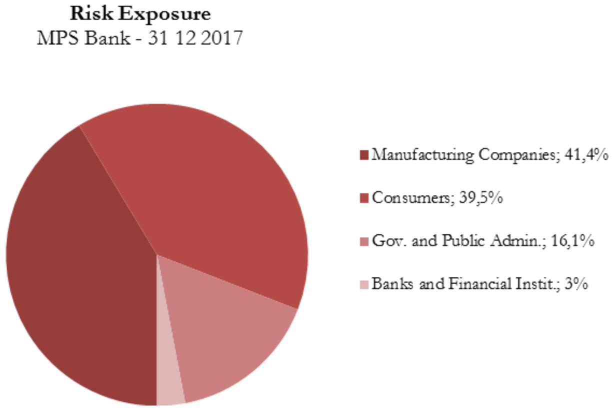
The chart below provides a credit quality breakdown of the Bank portfolio as at 31 December 2019 by Exposure to Risk (EAD REG) and Regulatory Capital (CAP REG). The following graph shows that about 55.7% (51.6% as at 31 December 2018) of risk exposure relates to high and good quality customers (positions in financial assets are excluded). It should be noted that the ranking below also includes exposure to banks, government agencies and non-regulated financial and banking institutions, which are not included in the AIRB approaches. As borrowers, these entities are nevertheless subject to a credit standing assessment using official ratings, if any, or appropriate benchmark values that have been determined internally.



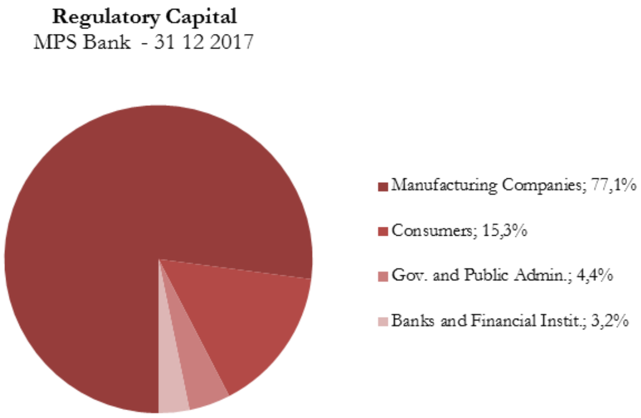
On the other hand, the following chart provides a breakdown of credit quality only for Corporate and Retail portfolios (which are largely validated by regulatory authorities for the use of internal PD and LGD models). As at 31 December 2019, high or good quality exposure accounted for approximately 47.3% of total exposure.



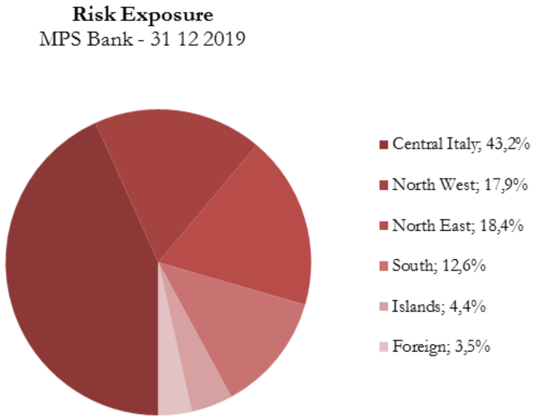
An analysis conducted at the end of 2019 shows that the risk exposure of Banca MPS is mainly toward “Manufacturing Companies” (41.4% of total loans disbursed) and “Households” (39.5%). The remaining portion is broken down between "Government and Public Administration" and "Banks and Financial Institutions", respectively at 16.1% and 3%.



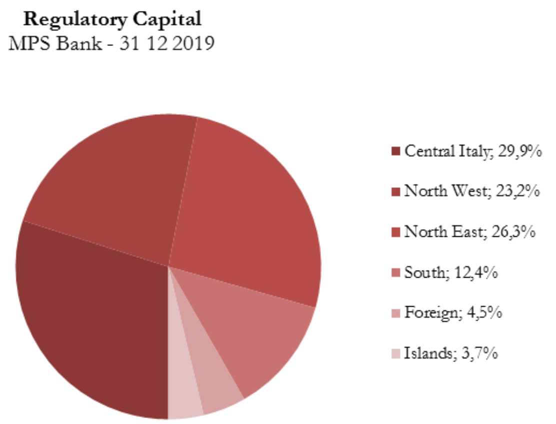
In terms of Regulatory Capital, the analysis reveals that the customer segment of Manufacturing Companies accounts for 77.1%, while the "Households" segment stands at 15.3%.



An analysis of the geographical breakdown of Banca MPS customers shows that exposure to risk is primarily concentrated in Italy's Central regions (43.2%), followed by the North West and North East (18.4% and 17.9% respectively), the South (12.6%), the Islands (4.4%) and foreign countries (3.5%).

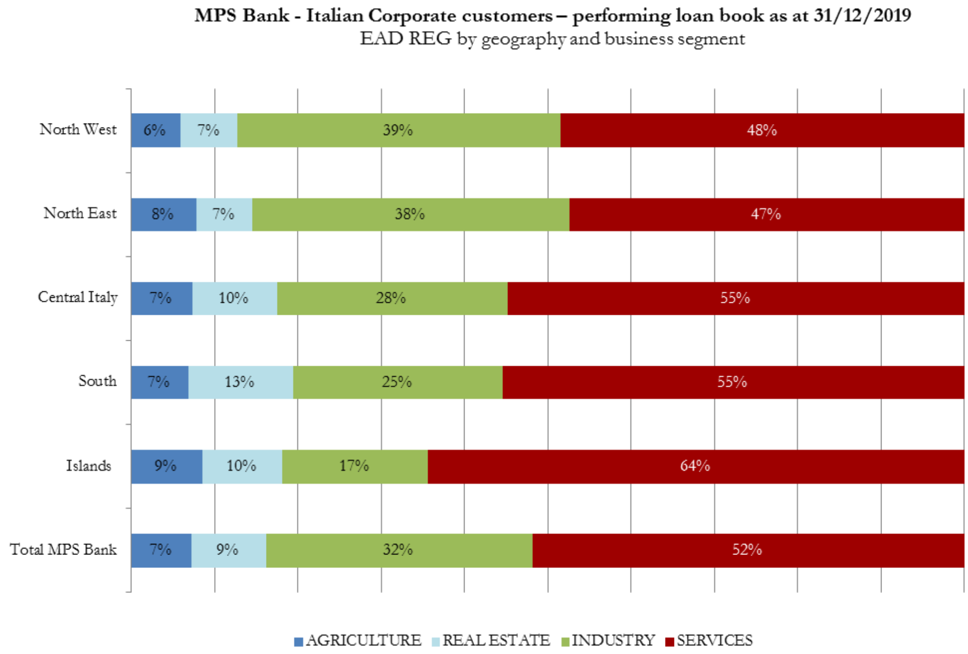


Regulatory Capital absorption is also higher in Central Italy (29.9%) in North West Italy (26.3%) and North East Italy (23.2%) due to the greater concentration of loans in those areas. These are followed by Southern Italy (12.4%), Foreign Countries (4.5%) and the Islands (3.7%):



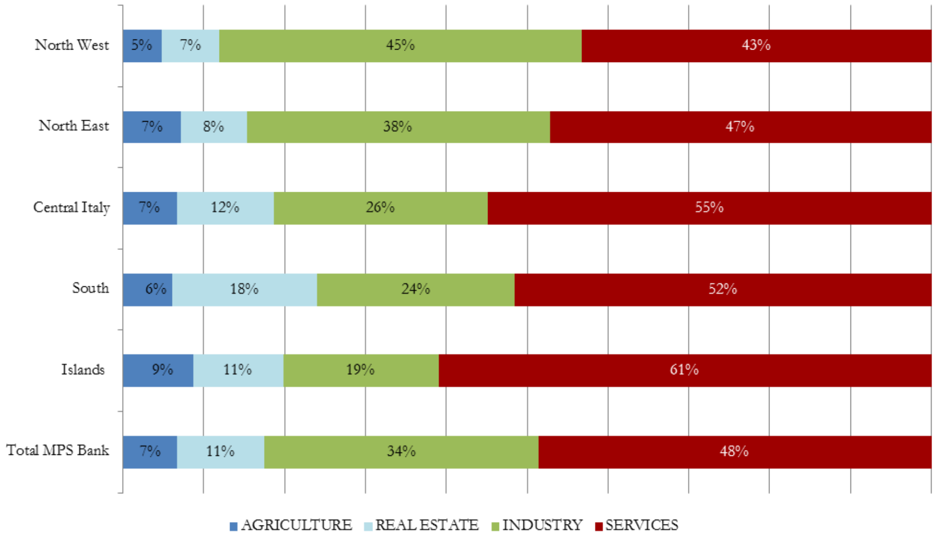
Lastly, the following graphs show, solely for Italian corporate customers, the percentage breakdown of Default Exposure by individual Geographic Area and Regulatory Capital absorption by Business Sector.

The largest share of Default Exposure for businesses in all Geographic Areas is accounted for by the "Services" sector. Out of the Bank's total exposure, the share of Services accounts for 52% and is followed by Industry (32%), Building (9%) and Agriculture (7%).



Also as regards the Regulatory Capital (CAP), the greater concentration relates to the Services sector in all Geographic Areas except for the North West where the Industry sector prevails:

MPS Bank - Italian Corporate customers – performing loan book as at 31/12/2019
CAP REG by geography and business segment



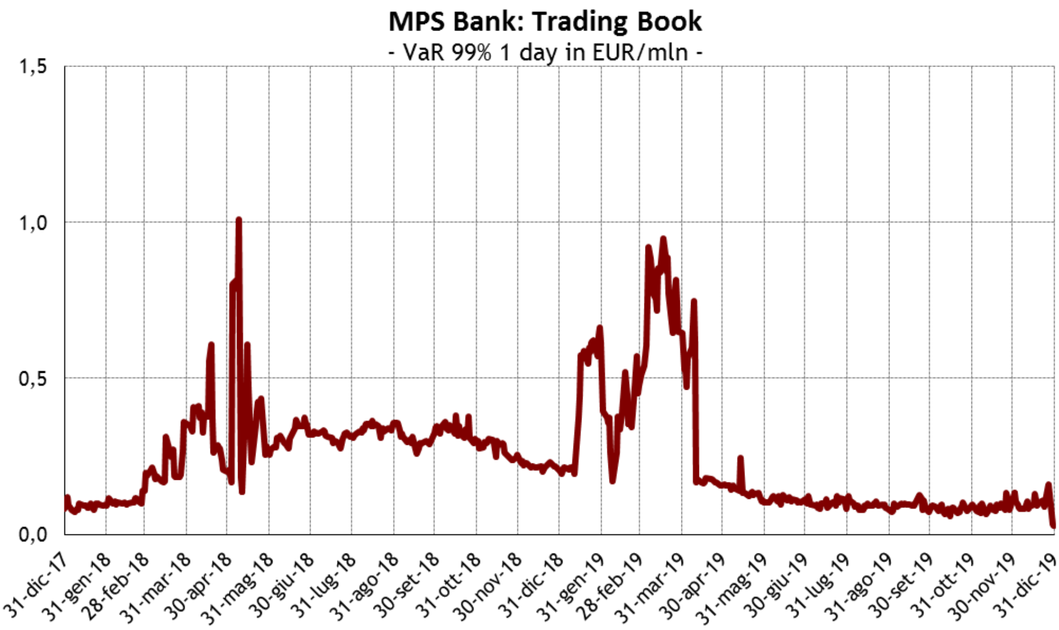
Section 2 - Market risk

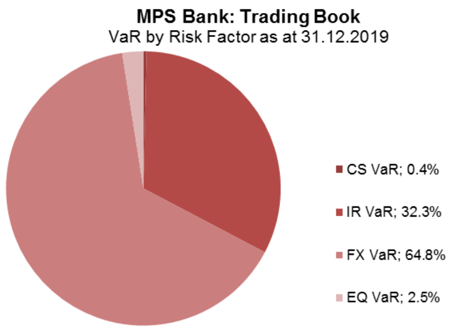
2.1. Interest rate and price risk - Regulatory trading book

For general information on the management model of market risks concerning the Trading Book of the Bank, refer to Part E in the Notes to the consolidated financial statements.

The VaR, diversified by risk factors and portfolios of the Bank at the end of 2019, stood at the lowest levels of the year.

In the first quarter of 2019, the VaR was characterised by trading transactions in derivatives (exposure in bond options on Italian government bonds) with metrics volatility related, in part, to the performance of the Italian credit spread. Subsequently, with the closing of the afore described exposure, the VaR level remained stable on contained values, with an exposure related primarily to the activity of the Group Treasury.





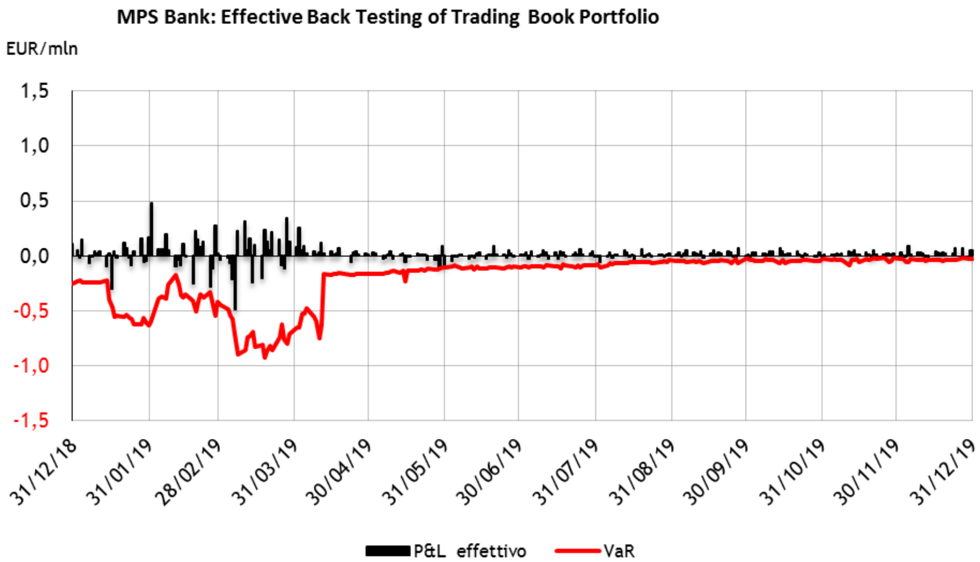
In terms of a breakdown of VaR by risk factors, as at 31 December 2019 the portfolio of Banca MPS was mainly absorbed by foreign exchange risk factors (FX VaR, 64.8%). These are followed by the interest rate type risk factor (IR VaR, 32.3%) and, at totally negligible levels, equity risk type factor (EQ VaR, 2.5%) and the credit spread type risk factor (CS VaR 0.4%).

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

	VaR	Date
End of Period	0.03	31/12/2019
Min	0.03	31/12/2019
Max	0.95	18/03/2019
Average	0.23	

In 2019, the Regulatory Trading Book VaR of Banca MPS ranged between a low of EUR 0.03 mln recorded on 31 December 2019 and a high of EUR 0.95 mln recorded on 18 March 2019 with an average value of EUR 0.23 mln.

The chart below shows the actual backtesting results of the internal Market Risks model in relation to the Regulatory Trading Book of Banca MPS:



The backtesting shows no exceptions in 2019.

Qualitative Information

Qualitative information regarding the measurement of the interest rate and price risk of the Regulatory Trading Book are shown in Part E of the Notes to the consolidated financial statements.

Quantitative Information

1. Regulatory Trading Book: breakdown of balance sheet financial assets/liabilities and financial derivatives by residual life (repricing date)

This table was not prepared since an analysis of the regulatory trading book's sensitivity to interest rate risk and price risk is produced based on internal models.

2. Regulatory Trading Book: breakdown of exposures in equity instruments and stock indices by major countries of the listing market.

This table was not prepared since an analysis of the regulatory trading book's sensitivity to interest rate risk and price risk is produced based on internal models.

3. Regulatory Trading Book: internal models and other sensitivity analysis methods

Each business unit within the Bank operates independently on the basis of the objectives and powers it has been assigned. The positions are managed by special desks provided with specific operational limits. Each desk adopts an integrated risk management approach (covering more than rate risk, when allowed) in order to benefit from the natural hedge resulting from simultaneously holding positions on risk factors that are not perfectly correlated.

All positions related to the Trading Book are classified as FVTPL and post the changes in Market Value directly in the income statement.

Simulations include the following interest rate risk scenarios:

- +100 bps parallel shift for all interest rate and inflation curves;
- -100 bps parallel shift for all interest rate and inflation curves;
- +1 point parallel shift for all volatility surfaces of all interest rate curves.

Below is the overall effect of the scenario analyses.

MPS Bank: Trading Book

EUR/mln

Risk Family	Scenario	Global Effect
Interest Rate	+100bp all Interest Rate Curves	0.17
Interest Rate	-100bp all Interest Rate Curves	(0.19)
Interest Rate	+1% all Interest Rate Volatility	0.00

The sensitivity analysis of the credit spread risk of the Trading Book of the Bank associated with the volatility of issuers' credit spreads is not shown in that it is not material.

The sensitivity analysis of the price risk (equity and commodity) of the Bank's Regulatory Trading Book is not shown in that it is not material.

2.2. Interest rate and price risk - banking book

Qualitative Information

Qualitative information regarding the measurement of the interest rate and price risk of the Banking Book are shown in Part E of the Notes to the consolidated financial statements.

Quantitative Information

1. Banking Book: breakdown of financial assets and liabilities by residual life (repricing date)

This table has not been prepared since an analysis of the banking book's sensitivity to interest rate risk and price risk is produced based on internal models.

2. Banking Book: internal models and other sensitivity analysis methods

2.1 Interest rate risk

The amount of economic value at risk because of a -100 bps parallel shift of the rate curve stood, at the end of the year for the Bank, at EUR -173.30 mln (vs. EUR +182.40 mln for a shift of +100 bps).

2.2 Price risk

Shown below is a scenario analysis which includes all directional positions assumed by the Parent Company in equity securities and UCITS, measured at fair value (e.g. securities classified as "Financial assets measured at fair value through other comprehensive income" and as "Financial assets measured at fair value as per mandatory requirements"):

MPS Bank

EUR/mln

Risk Family	Scenario	Impact on net interest and other banking income and net profit	Impact on shareholders' equity	Global Effect
Equity	+1% Equity Prices (prices, indices, basket)	1.20	2.44	3.64
Equity	-1% Equity Prices (prices, indices, basket)	(1.20)	(2.44)	(3.64)
Equity	+1% Equity Volatility	0.00	0.00	0.00

The shareholding in the Bank of Italy represents approximately 77% of the effect on the Shareholders' Equity relating to the scenario analysis described above.

2.3. Foreign exchange risk

Qualitative Information

Qualitative information, including the hedging of exchange rate risk, is shown in Part E of the Notes to the consolidated financial statements.

B. Hedging of exchange rate risk

Quantitative Information

1. Breakdown by currency of assets, liabilities and derivatives

31 12 2019

Items	Currencies					
	US dollar	Pound sterling	Swiss Franc	Yen	Hong Kong dollar	Other currencies
A. Financial assets	**1,342,765**	**75,971**	**15,595**	**6,363**	**18,777**	**61,045**
A.1 Debt securities	353,940	-	-	-	-	-
A.2 Equity securities	11,636	353	-	-	-	156
A.3 Loans to banks	509,528	61,768	8,541	6,058	10,297	47,748
A.4 Loans to customers	467,661	13,850	7,054	305	8,480	13,141
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**25,014**	**1,169**	**152**	**239**	**1,190**	**1,743**
C. Financial liabilities	**726,963**	**21,327**	**3,202**	**6,365**	**16,191**	**42,884**
C.1 Deposits from banks	251,056	10,088	233	3,152	13,377	29,207
C.2 Customer accounts	430,422	11,239	2,969	3,213	2,814	13,677
C.3 Debt securities	45,485	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	**13,268**	**476**	**276**	**9**	**35**	**4,304**
E. Financial derivatives						
- Options						
+ Long positions	280,243	7,116	2,791	-	371	155,341
+ Short positions	280,243	7,116	2,791	-	371	155,341
- Other						
+ Long positions	1,679,398	162,753	38,978	10,112	15,907	71,698
+ Short positions	2,397,947	220,386	51,454	10,351	19,705	73,839
Total assets	**3,327,420**	**247,009**	**57,516**	**16,714**	**36,245**	**289,827**
Total liabilities	**3,418,421**	**249,305**	**57,723**	**16,725**	**36,302**	**276,368**
Difference (+/-)	**(91,001)**	**(2,296)**	**(207)**	**(11)**	**(57)**	**13,459**

2. Internal models and other sensitivity analysis methods

For general information on the management model of foreign exchange risks, refer to Part E in the Notes to the consolidated financial statements.

The following scenarios were used for foreign exchange rate simulations:

- +1% for all foreign exchange rates to the Euro,
- -1% for all foreign exchange rates to the Euro,
- +1 point for all volatility surfaces of all foreign exchange rates.

The impact on net interest and other banking income and on profit/loss for the year was estimated taking only account of positions classified as “Financial assets held for trading” and “Financial assets measured at fair value as per mandatory requirements” which recognise changes in the market value directly in the income statement. Conversely, the impact on equity is estimated with reference to all positions classified as “Financial assets measured at fair value through other comprehensive income” and related fair value hedges (FVH). The total effect is the result of the algebraic sum of the two components. Below is a summary of the scenario analyses.

MPS Bank

EUR/mln

Risk Family	Scenario	Impact on net interest and other banking income and net profit	Impact on shareholders' equity	Global Effect
Forex	+1% Exchange rate against EUR	0.01	(0.05)	(0.03)
Forex	-1% Exchange rate against EUR	(0.01)	0.05	0.04
Forex	+1% Forex Volatility	0.00	0,00	0.00

Section 3 - Derivatives and hedging policies

3.1 Derivatives for trading

A. Financial derivatives

A.1 Financial derivatives for trading: end of period notional amounts

Underlying asset/Type of derivative	Total 31 12 2019				Total 31 12 2018			
	Over the counter			Organised financial markets	Over the counter			Organised financial markets
	Central counterparties	No Central counterparties			Central couterparties	No Central counterparties		
		Contracts subject to Master netting agreements	Contracts not subject to Master netting agreements			Contracts subject to Master netting agreements	Contracts not subject to Master netting agreements	
1. Debt securities and interest rate	**-**	**15,181,234**	**4,165,151**	**-**	**-**	**17,826,411**	**3,825,057**	**-**
a) Options	-	8,645,769	2,085,493	-	-	10,967,424	1,585,452	-
b) Swaps	-	6,535,465	2,079,658	-	-	6,858,987	2,239,605	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity securities and stock indices	**-**	**407,137**	**9,294**	**-**	**-**	**415,939**	**1,787**	**-**
a) Options	-	407,137	9,294	-	-	415,939	1,787	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Exchange rates and gold	**-**	**1,472,746**	**3,122,851**	**-**	**-**	**1,739,340**	**2,881,628**	**-**
a) Options	-	718,582	716,153	-	-	892,179	892,545	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forward	-	754,164	2,406,698	-	-	847,161	1,989,083	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	**-**	**212,856**	**212,856**	**-**	**-**	**134,160**	**134,160**	**-**
5.Other underlying	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**-**	**17,273,973**	**7,510,152**	**-**	**-**	**20,115,850**	**6,842,632**	**-**

A.2 Financial derivatives for trading: gross positive and negative fair value - breakdown by products

Underlying asset/Type of derivative	Total 31 12 2019				Total 31 12 2018			
	Over the counter			Organised financial markets	Over the counter			Organised financial markets
	Central couterparties	No Central counterparties: Contracts subject to Master netting agreements	No Central counterparties: Contracts not subject to Master netting agreements		Central couterparties	No Central counterparties: Contracts subject to Master netting agreements	No Central counterparties: Contracts not subject to Master netting agreements	
1. Positive Fair value	-	-	-	-	-	-	-	-
a) Options	-	16,080	4,810	-	-	37,926	12,725	-
b) Interest rate swap	-	514,081	94,052	-	-	487,090	101,911	-
c) Cross currency swap	-	-	-	-	-	-	-	-
d) Equity swap	-	-	-	-	-	-	-	-
e) Forward	-	4,839	19,395	-	-	13,240	16,387	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	11,451	19,472	-	-	5,945	20,564	-
Total	**-**	**546,451**	**137,729**	**-**	**-**	**544,201**	**151,587**	**-**
2. Negative fair value	-	-	-	-	-	-	-	-
a) Options	-	9,863	10,580	-	-	34,373	19,000	-
b) Interest rate swap	-	513,440	664	-	-	499,772	10,640	-
c) Cross currency swap	-	-	-	-	-	-	-	-
d) Equity swap	-	-	-	-	-	-	-	-
e) Forward	-	5,726	10,942	-	-	6,472	18,960	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	19,615	11,478	-	-	20,658	5,963	-
Total	**-**	**548,644**	**33,664**	**-**	**-**	**561,275**	**54,563**	**-**

A.3 Financial OTC derivatives for trading: notional amounts, gross positive and negative fair value for counterparties

31 12 2019

Underlying assets	Central Counterparties	Banks	Other Fiancial Companies	Other entities
Contracts not subject to master netting agreements				
1) Debt securities and interest rates				
- notional value	X	736,520	65,892	3,362,739
- positive fair value	X	-	1,587	94,484
- negative fair value	X	-	4	3,712
2) Equity securities and stock indices				
- notional value	X	-	-	9,293
- positive fair value	X	-	-	-
- negative fair value	X	-	-	124
3) Exchange rates and gold				
- notional value	X	1,474,285	21,554	1,627,012
- positive fair value	X	11,051	259	10,784
- negative fair value	X	6,247	-	12,010
4) Commodities				
- notional value	X	-	-	212,856
- positive fair value	X	-	-	19,564
- negative fair value	X	-	-	11,567
5) Other underlying				
Contracts subject to master netting agreements				
1) Debt securities and interest rates				
- notional value	-	14,534,610	646,624	-
- positive fair value	-	518,646	3,248	-
- negative fair value	-	414,936	103,584	-
2) Equity securities and stock indices				
- notional value	-	407,137	-	-
- positive fair value	-	862	-	-
- negative fair value	-	1,977	-	-
3) Exchange rates and gold				
- notional value	-	1,472,746	-	-
- positive fair value	-	12,154	-	-
- negative fair value	-	8,438	-	-
4) Commodities				
- notional value	-	212,856	-	-
- positive fair value	-	11,541	-	-
- negative fair value	-	19,709	-	-
5) Other underlying				

A.4 Residual life of financial OTC derivatives for trading: notional amounts

Underlying asset/residual life	Up to 1 year	1 to 5 years	Over 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	2,566,016	7,523,424	9,256,944	19,346,384
A.2 Financial derivatives on equity securities and stock indices	24	252,868	163,537	416,429
A.3 Financial derivatives on exchange rates and gold	4,370,033	225,564	-	4,595,597
A.4 Financial derivatives on other underlying assets	407,985	17,727	-	425,712
A.5 Other financial derivates	-	-	-	-
Total 31 12 2019	**7,344,058**	**8,019,583**	**9,420,481**	**24,784,122**
Total 31 12 2018	**7,128,929**	**10,040,514**	**9,789,039**	**26,958,482**

B. Credit derivatives

B.1. Credit derivatives for trading: end of period notional amounts

Transaction categories	Regulatory trading book	
	single name	with multiple counterparties (basket)
1. Purchases of protection		
a) Credit default products	130,000	-
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Others	-	-
Total 31 12 2019	**130,000**	**-**
Total 31 12 2018	130,000	-
2. Sales of protection	**-**	**-**
a) Credit default products	130,000	-
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Others	-	-
Total 31 12 2019	**130,000**	**-**
Total 31 12 2018	130,000	-

B.2. Credit derivatives for trading: gross positive and negative fair value - breakdown by products

Portfolios/Types of derivatives	Positive Fair Value	
	Total 31 12 2019	Total 31 12 2018
A. Positive fair value	**-**	**-**
a) Credit default products	1,200	7,196
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
Total	**1,200**	**7,196**
B. Negative fair value	**-**	**-**
a) Credit default products	1,200	7,196
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
Total	**1,200**	**7,196**

B.3. OTC credit derivatives for trading: notional amounts, gross fair value (positive and negative) for counterparties

31 12 2019

Underlying assets	Central counterparties	Banks	Other financial companies	Other entities
Contracts not subject to master netting agreements				
1) Purchase of protection				
2) Sales of protection				
Contracts subject to master netting agreements				
1) Purchase of protection				
- notional value	-	-	130,000	-
- positive fair value	-	-	1,200	-
- negative fair value	-	-	-	-
2) Sales of protection				
- notional value	-	130,000	-	-
- positive fair value	-	-	-	-
- negative fair value	-	1,200	-	-

B.4 Residual life of OTC credit derivatives for trading: notional amounts

Underlying asset/residual life	Up to 1 year	1 to 5 years	Over 5 years	Total
1. Sales of protection	-	-	130,000	130,000
2. Purchase of protection	-	-	130,000	130,000
Total 31 12 2019	**-**	**-**	**260,000**	**260,000**
Total 31 12 2018	**-**	**-**	**260,000**	**260,000**

B.5 Credit derivatives related to the fair value option: annual changes

This table was not drawn up as the Bank does not apply the accounting rules on hedging pursuant to IFRS 9.

3.2 Hedges

Qualitative Information

The Bank, in applying IFRS 9, has exercised the option provided by the standard to continue to fully apply IAS 39 for all types of hedging (micro and macro). Therefore, the provisions of IFRS 9 in terms of hedging do not apply.

A. Fair value hedging

The purpose of interest rate risk hedging is to protect the banking book from changes in the fair value of deposits and loans caused by movements in the interest rate curve or to reduce the variability of cash flows linked to a particular asset/liability.

At Bank level, the risk predominantly hedged is the interest rate risk with fair value hedges, for a total of approximately EUR 45 bn in nominal amount of hedging derivatives.

The Bank uses the following hedges to manage interest rate risk:

- micro fair value hedges: hedging of trading assets (loans/mortgage loans), security portfolio and bonds;
- macro fair value hedges: hedging of non-trading assets (loans/mortgage loans) and corporate funding (time deposits);

The fair value hedges at Bank level regard both micro hedges of assets and liabilities, identified specifically and represented by government bonds in the Banking Book and bonds issued by the Parent Company, as well as macro hedges (macro hedge - version with bottom layer approach) of retail fixed-rate deposits.

The derivatives used for this purpose are primarily interest rate swaps (IRS) and options on rates realised with third parties or with other companies of the Group.

Derivatives are not listed in regulated markets, but are traded within the scope of OTC circuits. OTC agreements also include those brokered through Clearing Houses.

B. Cash-flow hedging

Hedging activities carried out by the Bank aim at covering exposure to fluctuations in future cash flows, attributable to changes in the interest rate curve, associated with a specific asset/liability, as payments of future floating interests on a payable/receivable or to a highly probable future transaction.

At the Bank level, hedging derivatives for cash flow hedging transactions amounted to about EUR 50 mln in nominal value.

The Bank adopts only specific hedges (micro cash flow hedge) of floating interest loans.

The derivatives used for this purpose are predominantly interest rate swaps (IRS).

C. Hedging of foreign investment

The bank does not have any such hedging in place.

D. Hedging instruments

The sources of ineffectiveness of a hedging relationship are generally and primarily ascribable to the following aspects:

- trading of derivatives based on non-market parameters;
- incorrect estimate of the hedging percentage;
- plan for the amortisation of the notional amount that is not aligned with that recognised on the hedged instrument.

The ineffectiveness of the hedging is recognised in the Income Statement and measured according to the possibility of continuing to apply the hedge accounting rules.

E. Hedged items

At the Bank level, the main types of hedged items are:

- debt securities under assets;
- debt securities issued;
- fixed-rate commercial loans;
- optional component implicit in the floating-rate mortgage loans;
- fixed-rate commercial funding;
- fixed-rate funding (TLTRO).

E.1 Debt securities under assets

They are covered under hedging relationships especially of a micro fair value hedge type using primarily IRS as hedging instruments. The hedged risk is the interest rate risk.

In order to verify the efficacy of the hedge the Dollar Offset Method is used. This method is based on the relationship between the cumulated changes (from the beginning of the hedging) in the fair value of the hedging instrument, attributable to the hedged risk, and the past changes in the fair value of the hedged item.

E.2 Debt securities issued

They are covered under hedging relationships of a micro fair value hedge type using primarily IRS as hedging instruments. The hedged risk is the interest rate risk.

In order to verify the efficacy of the hedge the Dollar Offset Method is used. This method is based on the relationship between the cumulated changes (from the beginning of the hedging) in the fair value of the hedging instrument, attributable to the hedged risk, and the past changes in the fair value of the hedged item.

E.3 Fixed-rate commercial loans

They are covered under hedging relationships of a macro fair value hedge type using primarily IRS as hedging instruments. The hedged risk is the interest rate risk.

The effectiveness of the macro hedging on fixed-rate loans is measured based on specific forward-looking and retrospective tests aimed at demonstrating that the portfolio subject to hedging contains an amount of assets of which the sensitivity profile and the changes in the fair value for the interest rate risk reflect those of the hedging derivatives. It must be noted that for the purpose of the forward-looking and the retrospective tests, the portfolio subject to hedging takes into account the prepayment estimates, determined on the basis of the model used from time to time for managing the interest rate risk.

E.4 Optional component implicit in the floating-rate mortgage loans;

The optional components implicit in the loans with floating interest rate are covered under hedging relationships of a macro fair value hedge type using, as hedging instruments, cap/floor derivatives.

The effectiveness of the hedging is verified by using the resilience of the capacity test.

E.5 Fixed-rate commercial funding

They are covered under hedging relationships of a macro fair value hedge type using primarily IRS as hedging instruments. The hedged risk is the interest rate risk.

The effectiveness of the macro hedges on the commercial funding with fixed interest rate is verified using the Dollar Offset Method. This method is based on the relationship between the cumulated changes (from the beginning of the hedging) in the fair value of the hedging instrument, attributable to the hedged risk, and the past changes in the fair value of the hedged item. The effectiveness is verified through a capacity test that compares the amount of the hedged items and the amount of the hedging instrument.

E.6 Fixed-rate funding (TLTRO)

They are covered under hedging relationships of a micro fair value hedge type using primarily IRS as hedging instruments. The hedged risk is the interest rate risk.

In order to verify the efficacy of the hedge the Dollar Offset Method is used. This method is based on the relationship between the cumulated changes (from the beginning of the hedging) in the fair value of the hedging instrument, attributable to the hedged risk, and the past changes in the fair value of the hedged item.

Other information

The Bank, as regards the IBOR reform, exercised the option of an early application of the amendments to IAS 39.

Following, as required in IFRS 7.24H, is the table containing details, by nominal amounts, of the hedging according to the reference index of the interest rates.

Reference index Interest rate	Nominal amount			Total
	Micro Hedge FVH	Micro Hedge CFH	Macro Hedge FVH	
EURIBOR 1M	12,250,000		3,998,157	16,248,157
EURIBOR 3M	2,046,448		3,579,363	5,625,811
EURIBOR 6M	11,979,591	50,000	9,075,838	21,105,429
USD LIBOR 3M	449,218			449,218
EURIBOR 30Y CMS	80,097			80,097
3M USDEUR BASIS	44,864			44,864
Total	**26,850,218**	**50,000**	**16,653,358**	**43,553,576**

The table shows the notionals of hedging derivatives including the offsetting made pursuant IAS 32

The Bank does not show any significant hedging index-linked to Eonia/Libor, therefore:

- the significant reference index for the Bank hedging is the Euribor;
- the risk exposure impacted by the index reform is not substantial;
- the Bank has used a regulatory internal document where the actions to be undertaken are described in the case of a substantial change to, or discontinuation of, an index;
- the Bank has set out a specific project intervention regarding the reform of financial indexes and the transition to new risk free rates, and it monitors any regulatory changes.

Quantitative Information

A. Financial hedging derivatives

A.1 Financial hedging derivatives: end of period notional amounts

Underlying asset/Type of derivative	Total 31 12 2019				Total 31 12 2018			
	Over the counter				Over the counter			
		No Central counterparties				No Central counterparties		
	Central counterparties	Contracts subject to master netting agreements	Contracts not subject to master netting agreements	Organised financial markets	Central counterparties	Contracts subject to master netting agreements	Contracts not subject to master netting agreements	Organised financial markets
1. Debt securities and interest rate	**-**	**43,378,975**	**-**	**-**	**-**	**38,599,459**	**1,896,462**	**-**
a) Options	-	8,282,483	-	-	-	3,971,284	-	-
b) Swaps	-	35,096,492	-	-	-	34,628,175	1,896,462	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity securities and stock indices	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
3. Exchange rates and gold	**-**	**389,354**	**-**	**-**	**-**	**382,009**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	389,354	-	-	-	382,009	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
5.Other underlying	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**-**	**43,768,329**	**-**	**-**	**-**	**38,981,468**	**1,896,462**	**-**

A.2 Financial hedging derivatives: gross positive and negative fair value - breakdown by products

Underlying asset/Type of derivative	Total 31 12 2019				Total 31 12 2018			
	Over the counter				Over the counter			
		No Central counterparties				No Central counterparties		
	Central couterparties	Contracts subject to master netting agreements	Contracts not subject to master netting agreements	Organised financial markets	Central couterparties	Contracts subject to master netting agreements	Contracts not subject to master netting agreements	Organised financial markets
1. Positive fair value	-	-	-	-	-	-	-	-
a) Options	-	970	-	-	-	2,409	-	-
b) Interest rate swap	-	211,829	-	-	-	219,703	158,585	-
c) Cross currency swap	-	2,129	-	-	-	1,190	-	-
d) Equity swap	-	-	-	-	-	-	-	-
e) Forward	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-
g) others	-	-	-	-	-	-	-	-
Total	-	**214,928**	-	-	-	**223,302**	**158,585**	-
2. Negative fair value	-	-	-	-	-	-	-	-
a) Opzioni	-	93,530	61,522	-	-	102,374	-	-
b) Interest rate swap	-	1,272,017	-	-	-	738,542	159,116	-
c) Cross currency swap	-	37,647	-	-	-	34,198	-	-
d) Equity swap	-	-	-	-	-	-	-	-
e) Forward	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-
g) Others	-	-	-	-	-	-	-	-
Total	-	**1,403,194**	**61,522**	-	-	**875,114**	**159,116**	-

A.3 Financial OTC hedging derivatives: notional amounts, gross positive and negative fair value for counterparties

Contracts not subject to netting agreements	Central counterparties	Banks	Other financial companies	Other entities
Contracts not subject to master netting agreements				
1) Debt securities and interest rates				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	61,522	-	-
2) Equity securities and stock indices				
3) Exchange rates and gold				
4) Commodities				
5) Other underlying				
Contracts subject to master netting agreements				
1) Debt securities and interest rates				
- notional value	-	42,760,241	618,735	-
- positive fair value	-	212,337	462	-
- negative fair value	-	1,308,914	56,633	-
2) Equity securities and stock indices				
3) Exchange rates and gold				
- notional value	-	389,354	-	-
- positive fair value	-	2,129	-	-
- negative fair value	-	37,647	-	-
4) Commodities				
5) Other underlying				

A.4 Residual life of financial OTC hedging derivatives: notional amounts

Underlying asset/residual life	Up to 1 year	1 to 5 years	Over 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	18,040,600	10,244,860	15,093,515	43,378,975
A.2 Financial derivatives on equity securities and stock indices	-	-	-	-
A.3 Financial derivatives on exchange rates and gold	389,354	-	-	389,354
A.4 Financial derivatives on other underlying assets	-	-	-	-
A.5 Other financial derivates	-	-	-	-
Total 31 12 2019	**18,429,954**	**10,244,860**	**15,093,515**	**43,768,329**
Total 31 12 2018	**8,863,293**	**19,990,259**	**12,024,378**	**40,877,930**

B. Credit hedging derivatives

B.1 Credit hedging derivatives: end of period notional amounts

The tables for this section were not completed since the Bank has no credit hedging derivatives for either the current or previous year.

B.2 Credit hedging derivatives: gross positive and negative fair value - breakdown by products

The tables for this section were not completed since the Bank has no credit hedging derivatives for either the current or previous year.

B.3 OTC credit hedging derivatives: notional amounts, gross positive and negative fair value for counterparties

The tables for this section were not completed since the Bank has no credit hedging derivatives for either the current or previous year.

B.4 Residual life of OTC credit hedging derivatives: notional amounts

The tables for this section were not completed since the Bank has no credit hedging derivatives for either the current or previous year.

§

C. Non-derivative hedging instruments

D. Hedged instruments

E. Effects of hedging transactions on equity

The tables for Sections C, D and E were not completed since the Bank exercised the option, envisaged on first-time application of IFRS 9, to continue to use, as regards "hedge accounting", the provisions of IAS 39.

3.3 Other information on derivatives (trading and hedging)

A. Financial and credit derivatives

A.1 OTC financial and credit derivatives: net fair values for counterparties

31 12 2019

Underlying assets	Central counterparties	Banks	Other financial companies	Other entities
A. Financial derivatives				
1. Debt securities and interest rates				
- notional value	-	53,526,663	1,331,251	3,362,739
- positive fair value	-	-	1,587	94,484
- negative fair value	-	61,523	4	3,712
2. Equity securities and stock indices				
- notional value	-	407,137	-	9,293
- positive fair value	-	-	-	-
- negative fair value	-	-	-	124
3. Exchange rates and gold				
- notional value	-	3,336,385	21,554	1,627,012
- positive fair value	-	11,051	259	10,784
- negative fair value	-	6,247	-	12,010
4) Commodities				
- notional value	-	212,856	-	212,856
- positive fair value	-	-	-	19,564
- negative fair value	-	-	-	11,567
4. Other underlying				
- notional value	-	-	-	-
- positive fair value	-	211,860	-	-
- negative fair value	-	1,247,012	155,306	-
B. Credit derivatives				
1. Purchase of protection				
- notional value	-	-	130,000	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
2. Sales of protection				
- notional value	-	130,000	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

Section 4 - Liquidity risk

Qualitative Information

A. Liquidity risk: general aspects, operational processes and measurement methods

The qualitative information on the management and measurement of the liquidity risk is shown in Part E of the Notes to the consolidated financial statements.

Quantitative Information

1. Breakdown of financial assets and liabilities by residual contractual duration - Currency: Euro

31 12 201[illegible]

Account / Maturity	On demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	over 5 years	Unspecified maturity
Balance-sheet assets	15,358,980	3,180,721	1,079,008	3,902,264	3,345,729	3,884,199	7,305,255	26,874,659	39,507,851	9,456,970
A.1 Government securities	382	-	352,080	100,634	500,391	146,992	782,433	5,589,158	4,606,720	-
A.2 Other debt securities	200,472	-	44	7,672	12,563	10,701	34,938	857,946	2,945,334	9,946
A.3 Units of UCITS	112,085	-	-	-	-	-	-	-	-	329
A.4 Loans	15,046,041	3,180,721	726,884	3,793,958	2,832,775	3,726,506	6,487,884	20,427,555	31,955,797	9,446,695
- Banks	2,897,769	3,062,027	326,316	2,729,492	34,852	584,709	2,576,699	5,370,397	3,535,482	9,262,051
- Customers	12,148,272	118,694	400,568	1,064,467	2,797,923	3,141,797	3,911,18[illegible]	15,057,158	28,420,316	184,643
Balance-sheet liabilities	63,812,169	471,271	53,520	4,702,738	2,334,040	6,657,218	8,209,221	20,331,322	4,462,417	-
B.1 Deposits and current accounts	58,230,958	49,398	43,133	234,919	375,652	514,567	684,912	7,986,588	180	-
- Banks	5,221,032	5,000	-	40,907	9,100	70,450	3,171	1,641,792	180	-
- Customers	53,009,926	44,398	43,133	194,012	366,552	444,117	681,741	6,344,796	-	-
B.2 Debt securities	3,513,703	7,179	233	2,325,983	1,388,774	134,687	232,378	5,527,883	3,544,639	-
B.3 Other liabilities	2,067,508	414,694	10,154	2,141,836	569,614	6,007,964	7,291,931	6,816,851	917,598	-
Off-balance-sheet transactions										
C.1 Financial derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	330,300	308,841	700,375	585,304	230,531	186,364	53,101	-	-
- short positions	-	297,900	24,883	654,648	223,147	204,135	172,368	53,080	-	-
C.2 Financial derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	411,461	335	568	17,603	11,902	34,425	32,253	-	-	-
- short positions	473,744	-	87	3,964	25,906	8,862	49,160	-	-	-
C.3 Deposits and borrowings to be received	-	-	-	-	-	-	-	-	-	-
- long positions	-	12,197	-	-	-	-	-	-	-	-
- short positions	-	12,197	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	-	-	-	-	-	-	-	-	-	-
- long positions	34,250	4,532,788	-	420,226	60,612	42,910	184,879	53,912	656,740	-
- short positions	1,576,382	4,009,187	-	400,748	-	-	-	-	-	-
C.5 Financial guarantees given	12,056	436	145	1,183	6,703	6,165	5,782	17,719	195	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	260,000	-
- short positions	-	-	-	-	-	-	-	-	260,000	-
C.8 Credit derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

2. Breakdown of financial assets and liabilities by residual contractual duration - Currency: Other

31 12 2019

Account / Maturity	On demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	over 5 years	Unspecified maturity
Balance-sheet assets	461,217	32,531	46,556	108,916	218,572	84,145	62,624	109,957	356,258	131,688
A.1 Government securities	-	-	-	-	475	-	755	13,633	-	-
A.2 Other debt securities	-	-	-	-	1,655	2,153	3,789	-	353,391	-
A.3 Units of UCITS	34	-	-	-	-	-	-	-	-	-
A.4 Loans	461,183	32,531	46,556	108,916	216,442	81,992	58,080	96,324	2,867	131,688
- Banks	374,583	19,558	23,303	51,070	107,895	23,833	20,848	25,680	-	-
- Customers	86,601	12,973	23,253	57,846	108,547	58,159	37,232	70,644	2,867	131,688
Balance-sheet liabilities	427,198	89	28,623	289,127	8,793	6,452	6,143	51,530	-	-
B.1 Deposits and current accounts	425,506	89	28,623	68,157	8,382	6,041	5,321	-	-	-
- Banks	57,998	-	14,480	3,814	598	-	896	-	-	-
- Customers	367,508	89	14,144	64,343	7,783	6,041	4,425	-	-	-
B.2 Debt securities	-	-	-	-	411	411	822	44,864	-	-
B.3 Other liabilities	1,692	-	-	220,970	-	-	-	6,666	-	-
Off-balance-sheet transactions										
C.1 Financial derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	310,314	31,223	658,457	227,912	206,832	173,294	53,015	-	-
- short positions	-	351,484	312,000	703,211	623,313	225,068	187,398	53,409	-	-
C.2 Financial derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	122,833	-	-	-	-	-	-	-	-	-
- short positions	122,848	-	-	-	387	-	267	-	-	-
C.3 Deposits and borrowings to be received	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	1	3,266	1,833	-	-	-	-
- short positions	5,100	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	6	-	-	-	6	-	18,483	1,420	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

Self-securitisations

The securitisation transactions whereby the Bank underwrites securities issued by vehicle companies (self-securitisations) are not shown in the tables of Part E of the Notes to the Financial Statements, section C "Asset securitisation and disposal transactions", pursuant to the provisions of Circular 262 of the Bank of Italy.

Self-securitisations of assets are transactions aimed at improving liquidity risk management by optimising the amount of assets readily available to cover liquidity requirements.

Although the Bank's direct and full underwriting of the notes issued by the vehicles does not make it possible to obtain direct liquidity from the market, it still provides the Bank with securities that could be used for ECB refinancing (limited to the senior tranches as ECB eligible) and for reverse purchase agreements by increasing the availability of disposable assets, thus improving the MPS Group safety margin against liquidity risk (counterbalancing capacity).

These sale transactions had no economic impact on the financial statements: loans continue to be reported under item 40b) "Financial assets measured at amortised cost: loans to customers" on the assets side, while underwritten notes are not reported.

As at 31 December 2019, this category includes the self-securitisations completed in December 2007 (Siena Mortgages 07–5), April 2008 (Siena Mortgages 07-5 II series), April 2009 (Siena Mortgages 09-6) and October 2016 (Siena PMI 2016).

Siena Mortgages 07-5, I and II series

On 21 December 2007, through the vehicle Siena Mortgages 07-5 S.p.a., the Bank finalised a securitisation of performing loans consisting of a portfolio of 57,968 residential mortgage loans for a total of EUR 5,162.4 mln, of which a balance of EUR 1,027.3 mln (19,853 mortgage loans) outstanding as at 31 December 2019.

In order to fund the acquisition, the Vehicle issued Residential Mortgage Backed Floating Rate Notes (RMBS) in the following classes, rated by Moody's and Fitch as at 31 December 2019:

- Class A notes (Aa3/AA) for a nominal amount of EUR 4,765.9 mln, of which EUR 4,141.3 mln redeemed;
- Class B notes (Aa3 and AA), for a nominal amount of EUR 157.4 mln;
- Class C notes (B3 and B), for a nominal amount of EUR 239.0 mln.

A cash reserve was also set up to support the transaction for an amount of EUR 124.0 mln, through the issuance of class D notes, which was posted under assets, item 40 b) "Financial assets measured at amortised cost: loans to customers". The transaction reached the Protection Ratio (ratio between total Class B and C notes and total Class A, B and C notes) which allowed for the gradual reduction of the cash reserve amounting to EUR 29.0 mln as at 31 December 2019.

The first series was followed on 24 April 2008 by a second series (Siena Mortgages 07-5 second series), collateralised by a separate pool of assets consisting of an additional sale of a portfolio of performing loans composed of 41,888 residential mortgage loans for a total of EUR 3,416.0 mln and with a residual life of about 20 years.

As at 31 December 2019, 12,193 mortgage loans were outstanding for a balance of EUR 788.5 mln.

In order to fund the acquisition of loans, the Vehicle (the existing Siena Mortgages 07-5 S.p.a.) issued RMBS in the following classes, rated by Moody's and Fitch as at 31 December 2019:

- Class A notes (Aa3 and AA) for a nominal amount of EUR 3,129.4 mln, of which EUR 2,633.8 mln redeemed;
- Class B notes (Aa3 and A), for a nominal amount of EUR 108.3 mln;
- Class C notes (NR and B), for a nominal amount of EUR 178.3 mln.

A cash reserve was also set up to support the transaction for an amount of EUR 81.9 mln, through the issuance of class D notes, posted to the assets side under item 40 b) "Financial assets measured at amortised cost: loans to customers". The transaction reached the Protection Ratio (ratio between total Class B and C notes and total Class

A, B and C notes) which allowed for the gradual reduction of the cash reserve amounting to EUR 18.6 mln as at 31 December 2019.

Siena Mortgages 09-6, I series

On 22 April 2009, the Bank finalised a securitisation through the vehicle Siena Mortgages 09 - 6 Srl of a portfolio of performing mortgage loans in real estate and constructions for a total of EUR 4,436.5 mln. As at 31 December 2019, the remaining debt balance stands at EUR 1,306.3 mln, for a total of 19,906 mortgage loans.

In order to fund the acquisition of the portfolio sold, the Vehicle issued Residential Mortgage Backed Floating Rate Notes (RMBS) in the following classes, rated by Moody's and Fitch as at 31 December 2019:

- Class A notes (Aa3 and AA) for a nominal amount of EUR 3,851.3 mln, of which EUR 3,177.5 mln redeemed;
- Class B notes (NR and AA), for a nominal amount of EUR 403.7 mln;
- Class C notes (NR and A-), for a nominal amount of EUR 181.4 mln.

A cash reserve was also set up to support the transaction for an amount of EUR 106.5 mln, through the issuance of class D notes, posted to the assets side under item 40 b) “Financial assets measured at amortised cost: loans to customers". As at 31 December 2019, the reserve amounted to EUR 138.4 mln.

Siena PMI 2016

In 2016 the Bank finalised a securitisation through the vehicle named Siena PMI 2016 S.r.l. The transaction was finalised on 30 September 2016 through the sale of a portfolio of performing loans to Italian small and medium sized enterprises, for a total of EUR 1,739.3 mln. As at 31 December 2019, the remaining debt balance stood at EUR 409.9 mln, for a total of 8,737 mortgage loans.

In order to fund the acquisition of the portfolio sold, on 27 October 2016, the Vehicle issued Asset-Backed Securities (ABS) in the following classes, rated by Fitch and DBRS as at 31 December 2019:

- Class A1 notes (AA and AAA) for a nominal amount of EUR 470.0 mln, redeemed in full;
- Class A2 notes (AA and AAA) for a nominal amount of EUR 400.0 mln, redeemed in full;
- Class B notes (AA and AAH), for a nominal amount of EUR 150.0 mln, redeemed in full;
- Class C notes (BBB and AH) for a nominal amount of EUR 313.0 mln, with EUR 131.5 mln redeemed;
- Class J notes (not rated) for a nominal amount of EUR 406.3 mln, with EUR 121.2 mln redeemed.

Section 5 - Operational risk

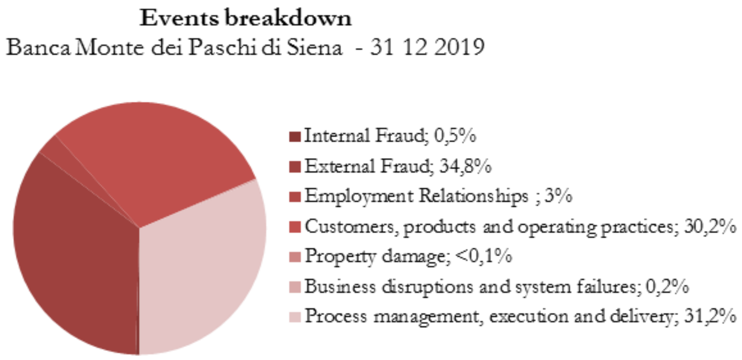
Qualitative Information

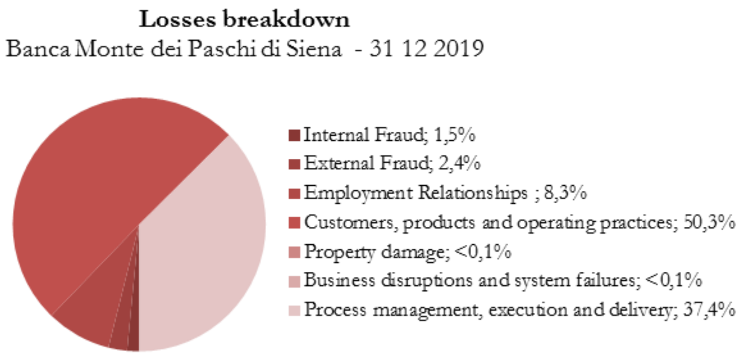
A. Operational risk: general aspects, operational processes and measurement methods

The qualitative information on the management and measurement of operational risks is shown in Part E of the Notes to the consolidated financial statements.

Quantitative Information

The percentage breakdown of events and operational losses recognised in 2019 is reported below, divided into various risk classes.





As at 31 December 2019, the number of operational risk events and the operating losses were up compared to December 2018.

The types of event with the greatest impact on the income statement remain attributable to non-fulfilment of professional obligations with customers (under "Customers, products and operating practices": approximately 50% of the total) and operational and process management shortfalls (under "Process management, execution and delivery": approximately 37% of the total).

With regard to "non-fulfilment of professional obligations with customers", events are mainly associated with claims due to past increases of the share capital, the application of compound interest and to the compensation initiative with regard to customers indicated to third-party companies for the purchase of diamonds.

Main types of legal, labor and tax risk

Summary information is reported below including, when relevant and/or advisable, that relating to individual claims with reference to significant issues involving Banca Monte dei Paschi di Siena and which are not considered completely groundless or normal within the context of the Bank's activities.

Legal Disputes and Out of Court claims

The risks associated with or connected to legal disputes - i.e. disputes brought before judicial authorities and arbitrators - are kept under specific and careful review by the Bank.

In case of disputes or Out of court claims, for which the disbursement of financial resources to perform the underlying legal obligation is believed to be "likely" and the relevant amount can be reliably estimated, allocations are made to the Reserve for Risks and Charges using statistical or analytical criteria.

As at 31 December 2019, are pending:

- legal disputes, where quantified, amounted to a total of approximately EUR 4.2 bn. In particular:
  - approx. EUR 2.1 bn in claims regarding disputes for which there is a "probable" risk of losing the case, for which provisions of EUR 0.5 bn have been allocated;
  - approx. EUR 1.5 bn in claims attributable to disputes for which there is a "possible" risk of losing the case;
  - approx. EUR 0.6 bn in claims attributable to the remaining disputes, for which there is a "remote" risk of losing the case.
- Out of Court claims, where quantified, amounted to a total of approximately EUR 0.9 bn. In particular:
  - approx. EUR 0.6 bn in claims regarding disputes for which there is a "probable" risk of losing the case,
  - approx. EUR 0.3 bn in claims attributable to disputes for which there is a "possible" risk of losing the case.

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

The key characteristics of significant cases, by macro-category or individually, are described below.

Disputes regarding compound interest, interest and conditions

Following the change in orientation by the Supreme Court of Cassation (Corte di Cassazione) on the legitimacy of the practice of capitalising on a quarterly basis the interest payable accrued on current accounts, as of 1999 there has been a progressive increase in claims for the return of interest expense resulting from quarterly compound interest. In these lawsuits, the plaintiffs also contest the legitimacy of the interest rate and the methods to determine the commissions applied to the accounts. In this regard, the interpretation introduced since 2010 by the Supreme Court on usury - according to which overlimit fees (Commissioni di Massimo Scoperto), even before Italian Law no. 2/2009 was enforced, should have been calculated on the basis of the effective global rate (Tasso Effettivo Globale - TEG), contrary to Bank of Italy guidelines - is frequently the pretext for the actions brought by customers. The plaintiffs most often claim irregularities in current account balances; however, claims concerning compound interest are also increasingly frequent: these cases are based on the alleged illegitimacy of the so-called "French-style amortisation" in mortgage loans, and violation of Italian Law no. 108/1996 on usury in term loans. Aware that the jurisprudential interpretation is often disadvantageous (although not univocal), at least with respect to certain issues, the Bank is committed to maximising the arguments in its defence - which do exist, particularly concerning the statute of limitations - identifiable in the regulatory and interpretative framework. For this type of dispute, provisions for risks of EUR 133.4 mln were allocated, against a total claim amount of EUR 312.5 mln.

Dispute regarding bankruptcy rescindments

The reform implemented from 2005 has reduced and limited the scope of bankruptcy rescindments, particularly those relating to current account remittances. For those that can still be filed, or already pending at the effective date of the reform, the Bank is giving maximum emphasis to all the arguments available in defence. For this type of dispute, provisions for risks of EUR 29.8 mln were allocated, against a total claim amount of EUR 136.8 mln.

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

The considerable defensive efforts made in this type of lawsuit resulted over the years in the emergence of some favourable jurisprudential orientations, at least with respect to certain specific cases, which are allowing balanced risk control. It should be noted that starting from 2015, several unfavourable rulings were issued by the Supreme Court – with its latest order no. 6252 published on 14 March 2018 by the Civil Cassation Section 1^ - pursuant to which "*the financial product called 4You does not entail an interest worthy of protection, under the regulatory framework, as it does not comply with the general principles set forth in articles 38 and 47 Cost.*", due to the evident synallagmatic unbalance. Given these rulings, a penalising predilection in the case law regarding the Parent Company arguments can be considered solidified. For this type of dispute, provisions for risks of EUR 9.7 mln were allocated, against a total claim amount of EUR 27.2 mln.

Dispute with purchasers of subordinated bonds issued by Group companies

Following the burden-sharing plan implemented in 2017 in application of Law Decree no. 237/2016, some investors who had purchased subordinated bonds issued by Group companies (later becoming shareholders as a result of the aforementioned measure, with resulting losses compared to the amount initially invested) sued the Bank, claiming that, at the time of the investment, it did not inform customers regarding the nature and characteristics of the financial instruments purchased, also raising objections on the proper fulfilment of obligations with which the Bank must comply as a financial intermediary. This dispute is primarily related to investments in Lower Tier II bonds; indeed, in the majority of the cases the investors had their securities converted into ordinary shares pursuant to the law, without being able to benefit from the public offering for settlement and exchange promoted by the Bank pursuant to Decree no. 237/2016 ("Burden Sharing").

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

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

The number of these disputes currently stands at 111 for a total amount of relief sought of EUR 48.3 mln, for which provisions for risks of EUR 25.2 mln have been recognised.

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

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

In particular, as at 31 December 2019, the total claims for this type of dispute amounted to EUR 2.0 bn, subdivided as follows (data in EUR mln).

Type of dispute	31/12/19	31/12/18
Civil dispute*	883	764
Civil Part Constitutions cp 29634/14**	137	42
Filed civil claim cp 955/16***	95	76
Out-of-court claims	858	607
TOTAL CLAIMS	**1,973**	**1,489**

(*) The increase in Civil Disputes compared to 31 december 2018, is mainly due to the claims whit York Fund, for an investments made since 2014. The amount of claims is partially offset by settlement aggrements reached whit some counterparties

(**)The increase in the petitum related to Civil part Constitution cp 29634/14, compared to 31 december 2018, is attributable to the written conclusions resigned in the hearigns of 23 and 30 may 2019, whit which the civil parties quantified the claims, net of 2 civil parties who at the hearing on 29 september 2019, expressed formal waiver to the civil action against the Parent Company.

(***) The increase in the petitum related to Filed civil Claim CP955/16, compared to 31 december 2018, is attributable to the filing, during the hearing on 16 september 2019, of a technical advice that quantifying the alleged damages suffereb by some hundered civil parties.

(****) The increase in the petitum related to Out of court claims for an amount of EUR 251 mln compared to 31 december 2018, refers to the 2014-2015 share capital increases.

The main lawsuits are outlined below by type.

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

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

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

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

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

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

The judge, during the hearing on 24 february 2020, declared inadmissible the issue and postponed the case to the hearing of 16 july 2020.

Whit a separate sentence dated 2 march 2020, the judge responded to preliminary inquires of CTU, which will soon be able to resume the expert operations suspended in the meantime.

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

On 26 July 2016, Coop Centro Italia S.c.p.a. served a writ of summons against the Bank, jointly with CONSOB, before the Court of Florence (Section specialised in corporate matters) for the hearing of 20 January 2017, requesting total compensation of EUR 51.6 mln for actual damages, in addition to loss of profits quantified during the course of the proceedings in EUR 9.8 mln for a total claim of EUR 61.4 mln, due to the alleged false disclosure of the prospectuses relating to the Bank's capital increases in the years 2008, 2011 and 2014, in which the company had participated.

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

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

On 22 November 2017, the counterparties (the "Funds") served a complaint on the Bank, as well as Nomura International, Giuseppe Mussari, Antonio Vigni, Alessandro Profumo, Fabrizio Viola and Paolo Salvadori, before the Court of Milan, requesting that the court confirm and declare: (i) the alleged liability of the Bank pursuant to art. 94 of the Consolidated Law on Finance, as well as for the deeds of defendants Mussari, Vigni, Profumo and Viola pursuant to art. 2935 of the Italian Civil Code due to the offences perpetrated against the plaintiffs; (ii) the alleged liability of defendants Mussari and Vigni in relation to investments made by the Funds in 2012 on the basis of false information; (iii) the alleged liability of defendants Viola, Profumo and Salvadori in relation to investments made by the Funds subsequent to 2012; and (iv) the alleged liability of Nomura pursuant to art. 2043 of the Italian Civil Code and, as a result, order BMPS and Nomura jointly and severally to provide compensation for financial damages equal to EUR 423.9 mln for Alken Funds Sicav and EUR 10 mln for lower management fees and reputational damage to the management company Alken Luxembourg SA, as well as jointly and severally with BMPS and Nomura the defendants Mussari and Vigni for damages resulting from the investments made in 2012, and Viola, Profumo and Salvadori for damages subsequent to 2012. The counterparties also requested that the defendants be ordered to provide compensation for non-financial damages upon confirmation that they were guilty of the offence of providing false corporate disclosures. The Bank duly appeared and set out is defence. In the alternative, for the denied possibility of granting the opposing applications, the Bank applied for recourse against Nomura. The first hearing, initially set for 18 September 2018, was deferred to 11 December 2018, in order to allow discussion between the parties on the transversal issues formulated by a number of defendants. It should be noted that in the judgement, three individuals intervened, separately and independently, claiming damages for a total of approx. EUR 0.7 mln. At the hearing of 11 December, the Judge reserved his decision on the preliminary objections raised by the parties. Upon lifting the reservation and accepting the objections raised by all the defendants, the Judge declared Alken's summons null and void, due to failure to specify the dates of the share purchases and the nullity of the powers of attorney, assigning the plaintiffs a deadline of 11 January 2019 to supplement the applications and rectify the defects of the powers of attorney. On the other hand, the judge considered Alken's claims concerning the alleged incorrect accounting of the claims to be sufficiently specific and rejected the plea of nullity of the acts of intervention. Following the plaintiff's additions, the defendants insisted on the objections of nullity of the summons and powers of attorney. At the end of the discussion on these objections, which took place at the hearing of 30 January 2019, the Judge reserved his decision. Upon lifting the reservation, the Judge - considering that these preliminary questions must be decided together with the merit - granted the preliminary terms pursuant to art. 183, paragraph six of the Italian Code of Civil Procedure and adjourned the hearing for discussion of the preliminary requests to 2 July 2019. At that hearing, the Bank requested and obtained a deadline of 8 July to object to the demands submitted by an intervener (whose intervention the Bank acknowledged at the hearing), after the parties discussed and illustrated their respective preliminary briefs and the relative petitions. At the end of the discussion, the Judge reserved the right to decide on the preliminary evidence. By order of 24 July 2019, the Judge rejected the request for a court-appointed expert witness submitted by Alken, deeming that the case was ready for a decision considering the subjective characteristics of the plaintiff (professional investor) and the operations of Alken on the BPMS shares (with acquisitions which extended, inter alia, even beyond December 2015). The plaintiff's hearing was scheduled for 14 April 2020.

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

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

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

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

The first hearing, initially scheduled for 29 January 2020, was postponed to 4 february 2020. The Bank entered an appearance as provided for by the law. On 03 february 2020, an act pursuant art. 105 cpc, was filed by a civil part. Whit this act the civil part demand the refund of the full loss of its investment, equal to 14 thousand of euros made during 2014 in equity instruments issued by the bank. The judge has postpoted the case at the hearig on 17 march 2020.

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

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

Criminal proceeding no. 29634/14

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

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

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

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

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

After the request for plea bargain, the Bank's position was closed. With the plea bargain, accepted by the Preliminary Hearing Judge on 14 October 2016, the Bank exits the proceedings as defendant in the administrative offence following crimes committed by its own former executives, limiting the consequences to an administrative financial penalty of EUR 600 thousand and a confiscation, for EUR 10 mln, without exposing itself to the risk of higher penalties.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

On 30 September 2019, the foreign defendant entities pursuant to Italian Legislative Decree 231/01, Deutsche Bank and Nomura, presented their closing arguments.

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

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

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

Criminal proceeding no. 955/16

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The preliminary hearing was opened on 18 March 2019. At subsequent hearings, the texts were examined and are currently being reviewed by the expert witnesses.

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

Investigation whit reference to Impaired loans on the 2012,1013, 2014 financial statementes and 2015 half-yearly report.

In relation to criminal proceeding 955/16, during 2019, the Bank was involved, as the administrative liable party, pursuant to Legislative Decree no. 231/2001, pursuant to article 2622 of the Italian Civil Code, concerning the financial statements 2012, 2013, 2014 and the six month financial statements 2015 formulated in reference to an alleged overvaluation of non-performing loans.

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

Currently, the investigations are being carried out in the form of an evidence gathering procedure for which the Preliminary Investigations Judge has appointed two experts who, by the end of the first half of 2020, should conclude their assessments. A new hearing calendar will be scheduled on june and july 2020.

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

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

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

In relation to capital increases and the allegedly incorrect 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 31 December 2019, the Bank has received 942 out-of-court claims, for a total of approximately EUR 655 mln in quantified claims, aimed at obtaining reimbursement of the amounts invested and/or compensation for monetary and non-monetary damages following the alleged losses suffered. Of said claims, less than 10% filed civil suits (the majority of which as part of the case filed by Marangoni Arnaldo + 123 as mentioned above).

These claims - brought individually or collectively, through two professionals and by ADUSBEF - although naturally heterogeneous, are mostly justified by generic references to the Bank's alleged violation of the industry legislation governing disclosure and, therefore, were rejected by the Bank in that they were considered generic, unfounded, not backed by suitable documentary evidence, and in some cases past the statute of limitations. As at 31 December 2019, the residual claim of the plaintiffs who did not file civil suits amounted to approximately EUR 592 mln.

Lastly, another 410 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 271 mln (around EUR 266 mln considering only the plaintiffs who did not file civil suits).

The grand total amount claimed as at 31 December 2019 is EUR 858 mln.

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Generally speaking, and in application of the provisions of international accounting standard IAS 37, with regard to legal disputes, the formation of civil plaintiffs in criminal proceedings 29634/14 and out-of-court claims relating to disputes regarding the period 2008-2011, the Bank has assessed the risk of losing as "probable" and has therefore set aside provisions for risks and charges in the financial statements. The assessments made regarding the risk of losing the case reflect the decision of the Bank 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 also rejected their request for granting a provisional amount immediately enforceable pursuant to article 539 of the Code of Penal Proceedings, the damage compensation in their favour can take place in a separate civil proceeding to be initiated by the civil party itself.

Conversely, for disputes regarding the period 2012-2015, no provisions were made, as the risk of losing was deemed "unlikely". This includes criminal proceeding 955/16, in relation to which the Bank issued a press release on 12 July 2018 in which it informed the public of its decision not to join as a civil party, considering that the conditions did not exist, while reserving the right to the widest possible protection in civil proceedings should any elements of liability towards the defendants emerge. Even in this case, the risk of losing assessment made by the Bank took into account the positions of the Supervisory Authorities and, in particular, of the relative common decisions not to join as a civil party and not to impose administrative sanctions. Also of equal importance was the position adopted by the Milan Public Prosecutor's Office, which, although obliged to proceed by the Preliminary Investigations Judge, reiterated its conviction that the objections were unfounded, requesting during the preliminary hearing a decision not to prosecute the defendants. Therefore, for civil and criminal disputes concerning the information disclosed solely in the period 2008-2011, the provisions for risks were determined in such a way as to take into account the amount invested by the counterparty in specific periods of time characterised by the disputed information alterations (net of any disinvestments made during these same periods). The damage subject to compensation was then determined on the basis of the "differential damage" criterion, which identifies the damage as the lowest price that the investor would have had to pay if he had had access to complete and correct information. For the purposes of this determination, econometric analysis techniques have been adopted - with the support of qualified experts - suitable to eliminate, among other things, the component inherent in the performance of the equity 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. The differential damage criterion is appropriate for the events that triggered the aforementioned proceedings. From a purely likely and conservative standpoint, the different criterion of "full compensation" was also taken into account (of a minor importance in the prevailing law, including the one that is currently taking shape on this specific subject matter), and that is based on the argument that false or incomplete information may have a causal impact on the investment choices of the investors to such an extent that, in the presence of correct information, they would not have made the investment in question; in this case, the damage is therefore commensurate to the invested capital, net of the amounts recovered from the sale of shares by the Plaintiff/Civil Party. Instead, with reference to out-of-court claims relating to the period 2008-2011, in order to take into account the probability of their transformation into real disputes, the funds were determined by applying an experiential factor, in line with the Bank's policies for similar cases, to requests made by counterparties. In the financial statements as at 31 December 2019, in the absence of changes in the available information, there are no significant information to report with respect to the valuations of the prior year. In any case, the Bank has exercised the possibility granted by IAS 37 of not providing disclosures on the provisions allocated in the balance sheet if it believes that such information could seriously jeopardise its position in disputes and in potential settlement agreements.

Furthermore, on 31 December, again with regard to civil disputes, settlement agreements were reached, involving the closure of 14 disputes against a total relief sought of EUR 70.3 mln. The outlays made following the above transactions did not have a negative impact on the income statement of the 2019 period.

Furthermore, at the beginning of January 2020, settlement agreements were reached, involving the closure of no. 1 dispute with multiple plaintiffs against a total claim of approximately EUR 89 mln, with no additional impact on the Income Statement. On February 2020, 2 settlement agreement were reached, for a total petitum of aprroximately Eur 1.0 mln.

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Other disputes

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

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

At the hearing on 31 May 2018, the Judge reserved his decision on the challenges raised by the convened parties. On 5 June 2018, the Company declared bankruptcy. On 25 July 2018, upon lifting of the reservation made during the hearing of 31 May 2018, the case was adjourned to 31 October 2018, for the court-appointed expert to take the oath. In the meantime, the receivership of the Fatrotek S.r.l. bankruptcy summarised the judgement. The case was adjourned to the hearing of 4 December 2019 for the same issues. At the hearing of 13 february 2020 the judge appointed an expert. The new hearing has been set on 25 november 2020.

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

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

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

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

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

During the appraisal, the Court-appointed expert witness accepted almost entirely the arguments of the defendant Bank, and in any case the plaintiff's claim, as formulated, appears to be groundless in terms of damages to be awarded, as no damage has been suffered. The case was adjourned to 12 March 2020 for closing arguments.

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

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

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

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

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

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

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

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

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

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

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

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

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

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Lastly, on 17 July 2018, the Finance Department of the Sicily Region notified the Bank by means of an order of injunction pursuant to art. 2 of Italian Royal Decree no. 639/1910 and of repayment, pursuant to art. 823, paragraph 2 of the Italian Civil Code of the above amount of around EUR 68.6 mln, assigning the Bank the term of 30 days to make the payment with the warning that, on the back of the failure to do so, it will proceed with the forced recovery through entry of the action in the list of cases. The Bank notified its defence, with the first hearing set for 12 December 2018, against said injunction, drawing up the related application for suspension of the enforceability of said injunction (or execution if launched in the meantime) with the request for a provision without prior hearing of the other side. The Court, which reserved its right to the hearing of 21 August, by order of 24 August rejected the request for suspension, specifying, however, that the injunction may be enforced on the active amounts in the current account of Riscossione Sicilia. The defendant filed an application for the Riscossione Sicilia case, leading to the Court of Palermo's postponement of the first hearing - already scheduled for 12 December 2018 - to 20 March 2019. This first hearing, postponed again to 17 July 2019 due to the unavailability of the Judge, was then scheduled for 26 September 2019. At the first hearing, upon acknowledging the statements provided by the parties, the Judge set out the terms for filing the pleadings pursuant to art. 183 of the Code of Civil Proceedings and adjourned to an evidentiary hearing scheduled for 22 April 2020.

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

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

Following notification of the appeal on 16 October 2018, the appeal itself was filed by the Bank on 12 November 2018. The Department appeared via the Avvocatura dello Stato (office of the State Attorney) on 15 November 2018. Scheduling of the hearing is still pending.

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

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

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

The hearing for closing arguments, initially scheduled for 18 June 2019, was postponed to 19 September 2019 for the same issues. Following delivery of the closing arguments, the decision is pending.

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

In this case, brought with the complaint of 25 November 2013, the directors of the bankrupt Zenith S.p.A. - summoned before the court by the insolvency administrator with a liability action pursuant to article 146 of the Bankruptcy Law - in turn summon the Bank and other banking institutions to hear them declare their exclusive and/or concurrent liability, alleged to have replaced the directors by taking action to allow the return and/or acquisition of guarantees for the large amount of receivables claimed. After the judge rejected the preliminary requests, the case was adjourned to 11 December 2018 for closing arguments. The sentence was declared suspended at the hearing of 11 December 2018, due to the passing of one of the plaintiffs. The claim amounts to approximately EUR 26.5 mln. The case was taken up again by the trustee in bankruptcy and for the continuation of the case a hearing was scheduled for 11 September 2019. The case was adjourned to a hearing scheduled for 17 June 2020 for the delivery of the concluding arguments.

Banca Monte dei Paschi di Siena S.p.A and other eleven credit institutes vs. Lucchini S.p.A. in Amministrazione Straordinaria

With a writ of summons issued on 23 March 2018, the Extraordinary Administrators of Lucchini SpA instituted legal proceedings before the Court of Milan against the Bank and other 11 institutes and companies, to obtain compensation, jointly and severally, for damages allegedly suffered and quantified at around EUR 350.5 mln primarily and around EUR 261.2 mln in the alternative.

The Extraordinary Administrators, who primarily quantify the damages in relation to those generated by the delayed subjugation of the Company to the extraordinary administration proceedings and to the receipts by the defendants in the implementation of a restructuring agreement, essentially assume that the responsibilities of the same defendants could be in fact justified in such restructuring agreement of December 2011 which, according to the plaintiff's submission, would have allowed its signatories, on the one hand, to conceal the real state of failure of the Company so preventing, more specifically delaying the start of the insolvency proceedings and, on the other, to exercise an improper intervention in the management of the Company which could have characteristics of abuse of direction and coordination in pursuant to articles 2497 and 2497-sexies of the Italian Code of Civil Procedure. The Extraordinary Administrators therefore assume the Banks' responsibilities, in addition to in relation to said hypothesis of abuse of direction and coordination, as they are considered to be de facto administrators and for the activities and violations ascribed to the administrators appointed by the same Banks in pursuant to articles 2055 and 2049 of the Italian Civil Code. The first hearing scheduled for 10 July 2018 was postponed to 30 October 2018 and the Bank appeared before the court within the required terms to present its defence. The next hearing in scheduled for 19 November 2019. The case was adjourned to a hearing scheduled for 3 March 2020 for the delivery of the concluding arguments.

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

With a writ of summons, notified on 28 November 2019, the claimant company Marcangeli Giunio srl asked the Court of Siena to assess, first and foremost, the contractual liability of the Bank for not issuing a loan of EUR 24.2 mln - necessary to the purchase of land and the construction of a shopping mall with spaces to be leased or sold - and subsequently the conviction of the Bank with order to pay compensation for actual damages and loss of profit in the amount of approximately EUR 43.3 mln. As an alternative, in view of the facts specified in the writ of summons, an assessment is requested regarding the pre-contractual liability of the Bank for having interrupted the negotiations with the Company and not having disbursed the agreed upon loan, and the conviction of the same and order to pay damage compensation in the same amount asked first and foremost. The first hearing is scheduled for 23 March 2020.

Banca Monte dei Paschi di Siena S.p.A. vs. Extraordinary Administrators of Impresa S.p.A.

On 11 November 2016, the Extraordinary Administrators of Impresa S.p.A. served a writ of summons on the Bank along with other banks participating in a pool (our share is 36.48%) to have the liability of such banks, the members of the Board of Directors of Impresa S.p.A., today under Extraordinary Administration, and the auditing firm confirmed and declared by the court and to have them ordered to provide compensation for damages, jointly and severally, allegedly suffered by the company to the extent of EUR 166.9 mln.

The case is still in the initial phases and the hearing for the first appearance of the parties was held on 31 October 2017.

Along with the defence attorneys of the other Banks in the pool, a preliminary objection was first of all raised concerning the nullity of the complaint; however, the Judge deferred all assessments in this regard to when the decision will be made by the Board.

In the proceedings, the pleadings pursuant to art. 183, paragraph six of the Italian Code of Civil Procedure were filed within the deadlines granted (31 January, 2 March and 22 March 2018) and at the subsequent hearing on 29 October 2018, the Judge reserved his decision with regard to the plaintiff's preliminary requests.

Lifting the reservation, at the hearing of 28 October 2019, the Judge rejected the preliminary objections regarding the invalidity of the complaints and the statute of limitation, reserving to decide on the admission of the court-appointed accounting expert at the end of the audit, concurrently decided upon, about the correctness of the information provided by the counterparty.

The Judge has also admitted oral evidence, formulated by some of the appeared Directors of the Board, regarding circumstances that do not involve the Banks.

At the latest hearing of 21 January 2020, an adjournment to 9 March 2020 was scheduled in order to proceed with the formal questioning.

Banca Monte dei Paschi di Siena S.p.A. vs. CO.E.STRA. Srl in Liquidazione and Preventative Agreement

On 4 December 2014, the administrators of the arrangement with creditors served a writ of summons on the Bank along with other banks participating in a pool (Bank's share is 28.51%) to have their contractual or tort liability in relation to the company's debt restructuring agreement entered into on 30 November 2011 confirmed and declared by the court and have the defendant banks ordered to provide compensation for claimed damages, jointly and severally, suffered or for the claimed aggravation of distress that the company allegedly suffered, quantified by the opposing party as EUR 34.6 mln.

An appeal was filed for the referral of the case to a different competent court; at a public hearing for the discussion of the referral to a different competent court the Attorney General office briefly presented its own closing arguments insisting on the inadmissibility of the referral to a different competent Court.

The Bank requested the admissibility of the petition while Co.E.Stra, which did not file additional pleadings pursuant to article 378 of the Code of Civil Proceedings, also concluded on the inadmissibility of the referral to a different competent court and in any case, asked for its rejection, on the assumption of the erroneous nature of the appealed order.

At the end of the discussion, the Board reserved its decision; therefore, the results of the referral to another competent court is pending.

Banca Monte dei Paschi di Siena S.p.A. vs. FRESH 2008 Bondholders

Some holders of FRESH 2008 securities maturing in 2099, with writ of summons served on 19 December 2017, initiated proceedings against the Bank, the company Mitsubishi UFJ Investors Services & Banking Luxembourg SA (which replaced the Bank in issuing the bond loan Banca di New York Mellon Luxembourg), the British company JP Morgan Securities PLC and the American company JP Morgan Chase Bank NA (which entered into a swap agreement with the bond loan issuer) before the Court of Luxembourg to request confirmation of the inapplicability of the Burden Sharing Decree to the holders of FRESH 2008 securities and, as a result, to have it affirmed that such bonds cannot be forcibly converted into shares, as well as that such bonds will continue to remain valid and effective in compliance with the issue terms and conditions, in that they are governed by the laws of Luxembourg. Lastly, to ascertain that the Bank has no rights, in the absence of the conversion of the FRESH 2008 securities, to obtain the payment of EUR 49.9 mln from JP Morgan in damages for holders of FRESH 2008 securities.

In view of completeness, it is noted that, following the start of the proceedings in question, the Bank, on 19 April 2018, tabled a dispute before the Court of Milan against JP Morgan Securities Ltd JP. Morgan Chase Bank n.a. London Branch, as well as the representative of the Fresh 2008 securities holders and Mitsubishi Investors Services & Banking (Luxembourg) Sa to ascertain that the Italian Judge is the only one with jurisdiction and competence to decide about the usufruct contract and the company swap agreement signed by the Bank with the first two defendants in the context of the operation of the share capital increase in 2008. Consequently the Bank asks for: (i) the determination of the ineffectiveness of the usufruct contract and the company swap agreement which anticipate obligations of payment in favour of JP Morgan Securities PLC and JP Morgan Chase Bank Na in relation to the entry into force of Decree 237; (ii) the determination of the intervened ineffectiveness and/or resolution and/or termination of the usufruct contract or, alternatively, (iii) the determination of the intervened resolution of the usufruct contract relating to the capital deficiency event of 30 June 2017. The first hearing was held on 18 December 2018 and the Judge, considering the prejudicial nature of the issue of jurisdiction raised by the defendants, in view of the fact that a dispute is pending before the Luxembourg Court involving the same demand and the same cause, granted the parties terms to reply only to the procedural objections and adjourned the hearing to 16 April 2019 for assessment of the disputed issue. At the next hearing on 2 July 2019, the decision in the case was deferred to a later date. With order dated 2 December 2019, the Court of Milan has ordered the suspension of the proceedings pending a decision by the afore-mentioned Luxembourg district court. Against this order, the Bank has filed a petition with the Court of Cassation for the referral to a different competent court.

Fondazione MPS, "Alexandria" operation

Fondazione MPS has brought legal proceedings against the attorney Mr Mussari, Mr Vigni and Mr Nomura, based on their alleged liability pursuant to article 2395 of the Italian Civil Code for the direct damage suffered by MPS following the subscription of a share capital increase of BMPS, resolved on in 2011, at a price different from the one that should have been correctly subscribed if the "Alexandria" restructuring had been duly represented in the Financial Statements of the Parent Company. Subsequently, it has petitioned for the conviction of the liable parties with order to pay EUR 268.8 mln for a financial loss and EUR 46.4 mln for non-financial damages, subsequently reduced to EUR 230.3 mln.

In this judgement, Mr Vigni was authorised to take action against the Bank because of an indemnity obligation (with respect to third parties claims) allegedly undertaken by the latter towards him within the consensual termination of his executive position; The attorney Mussari was authorised to take action against the Bank as the liable party, pursuant to article 2049 of the Italian Civil Code, due to some executives allegedly liable for the transaction carried out with Nomura. The Bank received later a writ of summons in its capacity as a third party called on by the afore-mentioned defendants independently promoted by Fondazione MPS and has entered an appearance disputing the claims filed against it. In addition, with a subsequent authorised pleading, Nomura broadened its claims against the Bank, asking to determine the share of liability attributable to the latter and to be kept harmless from it based on its share of liability exceeding the one attributed thereto. However, the settlement agreement entered into by the Bank and Nomura on 23 September 2015 provides, inter alia, that this claim is withdrawn. Mr Vignani has waived the legal actions brought against the Bank following a plea of lack of jurisdiction of the Court of Florence, whereas the action under the right of recourse/indemnity from the attorney Mussari against the Bank was continued. Subsequently to the technical expert opinion formally obtained, the Judge has adjourned to 25 July 2019 for the closing arguments. The case was adjourned to a hearing of 16 March 2020 for the oral arguments.

Employment law disputes

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

At the reporting date of these Financial Statements, for all 460 current appellants, rulings in the first instance were delivered by the Courts of Siena, Rome, Mantua and Lecce (for no. 138 workers) and/or in second instance by the Courts of Appeal of Florence, Rome and Brescia (for n. 321 workers) all against the Parent Company, giving the workers concerned the right to be re-hired, with the exception of one ruling in first instance delivered on 4 October 2019 in favour of the Company[9].

Against the unfavourable judgements, the Bank has already appealed with the competent Courts of Appeal with hearings scheduled, to date, between March 2020 and February 2021; or appealed with the Court of Cassation which has ordered an examination in a public hearing that has not yet been scheduled.

It should be noted that both the Bank and Fruendo, appealing against the unfavourable judgments delivered so far, have filed a petition for deferment with the European Court asking for an assessment of compliance with EC Directive 2001/23 of art. 2112 of the Italian Civil Code, as interpreted by the decisions of the Supreme Court of Cassation, with which the appealed judgments comply.
In particular, out of the 459 workers entitled to be rehired by the Bank, 72 (later decreased to 30 following 25 waivers to be ratified in accordance with legal procedures and 16 settlements and 1 retirement with pension) have submitted a writ of execution requesting to have their employment with the Bank reinstated and consequently to have their insurance and contribution position restored, to which the Bank objected by appealing with the Labour Section of the Court of Siena. At the hearing scheduled for 15 February 2019, the Judge reserved a decision.
It should also be noted that in 2017, 52 workers of Fruendo S.r.l., not under the same category of those who had appealed against the sale of the business unit (later decreased to 32 following waivers/settlements, currently under proceedings) brought the Bank before the Court of Siena (in 6 separate judgments) requesting the continuation of their employment relationship with the Bank, upon declaration of the unlawful interposition of labour ("unlawful contract" that does not involve penal ramifications) as part of the services outsourced by the Bank to Fruendo S.r.l.. The Court of Siena, Labour Section, with judgment dated 25 January 2019 rejected the claims filed by the counterparties. This judgment was appealed by 16 workers before the Court of Appeal of Florence with a hearing scheduled for 23 April 2020.
It should also be noted that in the case of a sale of a business unit considered to be unlawful, the Court of Cassation, in reference with the remuneration obligations of the transferor, has recently handed down a ruling that was not aligned with the case law confirmed over time by the Supreme Court itself: with its recent rulings, it affirmed that the transferring employer would bear remuneration obligations in addition to those fulfilled by the transferee employer, since the principle that the payment made by the latter would discharge the former is considered not applicable to the case in question.
Based on these out of court orientations (so-called "double remuneration"), recently 63 workers involved in the transfer of the business unit and recipient of the above rulings in their favour, in order to request the remuneration allegedly due with the notification of the injunctions that have been appealed by the Bank with the Courts of Siena, Mantua and Rome with hearings scheduled to date between March and May 2020, have brought legal actions against the Bank.

16 of the workers, recipients of these proceedings, have appealed before the Court of Appeal of Florence with a hearing scheduled for 23 April 2020.

[9] *The Court of Siena, objecting on a procedural defect, rejected the petition presented by the counterparty, delivering a judgment favourable to the Bank.*

Risks from tax disputes

Among the cases associated with tax disputes which regard the Bank, those in which the risk of losing is considered likely are limited in number and adequate provisions have been made to the Reserve for risks and charges.

Diamond offer

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

The Antitrust Authority (Autorità Garante della Concorrenza e del Mercato - AGCM), with the resolution adopted at the meeting of 20 September 2017, established the existence of behaviours in violation of the provisions relating to unfair trade practices on the part of DPI and of the banks that had signed agreements with them. With regard to the Bank, a sanction of EUR 2 million was imposed.

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

The Bank had in any case suspended the reporting activity to DPI of its customers starting from 3 February 2017, as soon as they became aware of the opening (25 January 2017) of the formal AGCM investigation with regard to DPI (later extended to the banks with which it had agreements). On 19 March 2018 the Bank terminated the cooperation agreement with DPI (the activity had in practice already been terminated from the date of suspension) and activated a compensation process for its customers who had received recommendations and intended to exit their diamond investment.

The compensation operation, agreed by the Board of Directors since January 2018, envisages the payment to customers of consideration up to an amount equal to that which the latter had originally paid to DPI to purchase the stones, with the simultaneous transfer of the same to the Bank and completion of the transaction.

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

Following the launch of the initiative for a compensation to the customer process by the Bank, AGCM, given also the importance of the measures adopted for the mitigation of the financial impact of the communication of the offer of diamonds to the customers, requested to be kept updated on the progress of this initiative. The most recent report on the progress of the compensation process was sent to AGCM by the Bank on 15 January 2020, with an update of the data as at 31 December 2019.

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

In the attachment order, the Bank - as an administrative liable party - is challenged, at point 14), with the administrative unlawful act related to an offence pursuant to article 5, paragraph 1, letter b) and 25 octies of Italian Legislative Decree 231/2001 as regards the self-laundering offence pursuant to article 648 ter 1 of the Penal Code.

The Bank, in order to have access to the investigation documentation, is proposing a request for a review against this precautionary measure.

On 28 March 2019, the notice with the scheduled hearing, for re-examination, before the Court for 2 April 2019, was given.

Following acquisition of the proceedings documentation, the Bank deemed appropriate to waive the appeal for re-examination before the Court and to propose instead, for a later time, a release from attachment pursuant to article 321, paragraph 3 of the Code of Penal Proceedings.

On 15 April 2019, a notice for the request of an extension of the duration of the preliminary investigations was given.

On 28 September 2019, the notice for the completion of the investigations against the investigated parties (and their defenders) deemed liable and co-liable of the alleged theft against diamond investors, was filed.

The provision, containing the information for guaranteeing the right to a defence, involves 87 natural persons and 7 legal persons including the Bank.

The representatives of the Bank involved are 8, 5 of whom are executives (who are charged with criminal conduct under article 648 ter 1, 2 and 5 of the Penal Code) and 3 are Heads of subsidiaries. The Bank remains involved in the proceedings pursuant to the alleged administrative offence under article 25 octies of Legislative Decree 231/01 related to article 648 ter 1 of the Penal Code.

On 4 December 2019, the Bank, in reference to the decree of preventive attachment issued on 13 February 2019 by the Preliminary Investigations Judge of the Court of Milan in the amount of EUR 35.2 mln, has filed with the Public Prosecutor's Office of Milan a claim for a partial restitution in the amount of EUR 10.5 mln, equal to the total amount reimbursed to some of the customers.

The Bank is waiting for the outcomes of this case.

To meet the initiatives taken, the Bank has set aside provisions which take into account, among other things, the anticipated number of requests and the current wholesale value of the stones to be collected.

As at 31 December 2019, the provisions for risks and charges for the compensation initiative being carried out by the Bank stood at EUR 97.6 mln (included in "Other provisions for risks and charges" sub-item "others").

In terms of allocations, a total of EUR 98 mln million was recognised over the period. The transactions with the customers, carried out in 2019 amounted to about EUR 170 mln.

Financial risks of investment services

Foreword

The following section on financial risks of investment services was written as part of the "Operational Risk" section in line with the compulsory framework for preparation of the Notes to Separate Financial Statements, even though this subject presents specific characteristics and involves organisational levels of authority that are not directly traceable to operational risk management.

Wealth risk management process and methods

Please refer to Part E of the Notes to the consolidated financial statements.

Advisory services on offer, customer risk profile and risk of investment products/portfolios

The strategic choice of the Bank is to systematically combine the placement of financial products with advisory so as to ensure the highest level of protection for the investor and, at the same time, enhance the role played by relationship managers. Again, with a view to protecting customers, the obligation to verify appropriateness has also been extended to the trading activities on the secondary market of the certificates issued by the Bank.

The Bank offers two types of advisory services:

– a "basic" advisory, aimed at verifying the suitability of a single specific investment recommendation, or several investment transactions or several disinvestment transactions in relation to the risk of the customer's investment portfolio as a whole. In this regard, the adequacy model adopts a multivariate control approach to the individual risk factors, taking the risk of the customer's portfolio, including the recommended investment product(s), as a reference;
– an "Advanced" advisory, aimed at verifying the suitability of the overall set of advised transactions based on a range of investment/disinvestment transactions targeted at the construction of one or more portfolios of advanced advisory, consistent with the respective investment objectives, in reference with an optimal asset allocation that aims at obtaining maximised future returns, based on the investment portfolio risk given the customer's risk profile. In this regard, the adequacy model adopts a multivariate control approach to the individual risk factors, taking the risk of the customer's portfolio, including the recommended investment product(s), as a reference.

Wealth risk management activities cover the entire distribution perimeter of the network of Group branches, the investment services operated by Banca Widiba and by MPS Capital Services.

From 3 January 2018, the MiFID II directive (2014/65/EU) came into force in the entire European Union. Together with MiFIR or Markets in financial instruments regulation (EU Regulation 600/2014), this has changed the reference framework of European legislation. By adopting a new MiFID questionnaire introduced on 2 January 2018, Banca MPS has revised the methods of customer profiling and the rules for determining the indicators underlying a customer's risk profile (particularly on: investment objectives, experience and knowledge, time frame).

For further details, please refer to "Operational risks" section in Part E of the Notes to the consolidated financial statements.

Part F - Information on shareholders' equity

Section 1 - Shareholders' equity

The Bank pursues strategic objectives for the entire Group focused on quantitative and qualitative strengthening of capital, structural rebalancing of liquidity and achievement of sustainable profitability levels, compatible with the undertaken risks.

In this perspective, capital management, planning and allocation activities play a crucial role in ensuring compliance over time with the minimum capitalisation requirements set by the regulations and the supervisory authorities, as well as with the risk appetite level approved by the Group's strategic supervision body.

To this end, within the Risk Appetite Framework (RAF), the target capitalisation levels are estimated on a yearly basis and the capital is allocated to the business units according to the expected development, returns and estimated risk levels, making sure that the allocated capital is sufficient to ensure compliance with minimum requirements, under both normal and stress conditions. In the context of the RAF it is used to perform prospective capital adequacy assessments over a multiyear period, under both normal and stress conditions. The analyses are carried out both at Group level and by each individual legal entity subject to regulatory capital requirements. The Group uses methodologies for the correct measurement of profitability, based on risk, by adopting these indicators also within the RAF framework, with related monitoring and management of the total expected risk/return profile.

The achievement of objectives and compliance with regulatory minimum requirements is constantly monitored throughout the year.

The formal corporate processes to which the RAF is applied at least on an annual basis are the budget, the Risk Appetite Statement and the ICAAP. These processes are also consistent with the Recovery Plan process, in particular guaranteeing that the Recovery (RPI) indicators are included among the RAS (KRI) indicators and that the related threshold alerts are aligned.

The definitions of equity applied are those used in Supervisory Regulations: Common Equity Tier 1, Tier 1 and Capital; moreover, the RAPM metrics also include Invested Capital, i.e. the amount of Shareholders' equity needed to achieve Common Equity Tier 1 values, whether determined ex ante as target levels or realised ex post.

The Capital at Risk concepts applied are those used in the regulatory requirements and correspond to the risk weighted assets (RWA), determined on the basis of the rules set out in the supervisory regulations, and the internal capital, defined by the Group based on the so-called "Economic Outlook" provided for in the related ECB guidelines. Both measurements are used as part of RAPM metrics.

B. Quantitative Information

B.1 Equity: breakdown

Net equity items	Totale 31 12 2019	Totale 31 12 2018
1 Shareholders' equity	10,328,618	10,328,618
2 Share premium	-	-
3 Reserves	(1,361,990)	(1,441,677)
- retained earnings	(1,486,867)	(1,359,981)
a) Legal reserves	-	-
b) statutory reserve	-	-
c) Treasury shares	-	-
d) others	(1,486,867)	(1,359,980)
-others	124,877	(81,696)
4 Equity instruments	-	-
5 Treasury shares (-)	(185,958)	(185,958)
6 Valuation reserves	(28,399)	(276,919)
- Equitty instruments measured at fair value through other comprehensive income	(18,819)	(28,431)
- Hedge's equity instruments measured at fair value through other comprehensive income	-	-
- Finciale assets (other than equity instruments) measured at fair value through other comprehensive income	4,230	(139,994)
- Hedges of foreign investments	-	-
- Cash flow hedges	56,004	(50,854)
- hedging Instruments - not designated items	-	-
- Exchange difference	2,715	4,893
- Non-current assets and group of assets held for sale	-	-
- Financial liabilities measured at fair vale through profit and loss (changes in own credit worthiness)	37,894	42,023
- Actuarial gains (losses) on defined benefit plans	(110,423)	(104,556)
- Special revaluation laws	-	-
Profit (loss) for the year - Group and minority interests	(1,174,539)	(111,922)
Net equity	**7,577,732**	**8,312,143**

B.2 Valuation reserves for financial assets measured at fair value through other comprehensive income: breakdown

Asset/Amount	Totale 31 12 2019		Totale 31 12 2018	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	33,877	(29,646)	1,307	(141,302)
2. Equity instruments	9,033	(27,852)	8,199	(36,630)
4. Loans	-	-	-	-
Total	**42,910**	**(57,498)**	**9,506**	**(177,932)**

B.3 Valuation reserves for financial assets measured at fair value through other comprehensive income: annual changes

31 12 2019

	Debt securities	Equity instruments	Loans
1. Opening balance	**(139,995)**	**(28,430)**	**-**
2. Increases	**152,832**	**13,096**	**-**
2.1 Inreases in fair value	100,497	2,942	-
2.2 Net losses (recoveries) on impairment	3,993	X	-
2.3 Reversal to profit and loss of negative reserves	36,842	X	-
2.4 Transfers to other component of equity (equity instruments)	-	10,154	-
2.5 Other increases	11,500	-	-
3. Decreases	**8,606**	**3,485**	**-**
3.1 Decreases in fair value	7,017	1,630	-
3.2 impairment provisions	243	-	-
3.3 Reversal to profit and loss of positive reserves: followiong disposal	1,228	X	-
3.4 Transfers to other component of equity	-	1,774	-
3.5 Other decreases	118	81	-
4. Closing balance	**4,231**	**(18,819)**	**-**

B.4 Valuation reserves for defined benefit plans: annual changes

	Internal funds	External funds	Provisions for employees severance pay	31 12 2019
Opening balance	**(33,439)**	**1,042**	**(72,159)**	**(104,556)**
Remeasurement of net defined benefit liability (asset):	(1,223)	(1,239)	(3,519)	(5,981)
Return on plan assets excluding interests	129	2,739	-	2,868
Actuarial gains (losses) arising from changes in demographic assumptions	(1,190)	(626)	-	(1,816)
Actuarily gains (losses) arising from experience adjustments	74	4,275	1,648	5,997
Actuarial gains (losses) arising from changes in financial assumptions	(4,296)	(11,401)	(5,167)	(20,864)
Changes in effect of limiting net defined benefit asset to asset ceiling	4,060	3,774	-	7,834
Gains (losses) on settlements	-	-	-	-
Others	95	17	-	112
Closing balance	**(34,567)**	**(180)**	**(75,678)**	**(110,425)**

Section 2 - Regulatory banking capital and ratios

See the information on own funds and capital adequacy contained in the public disclosure (Pillar 3).

Part G - Business combinations

Section 1 - Business combinations during the period

1.1 Business combinations

In 2019, the merger by incorporation of the subsidiary Perimetro Gestione Proprietà Immobiliari S.p.A. into Banca Monte dei Paschi di Siena S.p.A. was completed. This merger falls under the scope of "business combination between entities under common control" and similarly to other transactions of the same type, carried out in previous periods, was recognised at going concern values compared with the consolidated financial statements of the MPS Group.

Section 2 - Business combinations completed after the period

There are no transactions to report.

Section 3 - Retrospective adjustments

No retrospective adjustments are reporte

Part H - Related-party transactions

1 Information on the remuneration of key management personnel

Items/Amounts	Total 31 12 2019	Total 31 12 2018
Short-term benefits	6,764	7,175
Termination benefits	-	1,263
Total compensation paid to key management personnel	**6,764**	**8,438**

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

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

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

In 2019, no employment termination of key management personnel has occurred.

2 Related-party transactions

In compliance with the regulatory provisions under Consob Resolution no. 17221 of 12 March 2010, article 53 of TUB (Consolidated Law on Banking) and implementing provisions (Bank of Italy Circ. 263/06 Title V, Chapter 5) the "Related-Party Transactions Committee" (previously "Committee of Independent Directors") composed from three to five independent directors was established.

Through resolution dated 29 November 2018, the Board of Directors of the Bank approved - upon obtaining the prior favourable opinions of the Related-Party Transactions Committee and of the Board of Statutory Auditors - the *Group Directive in relation to management of the provisions on Related Parties, Associated Parties and obligations of the Banking entities, adopted with Consob Regulation no. 17221/10 of Bank of Italy Circular no. 263/06, Title V, Chapter 5, and pursuant to art. 136 of Italian Legislative Decree 385/1993* (*T.U.B. - Consolidated Law on Banking)* (hereinafter, the *"Group Directive"*), in replacement of the previous "*Global Policy on transactions with related parties, associated parties and obligations of the Banking entities"*. The 2018 Group Directive was subsequently updated according to Resolution issued by the Board of Directors of 16.12.2019 and upon prior favourable opinions issued by the Related-Party Transactions Committee and by the Board of Statutory Auditors.

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

Within the Group Directive, the following is also defined:

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

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

As regards the types of transactions, they are classified by the Directive as follows:

- "transactions of greater relevance": transactions where at least one of the following indexes, applicable according to the specific transaction, exceeds the 5% threshold:
    - countervalue relevance index: the ratio of the countervalue of the transaction to the total of the own funds resulting from the most recent published consolidated balance sheet;
    - relevance index of the assets: the ratio of the total assets of the entity to which the transaction refers, to the total assets of the Bank;
    - relevance index of the liabilities: the ratio of the total liabilities of the acquired entity to the total assets of the Bank;

- "transaction of lesser relevance": transactions of an amount above the negligible amount and up to the threshold of greater relevance; within the scope of the transactions of lesser relevance, the following transactions are considered of a "significant amount":
    - when the amount exceeds EUR 100 mln and up to the threshold of greater relevance (countervalue relevance index);
    - or, in the case of acquisition transactions, mergers and demergers of an amount equal to or less than EUR 100 mln, the relevance index of the assets and/or liabilities is equal to or exceeding the ratio of EUR 100 mln to the consolidated regulatory capital.

- "transactions of a negligible amount": transactions of an amount equal to or less than EUR 250 thousand which represents the negligible threshold valid pursuant to the Group Directive.

The *Group Directive,* in the version in effect from time to time*,* is posted on the MPS Group's web site and is therefore available in full-text version at the following link:

https://www.gruppomps.it/static/upload/ope/operazioni_con_parti_collegate_e_soggetti_collegati.pdf

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

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

With reference to the MEF scope, the Bank has availed itself of the exemption provided by par. 25 of IAS 24 on the disclosure of transactions and balances of existing transactions with government-related entities. The main relationships held with the MEF and with its subsidiaries, in addition to financing transactions, include Italian government securities present in the portfolios "Financial assets measured at fair value through other comprehensive income" and "Financial assets measured at amortised cost" for a nominal amount of EUR 5,451.5 mln and EUR 5,228.3 mln respectively.

Information is provided below regarding transactions, worthy of mention, carried out by the Bank with the related parties in 2019, broken down into "MEF related-party transactions" and "Transactions with other related parties". Information is also provided about the main transactions carried out with the subsidiaries under the consolidation scope.

MEF related-party transactions

- On 7 January 2019 around EUR 43.7 mln was drawn from available credit lines in the context of the Bank's operations with regard to existing agreements stipulated between CASSA DEPOSITI E PRESTITI S.p.A. and the Italian Banking Association, subject of the Framework Agreement approved by the Board of Directors on 18 December 2018 (already discussed in Part H of the Financial Statements as at 31 December 2018). The transaction falls within the scope of application of Consob Regulation no. 17221/2010, as CASSA DEPOSITI E PRESTITI S.p.A. is a subsidiary of the MEF.

- On 26 February 2019, the Credit Committee authorised with respect to SIA S.p.A. an increase in the ordinary mixed credit facility usable for the issue of unsecured financial and/or commercial sureties, from EUR 5.0 mln to EUR 20.0 mln, with confirmation of a maximum of EUR 1.5 mln for the issue of sureties in favour of Poste Italiane and the possibility to issue sureties in the interest of subsidiaries up to a cumulative maximum amount of EUR 1.0 mln. SIA S.p.A. is a significant party according to IAS 24 as it is a subsidiary jointly controlled by CDP Equity S.p.A., a subsidiary of Cassa Depositi e Prestiti S.p.A. which in turn is owned by the MEF.

- On 4 April 2019, the Manager of the Performing Loans Department authorised in favour of SOGIN S.p.A. the ordinary revision, with confirmation, of two mixed credit facilities (already mentioned in the part H of the 2018 Financial Statements), for a total amount of EUR 19.9 mln, of which (i) one for EUR 18.9 mln used for the issue of sureties with underlying financial obligations against VAT refunds and for the issue of letters of credit relating to the import of goods and (ii) another for EUR 1.0 mln used for forward currency transactions that may be used only for transactions with a commercial underlying asset. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, since SOGIN S.p.A. is subject to the direct and full control of the MEF.

- On 07 May 2019, the Credit Committee resolved on the ordinary review of the position of ANSALDO ENERGIA S.p.A. and, in particular, authorised: (i) the extension of the mixed credit facility of EUR 10.0 mln usable in full for the opening of documentary credit backed by documents also not representative of goods and the issue of Letters of Credit and for the issue of financial and/or commercial sureties; (ii) the extension of the credit facility of EUR 3.0 mln, usable for exchange rate risk hedging transactions on commercial transactions with the exclusion of any speculative purposes and (iii) the extension of the mixed credit facility with a reduction from EUR 20.0 mln to EUR 7.0 mln, also guaranteed by a pledge in cash of 50% of the credit line, usable for the issue of counter-guarantees in the interest of ANSALDO ENERGIA S.p.A. The transaction is governed by Consob Regulation no. 17221/2010, as ANSALDO ENERGIA S.p.A. is indirectly owned by the MEF as a result of the control of CDP Equity S.p.A., a subsidiary of CASSA DEPOSITI E PRESTITI S.p.A., which in turn is owned by the MEF.

- On 22 May 2019, the Credit Committee authorised in favour of FINCANTIERI S.p.A.: (i) the extension of the credit facility of EUR 30.0 mln usable in full for forward currency transactions and/or currency options, interest rate hedging transactions, commodity risk hedging transactions, with the exclusion of all speculative purposes; (ii) the extension of the mixed credit facility with a reduction from EUR 65.0 mln to EUR 25.0 mln usable to the extent of EUR 2.3 mln for the issue of sureties and limited to the amount of EUR 10.0 mln for current account overdrafts and in full for forward drafts and (ii) the granting of a new credit facility of EUR 40.0 mln usable as a Revolving Credit Facility with forward drafts and repayment at final maturity, to support company working capital management requirements. The transaction in question falls within the scope of application of Consob Regulation no. 17221/2010, as FINCANTIERI S.p.A. is subject to the control of Fintecna S.p.A., a financial company in turn is owned, through CASSA DEPOSITI E PRESTITI S.p.A., by the MEF.

- On 14 June 2019, the Manager of the Chief Lending Officer Department authorised with respect to TOSCANA ENERGIA S.p.A. the confirmation for a total of EUR 32.3 mln of credit facilities under the following terms (i) confirmation of the cash credit facility of EUR 2.0 mln; (ii) confirmation to increase the credit line from EUR 1.5 mln to EUR 2.3 mln usable for the issue of sureties in favour of Public Entities to guarantee the proper execution of works and participation in calls for tender, simultaneous cancellation of another two credit lines for a total of EUR 0.8 mln and (iii) increase in the credit line from EUR 13.0 mln to EUR 28.0 mln for forward drafts to replace another credit line of EUR 15.0 mln. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, since TOSCANA ENERGIA S.p.A. is an indirect subsidiary of Cassa Depositi e Prestiti S.p.A. which is in turn owned by the MEF.

- On 17 June 2019, the Credit Committee authorised in favour of CASSA DEPOSITI E PRESTITI S.p.A. the ordinary granting of a financial credit line for spread risk of EUR 20.0 mln for delivery versus payment transactions on own securities. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, as CASSA DEPOSITI E PRESTITI S.p.A. is a subsidiary of the MEF.

- On 15 July 2019, the Credit Committee, with the prior favourable opinion by the Related-Party Transactions Committee, resolved in favour of SAIPEM S.p.A. for the ordinary review of the credit facilities, with a change made to the granted credit lines, from EUR 105 mln to a total EUR 95 mln. The transaction falls within the scope of application of CONSOB Regulation no. 17221/2010, since SAIPEM S.p.A. is jointly owned by Eni S.p.A. and CDP *Equity* S.p.A., which are in turn owned by the MEF.

- On 6 September 2019, the Purchase and Real Estate Area authorised one-year extension (from 9 October 2019 to 9 October 2020) of the agreement for the provision of mailing services with POSTE ITALIANE S.p.A., in the total amount of EUR 18.1 mln. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, since POSTE ITALIANE S.p.A. is owned by the MEF.

- On 28 November 2019, the Board of Directors resolved in favour of ENI S.p.A., upon the favourable opinion of the Related-Party Transaction Committee, on the ordinary review of the credit facilities, with a restructuring of the granted credit lines, from EUR 350.0 mln to a total of EUR 300.0 mln. The transaction in question falls within the scope of application of Consob Regulation no. 17221/2010, since ENI S.p.A. is owned by the MEF, pursuant to the holding held both directly by the MEF and through CASSA DEPOSITI E PRESTITI S.p.A. which is in turn owned by the MEF itself.

- On 28 November 2019, the Board of Directors, upon favourable opinion of the Related-Party Transaction Committee, resolved on a "SACE 2019 Framework Agreement", with 1 year duration and with a decrease of the total amount from EUR 500.0 mln to EUR 400.0 mln, compared to the prior 2018 SACE Framework Agreement (commented in Part H of the Financial Statements as at 31 December 2018). The transaction aimed to complete the loans and credit facilities assisted by SACE S.p.A. guarantees up to the maximum amount of EUR 400 mln, with validity to 28 November 2020. This Framework Agreement is to be considered valid for all insurance policies and guarantees received by the Bank, as well as for MPS CAPITAL SERVICES BANCA PER LE IMPRESE S.p.A. and MPS LEASING & FACTORING S.p.A. The transaction falls within those governed by Consob Regulation no. 17221/2010, since SACE S.p.A. is owned by the MEF.

- On 28 November 2019, the Board of Directors, upon the favourable opinion of the Related-Party Transaction Committee, authorised the participation of the Bank, with the maximum holding of EUR 125 mln, in the pool loan transaction of a maximum EUR 500.0 mln in favour of AMCO-ASSET MANAGEMENT COMPANY S.p.A., for the acquisition of non-performing loans (NPL), of a 6 month duration and a bullet redemption at the maturity date; on 13 December 2019, the large Corporate Area of the Bank authorised the termination of the afore-mentioned credit line of EUR 125.0 mln, since on 28 November 2019 the extraordinary shareholders' meeting of AMCO-ASSET MANAGEMENT COMPANY S.p.A. resolved on the increase of the share capital by EUR 1.0 mln thus cancelling the need for an initial funding that had led AMCO-ASSET MANAGEMENT COMPANY S.p.A. to request the afore-mentioned pool loan. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, since AMCO-ASSET MANAGEMENT COMPANY S.p.A. is owned by the MEF.

- On 5 December 2019 and previously, on 5 July 2019 and 5 August 2019, EUR 110.2 mln was drawn from available credit lines, through different transactions, within the context of the Bank's operations and existing agreements stipulated between CASSA DEPOSITI E PRESTITI S.p.A. and the Italian Banking Association, subject matter of the Framework Agreement approved by the Board of Directors of the Bank on 18 December 2018 (already discussed in Part H of the Financial Statements as at 31 December 2018). The transaction falls within the scope of application of Consob Regulation no. 17221/2010, as CASSA DEPOSITI E PRESTITI S.p.A. is a subsidiary of the MEF.

- On 13 December 2019, the Board of Directors, upon the favourable opinion of the Related-Party Transactions Committee authorised: i) the transfer, pro soluto, to a securitisation vehicle managed by AMCO-ASSET MANAGEMENT COMPANY S.p.A., in the capacity of master and special servicer, of loans granted to some companies, equal to, as at 31 August 2019, nominal EUR 56.8 mln against the transfer of units of investment fund equal to EUR 21.4 mln (to be finalised also with deferred effective date and/or even for only some of the identified debtors, with consequent reduction of the portfolio under transfer and related consideration); ii) the transfer/contribution to an alternative closed-end and reserved investment fund managed by an SGR (*Prelios* SGR) of the loan granted by the Bank to the vehicle, following said transfer transactions; and iii) the subscription of shares of the afore-mentioned fund itself for the transaction of transfer/contribution described in the previous point. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, since AMCO-ASSET MANAGEMENT COMPANY S.p.A. which is fully owned by the MEF.

- On 20 December 2019, the Related-Party Transactions Committee has resolved in favour of VALVITALIA S.p.A. on the ordinary review of the credit facilities, with a change made to the amount from EUR 38.5 mln to a total EUR 29.0 mln. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, as VALVITALIA S.p.A., through Valvitalia Finanziaria S.p.A., which is indirectly and jointly owned by CDP S.p.A., which in turn owned by the MEF.

Transactions with associates

- On 27 February 2019, the Bank finalised, in compliance with the previous resolution issued by the Board of Directors, related to the approval of the Funding Plan 2018, the transfer to the vehicle MPS COVERED BOND Srl of a portfolio of performing mortgage loans for residential properties in the amount of EUR 1.8 bn, with an increase of the cover pool, according to the first programme for the issuance of secured bank bonds, called First Cover Bond Programme.

- On 7 March 2019, the Board of Directors approved the strengthening of the capital of MPS LEASING & FACTORING S.p.A. in the amount of EUR 250.0 mln. Consequently, on 9 April 2019, the

Shareholders' Meeting of the Company resolved on the following: (i) a reduction in the share capital, due to losses, pursuant to art. 2446 of the Italian Civil Code, from EUR 682.1 mln to EUR 262.7 mln and (ii) the increase, on an indivisible basis, of the share capital in the amount of EUR 250.0 mln and therefore, from EUR 262.7 mln to EUR 512.7 mln.

- On 24 April 2019, within the scope of a securitisation transaction, the transfer to the vehicle SIENA PMI 2016 S.r.l. of a portfolio of credits consisting of loans issued by the Bank to small to medium enterprises, was finalised in the amount of EUR 2.3 bn.
- In May 2019, the Bank finalised the purchase from the subsidiary BANCA MONTE PASCHI BELGIO S.A. of two credit portfolios consisting of syndicated loans in the amount respectively of EUR 73.4 mln and USD 12.0 mln. The transactions were carried out within the scope of an operation for the transfer of the Belgian subsidiary to an investee company with funds managed by *Warburg Pincus*, finalised on 14 June 2019; starting from that date, BANCA MONTE DEI PASCHI BELGIO S.A. is no longer part of the Montepaschi Group. The transactions fell within the scope of application of the Consob Regulation no. 17221/2010 since at their finalisation date BANCA MONTE PASCHI BELGIO S.A was owned by the Bank.
- On 29 May 2019, the Board of Directors authorised the confirmation, with an increase to EUR 502.0 mln, of the credit lines granted to WIDIBA S.p.A..
- On 1 August 2019, the Board of Directors resolved on the fully owned MPS TENIMENTI S.p.A. authorising a share capital decrease in the amount of EUR 30.0 mln, corresponding to a part of the reserves subject to tax suspension, allocated in the past to equity, down from EUR 89.1 mln to EUR 59.1 mln through a distribution of part of the reserves and the consequent distribution of the residual cash in excess.
- On 16 February 2019, the Bank finalised, in compliance with resolution issued by the Board of Directors on 18 April 2019, related to the approval of the Funding Plan 2019, the transfer to the vehicle MPS COVERED BOND Srl of a portfolio of performing mortgage loans for residential properties in the amount of EUR 1.26 bn, in compliance with the First Covered Bond Programme.
- On 30 September 2019, the Bank finalised, in compliance with the afore-mentioned resolution issued by the Board of Directors on 18 April 2019, related to the approval of the Funding Plan 2019, the transfer to the vehicle MPS COVERED BOND 2 Srl of a portfolio of performing mortgage loans for residential and commercial properties in the amount of EUR 721.9 mln, in compliance with the Second Cover Bond Programme for the issuance of secured bank bonds.
- On 6 November 2019, the Board of Directors authorised, within the scope of an ordinary review of the credit facilities, the renewal of previously granted credit lines subject to revocation, totalling EUR 300.0 mln in favour of MPS CAPITAL SERVICES BANCA PER LE IMPRESE S.p.A..

Transactions with other related parties

- On 18 April 2019, the Board of Directors authorised with respect to the SORGENIA GROUP - as part of the current Restructuring Agreement pursuant to art. 182-bis of the Bankruptcy Law, which became effective as of 29 December 2017 (hereinafter, the "2017 DRA")-: (i) the extension of existing credit facilities for the companies SORGENIA S.p.A., SORGENIA POWER S.p.A. and NUOVA SORGENIA HOLDING S.p.A. (holding company of the SORGENIA GROUP); (ii) the cancellation of facilities for outstanding hedging derivatives, the use of which was previously suspended, of Sorgenia S.p.A.; (iii) the cancellation of the unsecured credit facility of EUR 13.5 mln relating to SORGENIA S.p.A. as it was no longer usable because not included in the 2017 DRA and, with the favourable opinion of the Related-Party Transactions Committee, (iv) the activation of facilities for outstanding hedging derivatives of Sorgenia Power S.p.A. with a reduction in the line to a total of EUR 21.0 mln (of which EUR 1.0 mln for the disposal of existing transactions maturing in June 2019), usable only for interest rate risk hedging transactions, with maturity on 31 December 2027, and in compliance with the operating limits defined within the 2017 DRA. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, as it refers to the companies SORGENIA S.p.A., SORGENIA POWER S.p.A., subsidiaries of NUOVA SORGENIA HOLDING S.p.A. (the SORGENIA GROUP's holding company), subject to significant influence by the Bank.
- On 29 May 2019, the Board of Directors authorised, with the favourable opinion of the Related-Party Transactions Committee, with respect to SVILUPPO E INTERVENTI IMMOBILIARI S.r.l IN

LIQUIDAZIONE ("S.I.I.") (i) a new restructuring agreement (the "2019 DRA") pursuant to art. 182-bis of the Bankruptcy Law with confirmation of the de facto moratorium in place until the 2019 DRA becomes effective, allowing inter alia the company SVILUPPO E INTERVENTI IMMOBILIARI S.r.l IN LIQUIDAZIONE to accept offers for the acquisition of real estate, with the resulting restriction of the mortgage collateral, according to specific conditions and in line with the provisions of the 2019 DRA. In summary, joining the 2019 DRA provides for the assumption by Sansedoni S.p.A., sole shareholder of S.I.I., of the share of the loan relating to the Bank which is not sufficient in the new SII plan (roughly EUR 15.1 mln), with a subsequent conversion into participative financial instruments of Sansedoni according to the provisions of the 2019 DRA; the bullet non-interest bearing rescheduling to 31 December 2023 of the mortgage exposure not taken over by Sansedoni of roughly EUR 12.4 mln, without prejudice to annual obligatory advance repayments through cash sweeps deriving from the sale of assets subject to the establishment of a minimum cash reserve of EUR 0.5 mln in order to cover operating expenses. Note that the total exposure of the customer group connected to SVILUPPO E INTERVENTI IMMOBILIARI S.r.l IN LIQUIDAZIONE - as at the date of the subject resolution - amounted to EUR 130.8 mln. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, as the Bank has significant influence over Sansedoni S.p.A., sole shareholder of SVILUPPO E INTERVENTI IMMOBILIARI S.r.l IN LIQUIDAZIONE.

- On 29 May 2019, the Board of Directors authorised, with the favourable opinion of the Related Party Transactions Committee, with respect to SANSEDONI SIENA S.p.A: (i) a new restructuring agreement (the "2019 DRA") pursuant to art. 182-bis of the Bankruptcy Law with confirmation of the de facto moratorium in place until the signing of the 2019 ADR, which, in turn, will call for a moratorium until that agreement becomes effective. In summary, joining the 2019 DRA provides for the conversion into equity financial instruments of the entire unsecured exposure and part of the mortgage exposure for a total of around EUR 73.0 mln; the conversion into additional equity financial instruments of roughly EUR 15.0 mln relating to the insufficient portion of debt in the new plan of the company Sviluppo e Interventi Immobiliari s.r.l in liquidazione and assumed by SANSEDONI SIENA S.p.A. in execution of the 2019 DRA; the bullet non-interest bearing rescheduling to 31 December 2023 of the unconverted mortgage exposure of roughly EUR 30.6 mln, without prejudice to annual obligatory advance repayments through cash sweeps deriving from the sale of assets provided a cash reserve of EUR 2.0 mln has been established previously in order to cover operating expenses as well as a cash reserve for expected investments for the enhancement and marketing of owned assets. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, due to the significant influence exercised by the Bank over SANSEDONI S.p.A.

- On 2 September 2019, the Specialised Corporate Disbursement Service authorised, in favour of GENERALI ITALIA S.p.A., the confirmation of ordinary credit lines for a total of EUR 10.0 million. This transaction falls under the scope of application of the Consob regulation no. 17221/2010, since GENERALI ITALIA S.p.A. is fully owned by Assicurazioni Generali S.p.A. which, in turn, holds, through its subsidiaries, 4.319% of the share capital of the Bank and as such, it was identified as a related party on a discretional basis pursuant to the Group Directive.

- On 12 November 2019, the Credit Committee authorised IMMOBILIARE NOVOLI S.p.A. and SANDONATO S.p.A. to review the credit facilities, including the granting of new credit lines for IMMOBILIARE NOVOLI and partial restructuring of the existing credit facilities, respectively in the amount of EUR 55.7 mln in favour of IMMOBILIARE NOVOLI S.p.A. and EUR 42.2 mln in favour of SANDONATO S.p.A. The transactions fall within the scope of application of Consob Regulation no. 17221/2010, since they refer to IMMOBILIARE NOVOLI S.p.A. which is held by 50% by the Bank, and by the company SANDONATO S.p.A. which is in turn fully owned by the afore-mentioned IMMOBILIARE NOVOLI S.p.A..

- On 16 December 2019, the Board of Directors resolved, regarding THE SUPPLEMENTARY PENSION FUND FOR EMPLOYEES OF BMPS WHO HAVE BECOME SUCH SINCE 1 January 1991 (the "FUND"), upon the favourable opinion of the Related-Party Transaction Committee and within the scope of approval of the collective agreements entered into by the Bank and the Trade Unions, on the authorisation also of the following: (i) transfer from the Bank to the FUND of the assets and income payment obligations related to 6 Defined Benefits Plans in the amount of EUR 110.5 mln and (ii) the assumption, toward the FUND, of a guarantee for additional funds to cover any capital insufficiencies in the estimated amount of EUR 33.7 mln. For the transactions under points i) and ii), the implementation phase remains subject to the finalisation of the process for statutory changes to the Fund. These transactions fall under the scope of application of the Consob Regulation no. 17221/2010, since THE SUPPLEMENTARY PENSION FUND FOR EMPLOYEES OF BMPS WHO HAVE BECOME SUCH SINCE 1 January 1991, is classified as a Consob related party pursuant to the Group Directive.

As regards securitisation transactions and the covered bond programmes, see the information provided in the Section of the Notes to the Financial Statements - Part E

The following tables summarise the relationships and economic effects of transactions carried out in the period with subsidiaries and joint ventures, associates and key management personnel and other related parties as at 31 December 2019.

The “MEF Scope” column shows the balances[10] of the balance sheet and income statement items as at 31 December 2019 relating to the transactions carried out with the MEF and the companies controlled by the MEF, namely companies controlled directly or indirectly by the MEF and their associates.

2.a Related-party transactions: balance sheet items

	Value as at 31 12 2019							
	Non-consolidated Subsidiaries	joint venture	Associated companies	Executives with strategic responsibility	other related parties	MEF Perimeter	Total	% on balance sheet
Financial assets held for trading	312,844	-	-	-	-	1,654	314,498	46.24%
Financial assets measured at fair value mandatory	-	-	202,065	-	-	37,038	239,103	36.02%
Lonas to banks measured at amortised cost	19,964,408	-	-	-	-	-	19,964,408	62.10%
Loans to customers measured at amortised cost	2,196,567	80,482	333,430	3,599	633	6,169,674	8,784,385	11.73%
Other assets	46,303	-	-	-	-	-	46,303	2.83%
Total assets		80,482	535,495	3,599	633	11,856,860	34,997,191	-
Financial liabilities measured at amortised cost	9,857,768	3,295	294,850	2,512	38,465	2,511,631	12,708,521	11.41%
Financial liabilities held for trading	339,596	-	-	-	-	35	339,631	58.21%
Financial liabilities designated at fair value	125,455	-	-	-	-	-	125,455	33.65%
Other liabilities	535,333	34	139	1	1,354	439	537,300	17.66%
Total liabilities	10,858,152	3,329	294,989	2,513	39,819	2,512,105	13,710,907	
Guaranties issued and Commitments	-	29,144	137,683	421	108	1,533,137	1,700,493	n.a.

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

2.b Related-party transactions: income statement items

	Value as at 31 12 2019							
	Non-consolidated Subsidiaries	joint venture	Associated companies	Executives with strategic responsibility	other related parties	MEF Perimeter	Total	% balance sheet
Interest income and similar revenues	183,132	1,250	4,136	46	3	266,433	455,000	23.45%
Interest costs and similar charges	161,137	-	(201)	(2)	(40)	(27,849)	(189,229)	27.12%
Fee and commission income	23,863	447	941,062	7	191	180,269	1,145,839	72.61%
Fee and commission expense	3,422	(59)	(603)	(1)	(5)	(94,958)	(99,048)	52.28%
Net profit (loss) form financial assets and liabilities measured at fair	-	-	140,754	-	-	-	140,754	n.a
Net adjustments/impaiments	(2,600)	21,547	33,511	-	-	(1,909)	50,549	8.53%
Dividend	37,060	-	22,826	-	-	41	59,927	86.34%
Operating costs	(154,196)	4	(37,154)	(6,814)	(6,329)	(29,766)	(234,255)	9.83%

For the list of subsidiaries and companies subject to significant control as at 31 December 2019, see the tables of the Notes to the financial statements - Part B - Information on the balance sheet - Section 7. The securitisation transactions are described in Part E of the Notes to the financial statements.

Intragroup transactions mainly regarded:

- financial support by the Bank to other companies, in the form of deposits as well as repurchase transactions;
- structured finance transactions through subsidiary MPS Capital Services SpA;
- outsourcing services relative to the auxiliary activities provided by the Bank (administrative services and property administration) and by the Consorzio Operativo di Gruppo (IT services).

With regard to the balances shown in Table 2.b "Related-party transactions: income statement items" shown above, please note the following:

- fee and commission income from associates almost entirely regards to the insurance subsidiaries AXA MPS Assicurazioni Vita SpA and AXA MPS Assicurazioni Danni SPA.
- net profit (loss) of the other assets and liabilities measured at fair value through profit and loss refers entirely to capital gains on the securities of the Sorgenia Group;
- net impairment (losses)/reversals for credit risk include an adjustment on Sansedoni for EUR 15.7 mln and the recovery on the Sorgenia Group for EUR 49.9 mln for the associated companies and a recovery on Immobiliare Novoli and its subsidiary Sandonato for EUR 21.1 mln for jointly held investments. The related risk provision amounted to EUR 86.7 mln; interest income accrued on Sorgenia Group amounted to EUR 1.5 mln; those accrued on Immobliare Novoli and Sandonato to EUR 1.2 mln;
- provisions on non-performing positions as at 31 December 2019 totalled EUR 119.2 mln;
- dividends on investments in associates regard AXA MPS Assicurazioni Danni SpA, Fondo Minibond and Fondo Etrusco.
- Operating cost in associates regard the insurance costs whit AXA MPS Assicurazioni Vita SpA and AXA MPS Assicurazioni Danni SpA.

With regard to the MEF scope, the following is noted:

- financial assets predominantly comprise government bonds, which generated interest income for EUR 254.7 mln;
- fee and commission expense against the guarantee granted by the government on securities amount to EUR 94.3 mln, while fee and commission income refer to the contract with Anima (associate for the MEF scope);
- net impairment (losses)/reversals for credit risk include the write-downs on Trevi Finanziaria Industriale and Industria Italiana Autobus.
- Operating costs are almost entirely attributable to postal costs.

In 2019, the following transactions should be noted:

- the share capital increase of the subsidiary MPS Leasing & Factoring S.p.A. that occurred in April 2019, in the amount of EUR 250.0 mln;
- the merger into the Bank of the company Perimetro Gestione Proprietà Immobiliari S.p.A. which has involved the recognition of a merger surplus of EUR 130.6 min;
- the closing of the following vehicles: Siena Consumer S.r.l, Siena Consumer 2015 S.r.l., Consumit.it Securitisation S.r.l., Siena PMI 2015 S.r.l., MPS Preferred Capital I LLC., MPS Preferred Capital II LLC, Antonveneta Capital Trust I, Antonveneta Capital Trust II, Antonveneta Capital LLC I and Antonveneta Capital LLC II, with an impact of approximately EUR 49 mln;
- the closing of the Casaforte Securitisation on 12 June 2019, with an advance concurrent full repayment of the Securities of Classes A, B and Z.

Part I - Share-Based Payment Agreements

Qualitative Information

Description of share-based payment agreements

To pursue the objective of encouraging alignments of the interests of management with those of shareholders, Supervisory Provisions on pay and incentive policies and practices establish that at least 50% of variable remuneration provided to "key employees" should be paid in the form of shares or associated financial instruments over a period of at least 3-5 years. "Variable remuneration" refers to variable components that are performance-linked or other parameters-linked as well as incentives paid for the early termination of the employment relationships exceeding the amount due by law ("severance").

In compliance with the afore-mentioned regulatory provisions, the Bank has adopted, up to the 2017 period, Annual Plans of Performance Shares, while, as in 2018, also in 2019 the Shareholders' Meeting of the Bank, on 11 April 2019, approved a Treasury Shares plan designated exclusively to the payment of any severance for the personnel of the bank. The contents and the methods for an effective application of the afore-mentioned plans are described in the "Remuneration policies" posted on the web site of the Bank https://www.gruppomps.it/corporate-governance/remunerazione.html.

As the provision of performance shares for the Plans up to 2017 does not require the material assignment of shares, but rather the payment of an amount pegged to the share value reported over time, for accounting purposes it is considered a cash settled share based payment pursuant to IFRS 2 "Share-based payments". The debt corresponding to the amounts to be recognised are paid off in cash and recorded at the end of the service period; the total amount depends on the price of the instruments representative of the capital (performance shares) measured at fair value, defined as the best estimate of the amount due in consideration of the different conditions established by the plans, valued with regard to the fair value of the shares of the Bank assigned from year to year. The estimate of the fair value of the share, at the measurement date, does not take into account any expected vesting conditions (e.g. condition of permanence in service or conditions for the achievement of results), except for market conditions. The vesting conditions are taken into consideration by adjusting the number of assignments included in the assessment of the liability arising from the transaction; the market conditions (as with any other non accrual-related conditions) are instead considered in the estimate of the liabilities fair value arising from the transaction and of the related cost attributed to the Income Statement.

The 2018 and 2019 plans, providing for the assignment of shares of the Bank at the accrual time of the vesting conditions, fall within the scope of equity-settled share-based payments, set forth in IFRS 2, therefore the instruments representative of the capital are recognised through an equity reserve. Within this scope, the severance cost set forth in the Plans and the corresponding increase in net equity are measured at the fair value of the shares to be assigned; the estimate of the fair value of the share at the measurement date does not take into account any expected vesting conditions (e.g. condition of permanence in service or conditions for the achievement of results), except for market conditions. The vesting conditions are taken into consideration by adjusting the number of financial instruments included in the measurement of the amount of the transaction so that the value recognised in the financial statements for the services received as a payment for the financial instruments will be based on their number which, at the end, will actually be accrued; the market conditions are instead considered in the estimate of the fair value of the assigned shares.

The fair value of the Performance Shares and of the treasury shares assigned is determined - pursuant to art. 9, paragraph 4 of the Income Tax Act (TUIR) - on the basis of the arithmetic average of the MPS share prices reported in the thirty days leading up to the assignment date.

Quantitative Information

In reference with the 2017, 2018 and 2019 plans, as at this reporting date, no amount is recognised since the instruments representative of the capital did not accrue, due the non-occurrence of the accrual conditions.

With regard to the 2016 Plan, of the original 32,806 deferred performance shares, 5,340 were settled in 2019 and 6,560 were removed following application of the malus clauses; therefore, 14,346 Performance Shares were recognised. Of these, 1,220 assigned in 2018 will be settled during 2020, while the remainder will be assigned annually - subject to the verification of pre-established malus conditions - over a five-year period plan defined in the past, and settled one year after the relative assignments.

Part L - Segment reporting

In line with the provisions of IFRS 8, par. 4, the Bank prepares this segment reporting at Group level in the Notes to the Consolidated Financial Statements, to which reference is made.

Part M - Leasing Information

Section 1 - Lessee

Qualitative Information

In the capacity of lessee, the Bank stipulates leasing agreements of properties to be primarily used for business. Therefore, these leases of properties are used by the branches and as spaces intended to accommodate ATMs or internal offices.

The leasing activity also includes the stipulation of leasing agreements related to properties for residential use for employees who transfer to other work locations. The flats are subsequently subject to sub-lease agreements between the Bank and the employees, considered out-of-scope of the standard.

In reality, the leasing activities are related to the need of the Bank to relocate branches and offices. Particular attention is paid to the identification of the properties that are more suitable for the intended use, in line with the cost effectiveness criteria set forth by the company.

The contracts, executed in the capacity of lessee, outstanding at 31 December 2019, were 1,350 related to buildigns, and 300 related to vehicules.

Within the scope of negotiations prior to the execution of new leasing contracts, the Bank has undertaken commitments regarding the location of some properties to be used for ATMs.

Contracts relating to automobiles mainly refer to long-term leases of office cars and cars given as a fringe benefit to employees.

The Bank is not exposed to cash outflows that are not already reflected in the measurement under liabilities of the leasing. In detail, the exposures deriving from extension options are recorded under liabilities for the leases recognised in the financial statements, since the Bank considers as certain the first renewal; the other cases referred to in the accounting standard (variable payments tied to the leasing, guarantees of the residual value, commitments on leasing not yet operational) are not present as regards the contracts executed in the capacity of lessee.

The Bank recognises as costs:

- short-term leases in the case of assets such as properties and technologies (in particular in reference with the mainframe hardware module) when the related contracts have a maximum term of twelve months and do not provide for any extension options.
- the leasing of assets of a modest value, i.e. characterised by a value that is under five thousand euro, related mainly to cell phones.

Quantitative Information

The following table shows amortisation costs for the assets with right of use, broken down by the underlying asset class.

Items	31 12 2019
Amortisation costs for assets with right of use	**45,782**
a) Land	-
b) Building	44,876
c) Furniture and furnishing	-
d) Electronic System	-
e) Others	906

Section 2 - Lessor

Qualitative Information

The Bank executes, in its capacity as the lessor, leasing contracts of properties for business and residential use.
The properties for business use are leased to both third parties and to intra-group companies. In the latter case, the properties and spaces occupied by the administrative offices of the companies of the Group are the subject matter of these contracts.
As regards the properties for residential use, these are primarily owned flats leased to third parties.
The contracts for residential use have generally a duration of 4+4 years, the ones for business use a duration of 6+6 years.

The contracts, executed in the capacity of lessor, outstanding at 31 December 2019, were 250.
Due to the merger transaction of Perimetro carried out during the period, the Bank has become the owner of the properties of that company and has taken on the role of lessor in the existing leasing contracts.

The leasing contracts executed as lessor are protected by a deposit paid by the lessee, as set forth in the applicable laws. This amount can be used to repair any damage that the tenant may cause.
In addition to this, the Bank does not apply any specific contractual clause regarding the management of any risk associated with the rights held on the underlying assets.

Quantitative Information

1. Information on the balance sheet and income statement

For information on assets transferred under operating leasing, see tables 8.1 and 8.6 of Section 8, Part B, Assets; for information on other operating income, see table 14.2 in Section 14, Part C.

2. Financial leasing

The Bank does not have any financial leasing transactions in place.

3. Operating leasing

3.1 Classification by time bands of payments to be received

Maturity range	Reference year	31 12 2019 Receive payments from leasing (forecast fees without IVA)
Up to 1 year	2020	22,363
Over 1 year up to 2 years	2021	20,227
Over 2 year up to 3 years	2022	18,403
Over 3 year up to 4 years	2023	16,424
Over 4 year up to 5 years	2024	15,469
Over 5 years	since 2025	95,951
Total		**188,837**

The table shows the classification by time bands of payments to be received for the leasing. The amount of payments shown are not actualised.

3.2 Other information

No other information to report.

CERTIFICATION OF THE FINANCIAL STATEMENTS PURSUANT TO ART. 81-TER OF CONSOB REGULATION NO. 11971 OF 14 MAY 1999, AS SUBSEQUENTLY AMENDED AND SUPPLEMENTED

1. The undersigned, Stefania Bariatti, as Chairman of the Board of Directors, and Nicola Massimo Clarelli, as Financial Reporting Officer, of Banca Monte dei Paschi di Siena S.p.A., having regard to article 154-bis, paragraphs 3 and 4 of Italian Legislative Decree no. 58 of 24 February 1998, do hereby certify the:

   - appropriateness with respect to the company's profile, and
   - effective application of the administrative and accounting procedures used in the preparation of the financial statements for fiscal year 2019.

2. The verification of the adequacy and actual application of administrative and accounting procedures for the preparation of the financial statements during 2019 was based on methods set out by the MPS Group in line with the COSO model, and for the IT component, COBIT, which constitute the reference framework for the internal control system generally accepted internationally.

3. It is also certified that:

   3.1 the financial statements:

   - were prepared in accordance with the international accounting standards recognised by the European Union pursuant to European Parliament and Council Regulation No. 1606/2002 of 19 July 2002;
   - are consistent with the underlying documentary evidence and accounting records;
   - are suitable to provide a true and fair representation of the capital, economic and financial situation of the issuer.

   3.2 the Report on Operations includes a reliable analysis of the trends and results of operations as well as of the position of the issuer, together with a description of the main risks and uncertainties to which it is exposed.

Siena, 25 February 2020

Signed by	*Signed by*
On behalf of the Board of Directors	*The Financial Reporting*
The Chairman	*Officer*
Stefania Bariatti	*Nicola Massimo Clarelli*

INDEPENDENT AUDITORS' REPORT

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

Financial statements as at December 31, 2019

Independent auditor’s report in accordance with article 14 of Legislative Decree n. 39, dated January 27, 2010, and article 10 of EU Regulation n. 537/2014

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Independent auditor's report
in accordance with article 14 of Legislative Decree n. 39, dated January 27, 2010 and article 10 of EU Regulation n. 537/2014
(Translation from the original Italian text)

To the Shareholders of
Banca Monte dei Paschi di Siena S.p.A.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Banca Monte dei Paschi di Siena S.p.A. (the "Company" or "Bank"), which comprise the balance sheet as at December 31, 2019, the income statement, the statement of comprehensive income, the statement of changes in equity, the cash flows statement for the year then ended and the notes to the financial statements.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at December 31, 2019 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union as well as with the regulations issued for implementing art. 9 of Legislative Decree n. 38, dated February 28, 2005 and art. 43 of Legislative Decree n. 136, dated August 18, 2015.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

We draw attention to the matters described by the directors in relation to the implementation of the actions envisaged in the 2017–2021 Restructuring Plan and the updated 2020 - 2024 management projections related to the Group's forecasted income statement and balance sheet, included in the report on operations and in the paragraph "Going concern" of the notes to the financial statements. Our opinion is not modified in respect of these matters.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We identified the following key audit matters:

Key Audit Matters	Audit Responses
Classification and valuation of loans to customers Loans to customers measured at amortised cost, the amount of which is shown in item 40 b) of the balance sheet, represent, as at 31 December 31, 2019, the 60% of the total assets. The process of classifying loans to customers in the various risk categories and measuring them is relevant for the audit because the value of loans is significant for the financial statements as a whole and because the value of the related impairment losses is determined by the directors through the use of estimates that have a high degree of subjectivity. Among these, the following are particularly relevant: • the identification of evidence of impairment of the loans, the recoverable amount of the collateral acquired, the determination of expected cash flows and their timing of collection, the costs expected to be incurred for the collection of the loans; • as regards to the statistical evaluations: the definition of homogeneous loan categories in terms of credit risk, the determination of the probability of default ("PD") and the related estimated loss (Loss Given Default - "LGD"), based on historical data observation for each risk class and on forward looking information, including macroeconomic factors; • the determination of the parameters of significant increase in credit risk for the classification into the different stages. Information on the classification and measurement of loans to customers is provided by the directors within the Part A – Accounting policies, the Part B – Information on the Balance Sheet – section 4 - Financial assets measured at amortised cost, the Part C – Information on the consolidated income statement – section 8.1 - Net impairment (losses)/reversal for credit risk on financial assets measured at amortised cost and the Part E – Information on risks and hedging policies – section 1 - Credit Risk, of the notes to the financial statements.	In relation to these aspects, our audit procedures, performed also with the support of our risk management and information systems experts, included, among other: • understanding of the policies, processes and controls implemented by the Bank in relation to the classification and measurement of loans to customers and performing compliance procedures on the key controls, including those relating to IT; • performing substantive procedures to verify the correct classification and measurement of credit positions and securities included in the loans to customer; • understanding of the methodology used in relation to statistical evaluations and the reasonableness of the assumptions adopted also to consider the forward looking information in the parameter of PD, LGD and Exposure at Default ("EAD) as well as performing test of controls and substantive procedures, to verify the accuracy of the determination of the PD, LGD and EAD parameters, relevant for the purpose of determining the impairment losses; • performing comparative analysis of loans to customers and related coverage levels, and analysis of the most significant deviations; • analysis of the disposals occurred in the year, also through securitization transactions, and of the related assumption for the derecognition; • analysis of the adequacy of the disclosure provided in the notes to the financial statements.

Key Audit Matters	Audit Responses
Recoverability of deferred tax assets As at December 31, 2019, the Bank recorded under item 100 of the balance sheet "Tax assets" Euro 682 million of deferred tax assets ("DTA") attributable to tax losses and other deductible temporary differences, the recoverability of which depends on the availability of future taxable income. The valuation of the recoverability these assets (known as "probability test", required by the international accounting standard IAS 12) is a relevant matter for the audit because their value is significant to the financial statements as a whole, and because the valuation is based on a model that provides for the use of assumptions and estimates that have a high degree of subjectivity. Among these, particularly relevant are those related to: • estimation of taxable income, which is presumed to occur during the time period considered for the recovery of the DTAs, on the basis of the 2020 – 2024 management projection related to the Bank's forecasted income statement and balance sheet and the additional assumptions in relation to their projection in the future, the growth rates used and the probability of occurrence of the same; • length of the foreseeable time frame for the recovery of the DTAs; • correct interpretation of the applicable tax legislation. The disclosure of the assessments made by directors in relation to the recoverability of deferred tax assets is included in the Part A – Accounting policies, in the Part B – Information on the Balance Sheet – section 10 - Tax asset and liabilities and in the Part C – Information on the consolidated income statement – section 19 - Tax (expense)/recovery on income from continuing operations, of the notes to the financial statements.	 In relation to these matters, our audit procedures included, among other: • understanding of the Bank's policy, process and controls in relation to the assessment of the recoverability of the DTAs; • analysis, also with the support of our experts in business valuations, of the 2020 – 2024 management projection related to the Bank's forecasted income statement and balance sheet and of the additional assumptions used for the purpose of estimating the results useful for the determination of taxable income; • analysis, also with the support of our tax experts, of the reasonableness of the assumptions and the parameters used for the development of the probability test based on the tax legislation applicable to the different types of temporary deductible differences; • performing substantive procedures on the completeness and accuracy of the data used to determine the future taxable income included in the probability test; • analysis of the adequacy of the disclosure provided in the notes to the financial statements.

Key Audit Matters	Audit Responses
Evaluation of legal risks	
The legal risks assessment process, carried out by the Bank with the support of its legal advisors and other external experts, is a relevant aspect for the audit because of their significant value and because the estimate of the related charges requires the directors to make use of estimates that present a high degree of subjectivity. Information regarding significant litigations in which the Group is involved and other legal risks are provided by the directors in the Part B – Information on the Balance Sheet – section 10 - Provisions for risks and charges, in the Part C – Information on the consolidated income statement – section 11 - Net provisions for risks and charges and in the Part E – Information on risks and hedging policies, of the notes to the financial statements.	In relation to these matters, our audit procedures included, among other: • understanding of the Bank's policies, process and controls in relation to the assessment of legal and litigation risks; • obtaining written confirmation from the Bank's legal advisors, of their assessment of the evolution of existing disputes and the risk of losing the case; • analysis, also with the support of our legal experts, of the reasonableness of the assumptions used to estimate the provisions made as well as the conclusion reported in the opinion and analysis prepared by the experts engaged by the directors; • performing substantive procedures on the completeness and accuracy of the data used to determine the provisions for risks; • analysis of the adequacy of the disclosure provided in the notes to the financial statements.

Responsibilities of directors and Those Charged with Governance for the Financial Statements

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38, dated February 28, 2005 and art. 43 of Legislative Decree n. 136, dated August 18, 2015, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, have designed and performed audit procedures responsive to those risks, have obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- we have concluded on the appropriateness of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholders of Banca Monte dei Paschi di Siena S.p.A., in the general meeting held on April 21, 2011, engaged us to perform the audits of the financial statements of each year ending from December 31, 2011 to December 31, 2019.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements included in this report is consistent with the content of the additional report to the audit committee (Collegio Sindacale) in their capacity as audit committee, prepared in accordance with article 11 of the EU Regulation n. 537/2014.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated January 27, 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated February 24, 1998

The directors of Banca Monte dei Paschi di Siena S.p.A. are responsible for the preparation of the report on operations and of the Report on Corporate Governance and Ownership Structure of Banca Monte dei Paschi di Siena S.p.A. as at December 31, 2019, including their consistency with the related financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the report on operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated February 24, 1998, with the financial statements of Banca Monte dei Paschi di Siena S.p.A. as at December 31, 2019 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the report on operations and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the financial statements of Banca Monte dei Paschi di Siena S.p.A. as at December 31, 2019 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated January 27, 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Rome, March 12, 2020

EY S.p.A.
Signed by: Francesco Chiulli, Auditor

This report has been translated into English language solely for the convenience of international readers.

REPORT OF THE BOARD OF STATUTORY AUDITORS

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING CONVENED TO APPROVE THE BANCA MONTE DEI PASCHI DI SIENA S.P.A. FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019, DRAFTED PURSUANT TO ART. 2429, PARA. 2 OF THE ITALIAN CIVIL CODE AND ART. 153, PARA. 1, OF LEGISLATIVE DECREE NO. 58 OF 24 FEBRUARY 1998

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Dear Shareholders,

The macroeconomic context in which your Company operated in 2019 was characterised by a growth trend in the economy, which, however, progressed at modest rates and, in any case, was not sufficient to deter the continuation of the more general deceleration phase underway.

In any case, your Bank continued implementing the 2017-2021 Restructuring Plan (approved by the competent authorities in July 2017) through, in particular, relaunching the commercial business and implementing the various operating guidelines.

However, given the spread of the new coronavirus (Covid-19), which started in the beginning of January 2020, the Bank considers this epidemic an event that occurred after the reporting date which does not entail adjustment. At present, it is not objectively possible to develop a quantitative estimate of the potential effects on the Bank's financial situation, which will therefore be assessed during 2020.

The Parent Company's separate report shows a loss for the year of EUR 1,174.5 mln, essentially due to the negative impact on the tax item (resulting from the partial write-down of DTAs - Deferred Tax Assets) and shareholders' equity of EUR 7,577.7 mln, while, for the same reason, the Group's consolidated report shows a consolidated loss of EUR 1,033.0 mln and consolidated shareholders' equity of EUR 8,279.1 mln, including the loss and equity pertaining to non-controlling interests of EUR 0.1 mln and EUR 1.8 mln, respectively, which is analysed in more detail in the documents that you are asked to approve.

* * *

With this report, the Board of Statutory Auditors provides information in accordance with the law, following the instructions set forth in Consob Communication no. 1025564 of 6 April 2001 and subsequent amendments.

1. Activities of the Board of Statutory Auditors and working method

The Board of Statutory Auditors has fulfilled its institutional duty by holding a total of 74 meetings, duly convened and formed, protecting against any situations of conflict of interest, without exception. This Board also participated in all 23 meetings of the Board of Directors and those of the Board committees, operating according to the reference regulations.

On the occasion of the Board of Directors meetings, the Statutory Auditors had the opportunity to review the reports containing the mandatory quarterly information required by law and the By-laws.

This Control Body, in parallel with the monitoring performed by the Board of Directors in implementing the 2017-2021 Restructuring Plan, supervised by the European Commission through a Monitoring Trustee, continued its analyses aimed at evaluating the main actions envisaged in the Plan, also carrying out specific analyses with Top Management on developments in achieving the set objectives, creating a dynamic of ongoing and profitable dialogue within the respective responsibilities.

Even though the long-term internal estimates of economic and financial values are lower than what is set forth in the Restructuring Plan, the capital ratios are higher than regulatory requirements.

When expressly indicated by rules, mandatory opinions have been issued. In addition, specific declarations were provided on issues requested by various Supervisory Authorities, both domestic and European, as well as other assessments and comments (refer to chapter 1.2).

The Board of Statutory Auditors received from the Control Functions, with the established frequency and immediately for urgent cases, the information flows that were systematically reviewed during its meetings, where, typically, the managers of these functions attended to ensure a greater level of analysis on the topics covered. Meetings were also held with appropriate frequency with the managers of the Bank's other head office units, both to convey to them more directly the areas of attention that emerged from time to time in performing the Board's supervisory activities, and to be able to receive from them confirmation that the agreed improvement/corrective measure was completed, each to the extent of their responsibilities.

Specific analyses were conducted on significant issues that affected the Bank and the Group during the year both in relation to specific events that exposed the Company to operational or regulatory risks and as a result of audits by Supervisory Authorities, with which this Board has maintained a timely flow of information.

Direct audits were also carried out on the domestic and foreign Networks, which are described in greater detail later in this report.

The minutes of the Board of Statutory Auditors meetings which provide an account of the aforementioned activities, when they contain specific instructions or recommendations for the various Bank structures, in relation to the different relevant areas, are sent to the attention of the Chairperson of the Board of Directors and the Chief Executive Officer/General Manager. These individuals make these documents available to the Directors and, at the same time, to the relevant structures to take the necessary initiatives to eliminate the critical issues reported.
For aspects falling strictly under their responsibilities, the Chairperson of the Risk Committee and the Chairperson of the Related Party Transactions Committee are informed.

For purposes of monitoring the financial reporting processes, the Board of Statutory Auditors has regularly met with both the Financial Reporting Officer and the statutory auditor, in particular, with the latter, to enable the normal exchange of information, pursuant to art. 150 of Legislative Decree no. 58/98.

In this regard, note that the statutory audit assigned to the company Ernst & Young Spa expired with the 2019 financial year and in the Shareholders' Meeting of 11 April 2019 the mandate for the nine-year period 2020-2028 was assigned to PricewaterhouseCoopers Spa.

As envisaged in art. 151 of Legislative Decree no. 58/1998 (Consolidated Law on Finance) and the Bank of Italy's Supervisory Instructions, specific meetings were held with the boards of statutory auditors of the main Group companies in order to mutually exchange information and at the same time to provide or receive reports on any critical issues pertaining to the administration and control systems, as well as direct indications on the general performance of the corporate activities of each subsidiary.

Lastly, particular attention was given to monitoring the commitments undertaken by the Bank with Supervisory Authorities regarding all remediation activities identified to resolve the various findings presented by them. Therefore, the Board has, on several occasions, confirmed to the competent functions the need to give the highest priority to achieving the planned solutions in order to promptly comply with the agreed final deadlines.

Both upon request and on her own initiative, the Chairperson of the Board also met with these Authorities in order to reach a productive exchange of information on the most important issues.

1.1 Results of audits performed directly by the Board of Statutory Auditors

With the support of the Chief Audit Executive Department, 17 audits were performed at the Bank's head office and peripheral structures. For the latter, the Board of Statutory Auditors went directly to the sites in the domestic and foreign Networks.

In particular, the audits that concerned the head office structures made it possible to analyse specific areas relating to the following processes:

- Proprietary finance;
- IT risk management;
- Widiba and BMPS transparency;
- Unlikely to Pay (UTP) portfolio;
- Physical access to Data Processing Centres and the Bank's other critical sites;
- Management of privileged users and System Administrators (Sys Admins).

In this regard, the main results of the audits are provided below.

With regard to proprietary finance, the analyses conducted confirmed the implementation of the guidelines defined by the Board of Directors, where the management strategy of the proprietary portfolio envisages essentially steady operations on the existing positions and stability of the risk measures. The activity itself was also carried out in compliance with the internal operating limits as well as the external constraints associated with the 2017-2021 Restructuring Plan.

With reference to IT risk management, the audits were intended to review the organisational model adopted by the Group, based on the broader risk appetite (RAF - Risk Appetite Framework). The overall regulatory framework of the Parent Company and Consorzio Operativo (COG) was consistent with the relevant supervisory provisions, as the operational phases of measurement, monitoring and oversight of IT risks were correctly defined and governed.

In relation to the issue of banking transparency, a consolidated review was conducted at Group level aimed at verifying compliance with the commitments envisaged in the Remediation Plans activated by BMPS and the subsidiary Widiba as a result of the findings identified by Bank of Italy following its audits in 2016 and 2017 respectively. Certain critical issues have emerged that coincide with those found following the most recent audit conducted by Bank of Italy (7 October 2019 - 21 January 2020) on "Compliance with regulations on transparency of transactions and fairness of relations with customers" (see chap. 5.2). In this regard, the resulting remediation actions are underway, whose effective implementation were constantly monitored by this Control Body.

Significant progress was made in managing the UTP portfolio, in terms of monitoring and control as well as the adequacy of the related information flows. This can also be attributed to the changes that have been made in the meantime in the reference organisational structure (Distressed Credit Risk Area), which is no longer divided on a geographical basis, but by ticket amount ("Mid" and "Big"). Against the aforementioned improvements, however, it was found that the rate of arrears must be brought to more organic levels; in relation to this matter, a specific corrective plan has been defined.

As part of the audit of the process of managing physical access to Data Processing Centres and the Bank's other critical sites, attention was focused on the category of "sensitive" properties (e.g., Data Processing Centres, Control Rooms, areas for managing crypto keys, PIN printing rooms, etc.) which, given their unique characteristics, require additional or more restrictive security measures than the general ones adopted. In this regard, in order to increase the level of security and protection of the overall access management architecture, specific interventions were identified for implementation, some of which were launched during the audit.

The model adopted by the Bank for managing privileged users and System Administrators (Sys Admins) was found to comply with the relevant regulatory requirements, in terms of organisational structure, definition of roles and responsibilities, processes and reporting. However, certain intervention areas were identified that should be safeguarded by implementing a monitoring system to make it even more stringent, so that any anomalous behaviour can be intercepted more quickly.

The activities carried out in the Domestic Peripheral Network had the objective of assessing the overall degree of effectiveness of the regional oversight action on the proper management of the relevant operations, risks and controls while promoting the “risk culture” at the various levels of the regional structures.

In particular, the Board of Statutory Auditors, in continuity with similar activities carried out in previous years, went directly to the Network, continuing with the audit programme focused on ascertaining the regular compliance with Document Management processes and the appropriate supervision of operational risks associated with proper formalisation and with the necessary centralisation of the contractual documentation with the external services underlying the services provided to customers.

More specifically, the audits began in the first half of 2019 and were divided into 5 audits, one for each Regional Area. The related activities also included an equal number of “exit meetings”, designed to highlight the results of the audits performed, followed by “informative meetings”, attended by all the managers in the Regional Areas (General Manager, Offices and Area Support Structures, Area Managers, Departmental Sectors of General Management, Branch Managers), during which the improvement actions to be implemented were shared in order to make the overall risk management more effective.

In the second half of the year, this exercise was repeated at the same structures, through specific follow-up activities, which - in addition to verifying the effectiveness of the mitigation actions implemented by the structures in relation to Document Management - were also aimed at verifying the degree of suitability of the Network's activities in managing, monitoring and preventing money laundering and terrorist financing risks.

As regards document management, an overall improvement of the first-level control system was found along with greater effectiveness for the corrective actions taken by the various pertinent structures, recording a decrease in the trend of anomalies for all process stages, which were determined to be carried out, on the whole, in compliance with the rules of sound and prudent risk management. The mitigation measures undertaken, including in relation to training, have contributed to this, which had been implemented by the Bank’s competent functions in the meantime, whose awareness in this matter had also been raised by this Board to increase the culture of risk and compliance with business rules and policies, reinforcing the programme of optimising control and monitoring actions.

With regard to “anti-money laundering”, audits on the Network structures enabled the identification of recurring anomalies, mainly behavioural in nature, in carrying out the “due diligence” requirements.

The Foreign Network has undergone a profound reorganisation through the decision taken by the Board of Directors to close the branches in London, New York and Hong Kong, leaving only the Shanghai branch, after extinction or transfer to Italy of residual assets. During 2019, activities were initiated to return the licences in the three financial markets concerned. In particular, for the first two branches these activities were concluded, while the Hong Kong branch is still awaiting confirmation of the license revocation from the local authorities (HKMA).

At the Shanghai branch, this Board conducted a specific on-site visit, as a result of which it was possible to acknowledge the appropriate implementation of branch control oversights, set up in accordance with the dual regulatory regime (Italian and local).

Finally, this Board reports - as mentioned above - the extensive supervisory activities carried out on the Bank by the various competent Authorities (please refer to the chapter 5.2), which entailed a significant commitment also for the Board of Statutory Auditors, as the relevant Control Body, in various situations, in monitoring the remediation actions of the findings detected during the aforementioned audit activities.

1.2 - Mandatory opinions, comments, determinations and considerations issued by the Board of Statutory Auditors

The Board of Statutory Auditors has been asked to issue the following declarations that governing regulations and Supervisory provisions assign to its competence:

Mandatory opinions:

- 2019 activity plan for the Audit function;
- plan for the use of treasury shares to service severance payments to Directors and personnel of Montepaschi Group;
- compliance with the requirements for the continuous use of advanced credit risk management systems (AIRB) and operational risk management systems (AMA);
- remuneration of the Manager of the Internal Audit Function;
- **organisational development of the** Chief Risk Officer Department and assignment of the management role in this area;
- **organisational development of the** Compliance Department and assignment of the management role in this area;
- additional assignments, listed below, to the Independent Auditors or to companies belonging to said network, pursuant to Regulation (EU) no. 537/14 and Legislative Decree no. 39/10 amended by Legislative Decree no. 135/16;
- review of current procedures (policies) for managing requirements in the area of related parties, associated parties and obligations of banking representatives.

Comments/Determinations:

- controls carried out by the Compliance, Risk Management and Internal Audit Functions regarding the provision of investment services to customers.

Considerations/Assessments:

- controls performed by Internal Audit on the outsourced operating functions;
- content of the response to the Consob letter regarding the request for data and information formulated pursuant to art. 6-bis, para. 4, lett. a) of Legislative Decree no. 58/98, with reference to measures adopted and the updating of the planned initiatives for purposes of MiFID II.

Recommendations:

. granting of the statutory audit assignment for the period 2020-2028.

2. Comments on compliance with the principles of proper administration

2.1 - Significant transactions and events

The Report on Operations describes the most significant transactions and events that occurred during the year. In particular, the most significant ones are noted below, grouped by type and chronology.

Bond issues

On 23 January 2019, the Parent Company completed a new covered bond issue (bonds secured by Italian residential mortgage loans), intended for institutional investors, amounting to EUR 1 bn with a rating of A1/A+/AAL (Moody's/Fitch/DBRS). The issue expires in January 2024.

On 4 July 2019, the Parent Company successfully concluded the placement of an unsecured Senior Preferred fixed-rate bond issue with maturity in 3 years for institutional investors, in the amount of EUR 500 mln. This transaction, carried out in line with the Bank's Funding Plan, represents the first issue of a senior unsecured instrument by the Parent Company since the launch of its Restructuring Plan. The issue obtained orders for over EUR 1.1 bn from roughly 100 investors.

On 16 July 2019, the Parent Company successfully concluded the placement of a subordinated Tier 2 fixed-rate bond issue with maturity in 10 years for institutional investors, in the amount of EUR 300 mln. This transaction, necessary for the implementation of the Restructuring Plan, obtained an excellent response from the market, with final orders totalling around EUR 600 mln from more than 100 investors.

On 17 September 2019, the Parent Company successfully concluded the placement of an unsecured Senior Preferred fixed-rate bond issue with maturity in 5 years for institutional investors, in the amount of EUR 500 mln. This transaction obtained an excellent response from the market, with final orders totalling around EUR 900 mln from around 100 investors.

On 1 October 2019, the Parent Company successfully concluded the placement of a Covered Bond issue with maturity in 7 years, for institutional investors, in the amount of EUR 1 bn.

Ratings assigned by the rating agencies

On 2 April 2019, Fitch Ratings assigned the rating "B (stable)" to the Parent Company's long-term deposits, in line with the long-term IDR (Issuer Default Rating). This rating initiative is the result of the full depositor preference, legislation introduced in Italy on 1 January 2019 with Law Decree 181/2015, which transposed European Directive no. 2014/59/EU (BRRD) for cases of bank insolvency and resolution proceedings.

On 19 June 2019, the DBRS Ratings GmbH (DBRS) rating agency, during its annual review, confirmed all of the Parent Company's ratings, including the Long-Term Issuer Rating of "B (high)" and the Short-Term Issuer Rating of "R-4", with a "stable" outlook for all ratings.

On 12 July 2019, during the annual review, the Fitch rating agency confirmed all of the Bank's ratings, including the Long-Term Issuer Default Rating of "B" with a "stable" outlook, the Short-Term Issuer Default Rating of "B" and the Viability Rating of "b".

Extraordinary transactions

On 21 May 2019, the Parent Company and the subsidiary Perimetro Gestione Proprietà Immobiliari S.p.A. signed the merger deed relating to the merger by incorporation of the subsidiary Perimetro into the Parent Company BMPS. The transaction did not entail any share capital increase of the acquiring company BMPS, as the entire share capital of the merged company Perimetro was already held by the acquiring company.

On 12 June 2019, following the full repayment of the amount due by way of principal, interest and other accessory costs pursuant to the Loan Agreement by Banca Monte dei Paschi di Siena S.p.A., Casaforte S.r.l. proceeded with the full early redemption of the Class A notes, the Class B notes and the Class Z notes, in compliance with art. 8.5 of the notes regulation.

On 14 June 2019, the Parent Company finalised the closing of the sale of the entire equity investment in Banca Monte Paschi Belgio to funds managed by Warburg Pincus. The agreement, already announced to the market on 5 October 2018, is part of the Group's disposal programme related to the 2017-2021 Restructuring Plan.

Process of disposing and managing non-performing and performing loans

On 30 June 2019, the Parent Company approved the exercise of the right of withdrawal set forth in the ten-year servicing agreement entered into with Juliet S.p.A., concerning the recovery of a significant share of the NPLs of the Group. The exercise of withdrawal entailed the obligation for the Parent Company to pay a comprehensive indemnity totalling EUR 40 mln. This decision was necessary in order to have the utmost flexibility in the process of accelerating the reduction of the Group's exposure to non-performing loans.

On 2 July 2019, the Parent Company successfully completed the securitisation of a portfolio of roughly EUR 2.3 bn consisting of "performing" loans disbursed to Italian SMEs. The transaction, carried out as part of the Bank's funding programme, consistent with the objectives of the Restructuring Plan, was structured in line with the requirements of the new regulation on securitisations.

On 31 July 2019, the Parent Company concluded two agreements with illimity Bank S.p.A. for the disposal of non-performing loans for a total value of approx. EUR 656 mln.

On 1 August 2019, the Parent Company completed a disposal of non-performing loans to an affiliate of Cerberus Capital Management L.P. for a total value of around EUR 442 million.

The agreement concerned the disposal of unlikely to pay loans of BMPS and MPS Capital Services and the portfolio included mainly secured loans to corporate customers.

On 13 August 2019, the Parent Company, continuing with the derisking process, concluded a further 4 disposals of non-performing loans for roughly EUR 322 million. The deals concluded regarded, in particular, the disposal of mixed secured and unsecured bad loans for a total of EUR

119 million, and three transactions on unlikely to pay loans, mainly secured, for EUR 203 million, on BMPS and MPS Capital Services portfolios.

On 30 December 2019, the Parent Company announced that the Group had continued with its derisking process, concluded additional disposals of non-performing loans for roughly EUR 1.6 bn.

Significant events after 2019

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, as part of the implementation of the Restructuring Plan, the Parent Company successfully completed the placement of a subordinated Tier 2 fixed-rate bond issue with maturity in 10 years for institutional investors, in the amount of EUR 400 mln.

On 21 January 2020, the Parent Company successfully concluded the placement of an unsecured Senior Preferred fixed-rate bond issue maturing in April 2025 for institutional investors, in the amount of EUR 750 mln.

On 28 February 2020, the Bank and Ardian France S.A. signed an agreement for the sale of a real estate portfolio owned by the Group. Subsequently, the parties will stipulate a preliminary purchase agreement, which will precede the finalisation of the sale expected by the second half of 2020.

2.2 - Intra-group transactions, with related parties, atypical or unusual transactions, and those falling within the obligations of banking representatives

The annual report, the information acquired during the meetings of the Board of Directors and that received from the Chairperson, Chief Executive Officer, management, the Boards of Statutory Auditors of the subsidiaries and the statutory auditor, did not reveal the existence of atypical or unusual transactions, including within the Group or with related parties.

Also in consideration of its current public nature, the Bank, in fact, strictly adheres to governing provisions regarding transactions with related/associated parties, obligations of banking representatives, managers’ transactions, personal transactions, and significant equity investments.

In this regard, during the year, a comprehensive review was conducted of the internal procedures relating to related and associated parties, including in line with the obligation envisaged by current regulations to periodically perform this review to ensure greater efficiency in implementing monitoring and related processes. In particular, the changes made to the internal operating document were reviewed, which took into account the comments made by the Bank’s functions involved in the process, with the aim of achieving a more precise attribution of tasks to the pertinent structures.

In this perspective, the “*Group Directive on managing prescriptive obligations with regard to related and associated parties and obligations of banking representatives*” was revised and, on 16 December 2019, this Board expressed its opinion supporting the overall suitability of the aforementioned Directive to achieve the objectives set by governing regulations on the matter, identifying the criteria, rules and profiles required by the Supervisory Authorities and ensuring the integrity and transparency of the decisions through safeguards consistent with those established by the aforementioned legislation.

* * *

In this Board's opinion, based on the information received, both the transactions specified above and those of an ordinary nature were carried out in full compliance with internal procedures and principles of proper administration, with the awareness of the risk and the effects of the decisions taken.

It is therefore confirmed that the principles of proper administration have been constantly applied.

3. Supervisory activities

3.1 - Supervisory activities on the adequacy of the internal control system

The Internal Control System (ICS) plays a strategic role for the Group, representing in fact a key element through which to acquire full understanding of the oversight of business risks and related interrelationships. In this context, the reference regulatory provisions (Bank of Italy Circular no. 285/2013) assign to the Board of Statutory Auditors the responsibility of "*supervising the completeness, adequacy, functionality and reliability of the overall internal control system*".

In consideration of this, during the year, this Board of Statutory Auditors continuously interacted with all structures involved in the ICS, with a view to ascertaining its adequacy, its practical operation, correct performance of duties, and the consequent coordination between the same.

In line with the aforementioned regulations, the Bank's Internal Control System is broken down as follows:

- <u>First-level controls</u>, aimed at ensuring the proper performance of all basic operations. These are carried out by the relative operating structures, including by dedicated units, or performed as part of back-office operations, or, to the extent possible, incorporated in IT procedures;
- <u>Second-level controls</u> aimed at ensuring the correct implementation of the risk management process, compliance with the operating limits assigned to the various business functions and compliance of operations with rules, including self-regulations. The functions in charge of these controls are distinct from the production functions, in that they contribute to the definition of risk governance policies and the risk management process;
- <u>Third-level controls</u> are performed by Internal Audit with the objective of identifying violations of procedures and regulations as well as periodically assessing the adequacy, functionality and reliability of the ICS and IT system, with a frequency established based on the nature and severity of the risks.

A specific focus is dedicated to each type of control described above.

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With regard to first-level controls, note the intense awareness-raising activities put in place by the Board of Statutory Auditors for the Bank's structures in order to promote the "control culture" at all levels, verifying, in this perspective, the overall framework of first-level controls in the various departments.

A positively developing internal operating and regulatory context emerged, which was reflected in the progressive implementation and adaptation process that gradually involved all functions in the conviction that control is not merely a bureaucratic "burden" for the business activities, but represents an added value.

In this context, a special role is assumed by the "First-Level Controls Execution and Monitoring Area", which defines the guidelines for this type of control and oversees the related updating and development by the functions that own the individual processes in order to guarantee their consistency with internal and supervisory regulations.

More specifically, this Area monitors the execution of first-level controls by the Bank's structures (both in General Management and the Network) and performs the perimeter controls, divided into (i) prescriptive (attributable to placement of financial products, anti-money laundering, privacy, FATCA and MiFID profiles) and (ii) operational (relating to the obligations associated with usury, banking transparency, related parties and document management).

In this regard, the situation is found to be sufficiently adequate, in which the controls of this type are properly formalised and structured. However, the areas for improvement mainly concern the regulatory constraints involving "transparency" and "anti-money laundering".

With specific reference to the overall system of first-level controls on Credit, an appropriately organised structure was found, where in fact a specific Credit Control Unit was created that supervises, manages and coordinates the activities of the central and local structures appointed to perform the operational controls. The definition, execution and follow-up process for the control activities is similarly governed. The reporting tools were also subject to rationalisation, entailing an ad hoc report, weighted by content and frequency, based on its relative recipients.

The Board of Statutory Auditors gave particular attention to the first-level controls in the Legal Function, constantly monitoring the corrective activities resulting from the findings of Supervisory Authorities as part of its audit on this matter (see chapter 5.2).

With regard to the Consorzio Operativo di Gruppo (COG), this structure summarised the set of activities to strengthen the first-level controls as part of a specific project which has been concluded. In fact, the IT processes were formalised and tracked, resulting in the definition of the responsibilities for execution, monitoring and reporting to the control functions.

* * *

With reference to the business functions for second-level controls, please note the following.

The Regulatory Compliance Control Function, reporting directly to the Chief Executive Officer, is performed by the Compliance Department, which, in July 2019, modified the previous structure, transforming from an Area to a Department, thereby making the function's organisational level equivalent to that recognised to the managers of other business control functions. This function is assigned oversight of all regulatory areas falling under the scope of activities of the Parent Company and the Italian subsidiaries subject to supervision, including the Consorzio Operativo di Gruppo (known as the "Centralised Compliance Model"). This ensures oversight on regulatory compliance with methodologies and procedures aligned to the provisions of Supervisory Authorities and based on the principles and rules established by the Parent Company for the Internal Control System and outsourcing of control functions.

The Board of Statutory Auditors, in its meeting of 24 February 2020, reviewed the "2019 Compliance Report", which attributed a final assessment of "partial compliance" for the Bank's control system. Nonetheless, all activities carried out by the Compliance Function during the year made it possible to define the compliance risk to which the Bank remains exposed on the whole as "moderate".

With reference to the execution of controls pertaining to the Compliance Function, note that during 2019 the function was unable to complete all the activities envisaged due to the size of some structures under the department, in addition to which there was a change in priorities following the collaborative commitment ensured to Supervisory Authorities during audits (see chap. 5.2). However, 85% of the controls performed resulted in full or predominant compliance.

Moreover, note the submission, for the first time, of the Report of the Data Protection Officer (DPO), who reports hierarchically to the Manager of the Compliance Department, in compliance with the provisions of art. 38.3 of the General Data Protection Regulation.

This document certified that, on the whole and in light of the available data, the monitoring of privacy legislation at BMPS was found "predominantly compliant". However, certain risk elements were reported which require mitigation measures, connected with the complexity of the standard and with the consequent breadth of interventions in progress or to be carried out.

In terms of customer claims, with reference to the two macro-categories of complaints regarding "investment services" and "banking services", there are no indicators of widespread situations of specific risk.

Lastly, with regard to organisational aspects of the overall complaints management process, the Board, in the interest of customers, has suggested a review in order to reach a more organic understanding of the phenomenon, channelling all complaints and claims into a single "steering committee", with the aim of achieving more efficient and timely management.

The Risk Control Function discharges its duties according to the definition provided by supervisory regulations and is carried out by the Chief Risk Officer (CRO) Department of the Parent Company, who reports hierarchically to the Board of Directors and functionally to the Chief Executive Officer.

This function has the task of ensuring the adequacy and effectiveness of the Group's risk management system and verifying capital stability (ICAAP) and the optimal liquidity level (ILAAP), as well as correctly determining the Risk Appetite Framework (RAF) and ensuring consistency between the latter and the most significant transactions.

Furthermore, it defines the strategic policies on the riskiness of the loan portfolio and guarantees the production of the relevant reports to external institutions.

The function interacts with this Control Body through the periodic reporting of activities put in place regarding the management and control of Group risks. The flows produced are considered sufficient to represent the proper implementation of the Group's strategies.

The Board of Statutory Auditors reviewed the preliminary findings of the "2019 Annual Report on Risk Management activities" at its meeting on 24 February 2020, along with the Manager of the Function.

This document, in relation to the risk profile, shows an overall suitability and reports its specific assessments from the perspective of (i) inherent risk (i.e., the overall level of risks faced by the Group) and (ii) the organisational processes, systems, controls and monitoring in place to manage and mitigate these risks.

The first point was assessed as "partial suitable", taking into account generation of capital by the Company that is still weak.

For the second, an assessment of "predominantly suitable" was confirmed, even though issues of greater relevance in the future have been highlighted, such as raising the awareness of the structures on monitoring operational and reputational risk, especially in reference to customer relations and new types of risk (e.g., IT/cyber risk).

According to a risk-based approach, the Anti-Money Laundering Function oversees the risks related to combating money laundering and the financing of terrorism and continually verifies that business processes and procedures are consistent with the objective of preventing and combating the violation of regulations on money laundering and terrorist financing.

On 11 July 2019, the responsibility for this function, previously assigned to the Manager of the Anti-Money Laundering Service, was assigned directly to the Manager of the CRO Department, to adapt the organisational model for managing the risk of money laundering and terrorism financing to the instructions and guidelines issued by Bank of Italy on 26 March 2019, formally placing the role of "Manager of the Anti-Money Laundering Function" at the highest hierarchical level.

During the meeting of the Board of Statutory Auditors on 24 February 2020, this function's new manager presented the main results contained in the Annual Report on the activities performed in the area of anti-money laundering and combating the financing of terrorism in 2019. It was found that the predominant commitment by the structure was dedicated to the progress of activities envisaged in the "AML-Bankit Plan", containing all the initiatives aimed at resolving the findings of the Bank of Italy following the audit conducted in 2018 (6 June - 28 September) on the "System for combating money laundering and analysis of the organisational and procedural structures for producing reports".

In this regard, this Board has periodically received updates from the competent Anti-Money Laundering Function on the implementation status of these activities, necessary for carrying out effective monitoring and allowing this Control Body to prepare its own report on the matter to Bank of Italy.

The compliance monitoring model and the related organisational model, despite the efforts made, were not fully effective given the difficulties encountered in the complete disposal of the stock of positions with absent or expired KYC (Know Your Client) information, even though recently it has been significantly reduced.

Furthermore, the audit carried out by Internal Audit on “due diligence” also revealed the need to adopt improvement measures on various qualifying factors of the ICS.

From an organisational perspective, in light of its analysis, this Board suggested that the Bank assess the appropriateness of a different placement of the Anti-Money Laundering Function, considering its current separation from the Compliance Function not practical. In fact, the placement within the Chief Risk Officer Department may, in some way, limit the development of common methodologies for those analyses not solely linked to anti-money laundering, but to a broader monitoring of financial crimes.

The Internal Validation Function monitors the formalised set of activities, tools and procedures designed to assess the accuracy of estimates of all relevant risk components and expresses a judgement on the orderly functioning, predictive capacity and performance of the internal systems for risk measurement. It is required to continuously verify the consistency of the risk measurement systems with respect to regulations of the company and the Supervisory Authority.

The model adopted by the Group is that of “Centralised Internal Validation”, which is carried out in line with outsourcing contracts.

During the meeting of the Board of Statutory Auditors on 24 February 2020, the manager of this function had the opportunity to report some of the data from the 2019 Validation Report, although it is not yet available in its full version. In this regard, this Board acknowledges that for the risk measurement systems for which the Group is authorised to use internal models (AIRB-SRI and AMA), taking into account the results that emerged from the audits performed, the Group’s positioning with respect to regulatory requirements as well as the identified areas for improvement, the Validation Function has expressed a positive assessment regarding the compliance with the minimum requirements for the use of internal measurement models.

* * *

Third-level controls are carried out by the Chief Audit Executive (CAE) Department, whose activities are independent and objective and constitutes one of the primary control functions that the Board of Statutory Auditors uses for carrying out its duties. Through its Manager, this Board remains informed and takes action on anomalous trends, violations of procedures and regulations and contributes to the functionality of the overall Internal Control System (ICS).

The Board of Statutory Auditors received the necessary support for carrying out the related supervisory activities from this function and audit reports were received, selected based on shared significance criteria, containing the results of the audits performed during the year. With regard to the findings that emerged, this Board took steps to ensure that the necessary and most timely corrective measures were taken by the Bank’s competent functions. When deemed necessary, the situations deemed most important were brought to the attention of Supervisory Authorities.

During 2019, in line with the plan, the CAE Department carried out a total of 63 process audits, of which 59 envisaged by the annual Audit Plan (13 of which were mandatory due to regulatory provisions) and 19 extraordinary audits, requested by the Bank’s bodies and by Supervisory Authorities and 219 performed on Network structures and distribution channels.

The function is also assigned responsibility for the internal whistleblowing systems for reporting violations. This activity is managed through the “Confidential WB” IT system, which supports all related process. The application ensures, at every stage, the confidentiality of the report and privacy of the personal data of the reporting party and the party to which the report refers, ensuring a specific and independent channel, separate from ordinary reporting lines.

Bank of Italy Circular no. 285 requires banks to describe their internal reporting system in a clear, precise and complete manner to their personnel.

For this purpose, various available channels were used, in order to describe the system adopted, encourage the actual use of the system by personnel, and further promote the culture of control and risk prevention at all levels.

In 2019, a total of 28 reports were received, relating to events impacting Banca MPS, COG and Banca Widiba, in line with the previous year (30 reports in 2018).

Having immediate IT access, all reports received were reviewed by the Board of Statutory Auditors during its meetings and, after the necessary investigations had been carried out, the competent function provided feedback to the reporting party in the manner prescribed by the policy.

The 2019 financial year represented the second year of the 2018-2020 three-year audit cycle, at the end of which the Audit Function confirmed, through its own report presented during specific Board of Statutory Auditors meetings, the overall assessment of the Internal Control System as "R2-yellow", based on the scale of ratings adopted by the CAE Department for its audit assessments, having four levels of increasing importance (R1-green, R2-yellow, R3-orange, and R4-red).

The Audit Function reported that there were certain areas for attention, which had been, in part, addressed during the year, identifying a need, in any case, to strengthen the ICS.

Note the extraordinary audit requested by the Director in charge of the Internal Control and Risk Management System, aimed at verifying the overall structure of the ICS, whose results identified a situation that was only "partially suitable".

The main findings of the audits carried out in the current audit cycle (2018 and 2019), the results of the extraordinary activities carried out, the recent audits conducted by the European and Italian Supervisory Authorities and the specific results that emerged from the 2019 SREP Decision confirmed the need to maintain a strong focus on the efficiency and effectiveness of the Bank's Internal Control System and the coordination mechanisms between the functions that operate within it.

In this perspective, this Board of Statutory Auditors, late in the year, asked an external company to perform a specific Quality Assessment Review on the second- (Compliance) and third-level (Audit) control structures, adopting the International Standards for the Professional Practice of Internal Auditing and the reference regulations applicable at a given time.

The assessment carried out on these functions led to the identification of certain areas for attention and misalignments in terms of extent, practices and tools with respect to the other peers.

With particular regard to the Audit Function, it was assessed as "generally compliant" even though the need to renew and strengthen the current methodological process has clearly emerged, given the constantly growing scope of activity, raising the quantitative characteristics from which the risk-based audit plan is developed and carried out.

Furthermore, areas of improvement were identified with reference to data management and the digitisation of control processes that generate critical issues in terms of resource absorption and difficulties in acquiring data and information useful for carrying out monitoring and audit activities.

With regard to the Compliance Function, the assessment was positive on the whole, considering the significant reorganisation process underway within the Department. However, it highlighted some weaknesses (e.g., lack of "preliminary approval" processes, limited use of advanced IT tools, etc.) which were in any case not directly attributable to the Compliance Department and which, if organisationally resolved, would allow significant synergies and efficiency improvements within the function.

* * *

Based on these assumptions and with particular reference to the specific operational contexts analysed and the resulting corrective measures planned and in the process of being implemented, this Board deems that the Internal Control System, despite having maintained sufficient oversight of business risks during the year, must further progress towards a more advanced and efficient model that can fully address the new requirements from both European Supervisory Authorities and from the industry context in which the Bank operates, in order to continue ensuring adequate risk monitoring and their effective management, as provided by sector regulations.

3.2 - Supervisory activities on the adequacy of the organisational structure

The organisational changes within the Bank during 2019 were primarily characterised by the completion of initiatives to redefine commercial scopes of responsibility within the Regional Areas (approved by the Board of Directors in the first quarter of 2019) and several revision and streamlining activities designed to facilitate the implementation of the Restructuring Plan agreed upon with the competent Authorities.

A chronological overview of the most representative actions taken during the year is provided below, detailed by type.

In April 2019, the revision of the Regional Area organisational model was completed, as noted above, designed to orient the structures and processes towards sales objectives with greater market-based specialisation by District that is crossed with Service Models by Market. Furthermore, the Bank increased the number of Regional Retail Departments (from 38 to 48) for a more widespread commercial presence and the previous Hub and Spoke Network model was eliminated, with the branches returning to traditional organisational models.

In June 2019, the organisational model of the Regional Credit Areas was instead revised, restructuring the internal organisation to mirror the geographic specialisation and specialisation by Market of the Regional Commercial Areas, preserving the High Risk/Disbursement networks within the Credit Sectors.

In July 2019, the Chief Safety Officer Department was established, which reports to the "Employer for purposes of Protecting Health and Safety in the Workplace" (known as "Employer for safety purposes"), a role that, based on the provisions of the law and the By-laws, in exercising his/her authorities and responsibilities, has independent powers extending over the entire corporate structure. The new department was also assigned responsibility for oversight of the Environmental Management model.

In September 2019, with the required opinion from the Board of Statutory Auditors, the organisational adaptation of the Compliance Area was carried out, which was raised, as mentioned above, to the level of Department to align with the hierarchical level recognised to other business control functions and to strengthen the governance of the non-compliance risk management process for the Parent Company and its subsidiaries, through greater specialisation and better coordination of ongoing audit activities, in order to ensure that business procedures are consistent with the objective of preventing and combating violations of rules.

In November 2019, the Chief Commercial Officer Department was reorganised by eliminating the Retail Department and the Corporate Department, merged into the new Markets and Products Department.

In December 2019, the External and Institutional Relations Department was renamed the Communication, Institutional Relations and Sustainability Department, to focus more clearly also on sustainability issues.

With respect to Network processes, actions continued to improve the quality of work, free up more time to be dedicated to sales activities and increase customer service quality, while reducing service response/provision times by streamlining "administrative" activities and document management costs, heavily oriented toward increasing digitalisation of processes.

The Board acknowledged the approval and implementation process of the organisational measures described, issuing, where expressly envisaged, its opinions or comments.

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In this changing context, however, the need has emerged for this Board to launch broader audits on the operational efficiency of the Organisation Function through a complete analysis of the current mapping of business processes and related risks.

In order to optimise execution times and at the same time take advantage of the presence of an external observer, the function has proposed the solution of obtaining the support of an external advisor.

Moreover, with reference to the areas of attention that emerged following an audit by the Supervisory Authority (see chapter 5.2) on "transparency", the Board of Statutory Auditors decided to analyse the validity of oversight on regulations and business processes, assigning the responsibility for carrying out a specific compliance analysis to the Compliance Function.

Similarly, the Audit Function was asked to activate a specific audit to assess the functionality and efficiency of the Group's organisational model.

* * *

Given the above, this Board, acknowledging that the Organisation Function has performed its duties diligently during the year, considers it necessary to complete the aforementioned audit activities currently under way, aimed at identifying and making the necessary improvements to the Bank's organisational model as a whole, in line with the increased regulatory and supervisory requirements.

3.3 - Supervisory activities on the administrative accounting system

The Board of Statutory Auditors met regularly with the Financial Reporting Officer, under whom the relevant audit activities are centralised, discussing the main areas for attention. The officer did not report any significant gaps in the operating and control processes that could jeopardise the assessment of the administrative and accounting procedures as suitable and effectively applied in order to correctly represent the Bank's financial situation as presented in the separate and consolidated financial statements as at 31 December 2019.

The main issues that the Financial Reporting Officer decided to analyse during 2019, as they were considered relevant also for purposes of accounting control activities, in addition to the more general audits on the reliability of financial reporting, were the following: (i) adequacy of the Provision for Risks and Charges as at 31 December 2019; (ii) deferred tax assets (DTAs); (iii) credit (disposal of non-performing loans, measurement of units in alternative investments funds (AIFs) associated with the sale of NPEs, the Sorgenia/Tirreno Power transaction and exercise of the right of withdrawal from the servicing contract with Juliet); (iv) first-time adoption of IFRS 16; and (v) indemnity issued to Bank of New York for the Fresh notes.

These topics, discussed during several meetings with the Financial Reporting Officer, are reported in more detail in the Notes, to which reference is made.

Similarly, frequent meetings were held with the Independent Auditors aimed at exchanging information regarding the suitability of the Company's administrative and accounting system. During this activity, no facts deemed censurable were reported. We also had the opportunity to share with the Independent Auditors the procedures adopted in drafting the 2019 separate and consolidated financial statements.

Given the above, the Board acknowledges that:

- in application of Legislative Decree no. 38 of 28 February 2005, the separate and consolidated financial statements were drafted by applying the international accounting principles issued by the International Accounting Standards Board (IASB) and related interpretations by the IFRS Interpretations Committee, endorsed by the European Commission as established by EC Regulation no. 1606 of 19 July 2002 effective as at 31 December 2019, as well as in compliance with the "Framework for the preparation and presentation of financial statements" ("Framework");
- the provisions contained in Bank of Italy Circular no. 262, as amended by the sixth update of 30 November 2018, were also applied to the separate and consolidated financial statements and the respective notes;
- the disclosure to the public is made available on the Bank's website within the deadlines set for the publication of annual and interim financial statements, according to the provisions indicated in prudential supervisory regulations (known as "Pillar 3");

- all activities performed, the control methods defined and the corrective action plan activated thus far, have allowed the Board of Directors and the Financial Reporting Officer to issue, with the favourable judgement of the Risk Committee, the certifications envisaged by art. 81-ter of Consob Regulation no. 11971 of 14 May 1999 and subsequent amendments and by art. 154-bis of the Consolidated Law on Finance with reference to the 2019 separate and consolidated financial statements.

Note that upon first-time adoption of the IFRS 16 accounting standard the Bank chose the option of applying the standard according to the modified retrospective option, on the basis of which the comparative information does not have to be restated for the 2018 financial statements.

It should also be noted that the Directors did not opt to exercise the derogation pursuant to art. 5, para. 1, of Legislative Decree no. 38/05.

With regard to Document no. 4 of 3 March 2010, issued jointly by the Bank of Italy, Consob and IVASS, and subsequent amendments, this Board acknowledges that the financial statements were drafted under the “going concern” assumption, based on the reasonable assumption of continuing to operate in the foreseeable future.

In this regard, with reference to the 2017-2021 Restructuring Plan, the Bank has continued with the process of relaunching its commercial business and implementing the various operational policies, as mentioned previously. Moreover, in line with the Restructuring Plan’s provisions, continuity has been provided to the initiatives aimed at improving the risk profile of the loan portfolio (performing and non-performing), strengthening regulatory capital requirements through the placement of further Tier 2 tranches of subordinated bonds, as well as the managerial actions envisaged in the Plan.

* * *

At the conclusion of the information reviewed, there is therefore reason to assert that the Bank’s administrative accounting system is able to ensure the correct representation of management events.

3.4 - Supervisory activities on the statutory accounting audit

The Board of Statutory Auditors supervised, to the extent of its responsibilities, the statutory audit of the separate and consolidated financial statements through the ongoing exchange of information with the Independent Auditors Ernst & Young Spa, appointed by the Shareholders’ Meeting of 21 April 2011 for the financial years from 31 December 2011 to 31 December 2019, from which, on 12 March 2020, it received the reports issued pursuant to art. 14 of Legislative Decree no. 39/10 and art. 10 of Regulation (EU) no. 537/14.

From the review of these documents it was therefore acknowledged that:

- in the opinion of the Independent Auditors, the financial statements provide a true and fair representation of the financial position of the Bank and Group as at 31 December 2019, as well as the economic result and cash flows, in accordance with International Financial Reporting Standards adopted by the European Union and the provisions issued in implementation of art. 9 of Legislative Decree no. 38/05 and art. 43 of Legislative Decree no. 136/15;
- for informational purposes, without changing its opinion, the Independent Auditors focused on the description provided by Directors regarding the status of actions envisaged by the 2017-

2021 Restructuring Plan and the updating of the 2020-2024 forecasts, formulated by management in relation to the Group's prospective balance sheet and income statement values, included in the Report on Operations and in the "Going Concern" paragraph in the Notes;

- it was certified that the Report on Operations and certain specific information contained in the Report on Corporate Governance and Ownership Structure are consistent with the separate and consolidated financial statements and have been prepared in accordance with the law.

Ernst & Young Spa noted, in particular, the following Key Audit Matters, which were also discussed by this Board of Statutory Auditors in the aforementioned meetings held with the Independent Auditors:

- Classification and measurement of loans to customers;
- Recoverability of deferred tax assets;
- Assessment of legal risks.

The Independent Auditors also sent the "Supplemental Report" (dated 12 March 2020) to this Control Body, as required by art. 11 of the aforementioned Regulation (EU) no. 537/14. Pursuant to that article and art. 19, para. 1, lett. a) of Legislative Decree no. 39/10, the Board of Statutory Auditors is required to forward this document, annexed with its own data, to the Directors, together with the results of the audit carried out by Ernst & Young Spa.

From that report, it is acknowledged that, during the review of the separate and consolidated financial statements as at 31 December 2019, no significant gaps were found in the internal control system for financial reporting and/or in the accounting system, nor have significant issues been identified regarding cases of actual or presumed non-compliance with laws and regulations or statutory provisions.

At the date this report was submitted, the Board of Statutory Auditors had not found any critical elements regarding the independence of the Independent Auditors or causes of incompatibility. In this sense, it also received confirmation from the Independent Auditors, expressly contained in the aforementioned reports, both in the supplemental and standard reports, that Ernst & Young Spa has not provided services that are prohibited pursuant to art. 5, para. 1 of the aforementioned regulation.

With reference to the aforementioned Consob Communication no. 1025564 of 6 April 2001 and subsequent amendments, note that in 2019 the Bank granted the Independent Auditors additional assignments for "certification services" in addition to the audit, for fees totalling EUR 785,085.00 (net of VAT and ancillary costs), as reported in the Notes, to which reference is made for that which is not expressly reported herein.

The Bank also paid EUR 882,967.00 in 2019 to entities belonging to the Independent Auditors' Network (in particular, Ernst & Young Financial Business Advisors Spa) for management consultancy and other services.

The aforementioned assignments were granted in compliance with the limits established by the "Group Policy on granting and revoking assignments to Independent Statutory Auditors", which the Bank has internally adopted and in accordance with the provisions of EU Regulation no. 537/14.

During the year, the Independent Auditors were not asked to issue mandatory opinions.

Ernst & Young Spa has audited the approval by the Directors of the Non-Financial Statement which, pursuant to art. 3, para. 1 of Legislative Decree no. 254/16, is subject to a separate attestation of compliance by the Independent Auditors.

3.5 - Supervisory activities on the financial reporting process

The Board of Statutory Auditors performed the functions of the Internal Control and Audit Committee envisaged for entities of public interest by the Consolidated Law on Statutory Auditing, monitoring the financial reporting process, following the orderly execution of the work plan prepared by the Independent Auditors and verifying its adequacy with respect to the size and organisational and business complexity of the Bank.

The Board also interacted with the Financial Reporting Officer from whom it received assurance, including through the specific Report in Certification of the Financial Statements, on the consistency between the information reported therein and the results of the accounting applications in use at the Bank. Similar dialogue was conducted for the information contained in press releases and presentations to analysts.

The matter, specifically governed also in the Bank’s internal regulations, has been audited by this Board in relation to the reliability of financial information communicated by the Company.

As regards, in particular, the legal risks generated by a significant civil and criminal dispute in which the Group is involved, deriving from the financial information disclosed in the period 2008-2015, the Board has dedicated, including with the support of the Legal Function, various working sessions in order to monitor the dynamics over time, the correct measurement process for financial purposes and adequate monitoring.

At the end of these activities, the Statutory Auditors acknowledged that the assessments of the risk of losing, though duly recalculated and updated, remained substantially unchanged compared to previous years. In particular, with regard to legal disputes, the formation of civil plaintiffs in criminal proceedings 29634/14 and out-of-court claims relating to disputes regarding the period 2008-2011, the Bank has assessed the risk of losing as “probable” and has therefore set aside provisions for risks and charges in the financial statements. Conversely, for disputes regarding the period 2012-2015 and specifically for criminal proceeding no. 955/2016, no provisions were made, as the risk of losing was deemed “unlikely”.

Again in the matter of the adequacy of the provision for risks and charges, the Board has similarly analysed the aspects linked to the provisions for the diamond compensation action, noting that the Bank updated the forecast of expected requests and the value of the diamond market.

Instead, with regard to the charges related to “transparency” and therefore to protecting customers, the Board acknowledges that, during the last quarter of 2019, the Compliance Department defined a comprehensive intervention plan on the matter, to resolve critical issues identified during the Bank of Italy’s audit launched in October 2019 (as previously reported and indicated in chap. 5.2), specifically with the objective of protecting customer relationship management in terms of the relative transparency and safeguards. The Plan, which received the favourable opinion of the Risk Committee and was approved by the Board of Directors, envisaged, in the various areas in which it is broken down, the management of reimbursements to customers referring to erroneous charges or in cases of non-recognition of amounts.

Although not summarised here, please refer to the exhaustive information provided in "Part E" of the Notes, where reference is made to the other types of risk and the related hedging policies.

3.6 - Supervisory activities on non-financial information (Legislative Decree no. 254/16)

In accordance with Legislative Decree no. 254/16 relating to the communication of non-financial information and the Implementing Regulation issued by Consob with the resolution dated 18 January 2018, the Board of Statutory Auditors monitored, in exercising its duties, compliance with the provisions contained therein regarding the preparation of the Non-Financial Statement (hereinafter also "NFS") formulated in a separate report, to which reference should be made, as it is not included in the Report on Operations, as permitted by the aforementioned reference legislation.

The NFS refers to the period from 1 January to 31 December 2019 and shows, for comparison purposes, the data for previous years, as required by the aforementioned Legislative Decree no. 254/16, to enable a broader understanding of the performance of the Group's activities.

Moreover, note that, in May 2019, the internal regulations on the NFS were finalised, which govern all activities related to its preparation. In particular, the roles of each department and its delegates within the Sustainability Working Group have been established and the oversights, obligations and controls for the preparation of the document have been precisely defined. The NFS reports the topics deemed relevant, as described in the materiality matrix defined in 2019 through dialogue with all stakeholders of interest and validated by the Board of Directors in the meeting of 16 January 2020.

The Board also met, in a specific working session, with the function responsible for drafting the NFS, jointly reviewing the documentation made available, supplemented by the results of the compliance controls assigned, at the request of this Board, to the Compliance Function.

Overall, this audit resulted in an assessment of "predominantly compliant", although some areas of improvement for the process were identified with respect to the requirements indicated by the primary regulations, which must still be implemented in the internal regulations.

The Statutory Auditors also acknowledged the Report of the Independent Auditors (EY) on 12 March 2020, which states that "based on the work performed, no elements have come to our attention that would suggest that the NFS of Montepaschi Group for the year ended 31 December 2019 has not been prepared, in all significant aspects, in accordance with the requirements of arts. 3 and 4 of the Decree and the GRI Standards".

* * *

Given the above, based on the aforementioned information acquired, the Board of Statutory Auditors certifies, as required by art. 3, para. 7 of Legislative Decree no. 254/16, that no elements of non-compliance and/or violation of the relative regulatory provisions have emerged in performing the duties it has been assigned. The 2019 Consolidated Non-Financial Statement was approved by the Board of Directors on 25 February 2020.

4. Remuneration policies

The Board of Statutory Auditors reviewed the "2020 Report on Remuneration and Fees Paid" prepared in accordance with the disclosure obligations pursuant to art. 123-ter of the Consolidated Law on Finance and those deriving from regulations issued for the banking sector.

This Report was approved by the Board of Directors on 25 February 2020 on the proposal of the Remuneration Committee, submitted based on the favourable opinions of the Risk Committee and Compliance Function.

The purpose of this document, as you are aware, is to describe to the Shareholders' Meeting the methods by which the previously defined policies were implemented in 2019 and the policies that will be applied in 2020.

More generally, the Group's Remuneration Policies are designed to improve business performance and create value over time, fully consistent with risk governance policies. With reference to 2019, in order to contribute to achieving cost targets set by the commitments, the Group has not activated the "core" variable incentive systems.

Also for 2020, the Remuneration Policies presented in the aforementioned document are strategically important for pursuing the business objectives, since they also aim to safeguard the Group's ability to create value and strengthen the economic profile, while duly considering the constraints set by the 2017-2021 Restructuring Plan.

This Board of Statutory Auditors supervised the remuneration aspects pertinent to the Bank, including by its Chairperson (or a Statutory Auditor delegated by her) participating in the 12 meetings of the Remuneration Committee.

With a simultaneous proposal, a plan to use "Performance Shares" is submitted to the Shareholders' Meeting to fulfil possible future commitments connected with the payment of incentives for the early termination of the employment relationship or for the early cessation of office (severance) intended for the "key personnel" of Group companies.

In this regard, note that this proposal was preceded not only by the resolution of the Board of Directors of 25 February 2020, but also by the positive opinion of the Remuneration Committee, Risk Committee and the Board of Statutory Auditors (for the latter, as regards the application of the Corporate Governance Code of listed companies and the provisions of art. 2389, para. 3 of the Italian Civil Code).

The Statutory Auditors also acknowledges that the Compliance Function reviewed the proposal for the 2020 Remuneration Policies, noting its overall compliance with external regulations (EU directives and regulations, Consolidated Law on Banking, Consolidated Law on Finance, as well as Bank of Italy and Consob regulations), in addition to the Bank's Code of Ethics and with the Corporate Governance Code of Listed Companies to which the Bank has adhered.

All activities carried out by the Compliance Function were discussed, highlighting their overall compliance with governing regulations, in the specific "Report on the Compliance of Remuneration and Incentive Policies" presented to the Board of Statutory Auditors at the meeting of 24 February 2020 and submitted to the Board of Directors on 25 February 2020.

The Internal Audit Function also conducted its own audits on the matters in question, the final results of which, also presented to the Board of Statutory Auditors in the meeting of 24 February 2020 and to the Board of Directors in the meeting of 25 February 2020, showed a grade of a "green" (corresponding to a rating of 1 on a scale that is divided into four increasingly critical levels), net of 4 low-relevance gaps (mainly formal in nature).

5. Other information

5.1 - Relations with subsidiaries

The supervisory activity of this Control Body extended, also at consolidated level, to the subsidiaries with regard to the assessment of the adequacy of the intra-group information flows in relation to the Group's legal obligations and operational needs.

In this perspective, the Board of Statutory Auditors has verified the adequacy of the instructions provided to the subsidiaries (art. 114, para. 2, of the Consolidated Law on Finance), so that the subsidiaries can provide the information necessary to fulfil the communication obligations established by law.

In addition, in order to obtain greater knowledge regarding the corporate activities and, in particular, of the procedures for the overall risk management, this Board of Directors acquired and exchanged information with the equivalent Control Bodies of the subsidiaries on the most significant issues that affected the year.

In this regard, as also provided for by art. 151, para. 2 of the Consolidated Law on Finance and Bank of Italy's Supervisory Provisions, during the year, specific meetings were held with the Boards of Statutory Auditors of the main subsidiaries, in which particular attention was focused on the general trend of business activities, the functioning of the internal control system and any irregularities found in the performance of their respective supervisory activities.

During these meetings, which were attended by the Managers of the Audit and Compliance Functions of the Parent Company, various topics were discussed, including relating to the possibility of using single Independent Auditors for the entire Group, as a guarantee of greater uniformity in drafting the Group's consolidated financial statements.

Other topics included governance issues, risk management and the need to rapidly and fully implement the internal anti-money laundering regulations issued by the Parent Company.

5.2 - Audits by Supervisory Authorities

As part of the prudential supervision programme adopted by the ECB, to which the Parent Company is subject, the main audits conducted by the Supervisory Authorities during 2019 are described below.

From 28 January to 26 April 2019, the ECB conducted an on-site audit (OSI-4125) concerning the Group's legal risk. In August, the Bank received a draft of the Audit Report, which was followed, on 5 November 2019, by the final version of the report, containing some significant findings, mainly of a procedural nature.

Between 26 June and 27 September 2019, the ECB conducted an on-site audit at Group level regarding "interest rate risk". Subsequently, in November 2019, it sent the draft version of the Audit Report, which shows a marginality of the risk analysed within the Bank's overall position. The 6 findings refer to process governance aspects and to methodological and risk quantification aspects.

In the period 18 October 2019 - 23 January 2020, an additional on-site audit (OSI-4356) was carried out on “liquidity allocation and internal transfer rate”. The Parent Company is waiting to receive the final Audit Report.

With regard to the audit on “IT risk” conducted in 2018 (OSI IT Risk-3832), note that in August 2019, the Follow-Up Letter was sent, indicating the recommendations associated with the findings discussed in the Audit Report. The recommendations included two deadlines (30 December 2019 and 30 March 2020) for their resolution; in January 2020, the Bank sent the ECB proof that the remedial actions associated with the first deadline had been completed.

In 2019, the ECB continued audit activities on internal models aimed at assessing the adequacy of Pillar 1 models authorised for calculating regulatory capital with the IRB method. In this context, in the period 21 January 2019 - 29 March 2019, the ECB conducted an on-site audit (TRIM 3917) concerning the internal credit risk models for the Issuer and the Group, with reference to the PD, LGD, and Credit Conversion Factor on Corporate and Other exposures. On 18 September 2019, the Bank received the final audit report with the results of the review, which contained 17 findings.

Between October and December 2019, the ECB conducted an audit (IMI 4357) on the credit risk models adopted by the Bank with a focus on the PD, LGD, and ELBE parameters in the area of corporate and retail exposures.

The Parent Company is waiting to receive the audit results.

During the first quarter of 2019 the ECB carried out a remote audit in Deep Dive mode, concerning the services of the Juliet platform.

The audits conducted directly by the Bank of Italy are reported below.

In the period 21-23 May 2019, the aforementioned Supervisory Authority conducted an audit on the use of the IRB system for ECAF (Eurosystem Credit Assessment Framework).

The result, communicated on 13 November 2019, had a grading of “Predominantly Satisfactory”.

On 7 October 2019, Bank of Italy launched an audit to ascertain compliance with regulations on “transparency of transactions and fairness of relations with customers”.

The audit ended on 21 January 2020 and the Bank is waiting to receive the results.

However, based on areas for improvement that were identified during the audit, the Bank has already started a comprehensive intervention plan, about which the Bank of Italy has been informed.

On 28 February 2019, Bank of Italy informed the Board of Directors of the results of the audit carried out in the period 6 June - 28 September 2018 on the Parent Company and the subsidiary Widiba regarding compliance with regulations on “combating money laundering”. The related Audit Report highlighted the presence of various areas of improvement that mainly concern due diligence and internal controls.

These findings were promptly reviewed by the Parent Company, which prepared a specific remediation plan that, though with a certain delay compared to the initial schedule, is carrying out extraordinary interventions, which had been recommended by this Control Body.

Also on 28 February 2019, the Supervisory Authority communicated to the Bank the results of the audits launched on 6 June 2018 aimed at verifying the suitability of organisational structures to produce correct reporting on average overall effective interest rates and preventing the risks associated with violations of “usury” regulations. Two findings resulted from these audits, whose corrective actions were completed during the year.

5.3 - Complaints and petitions

From the date of the previous report to that of the submission of this report, the Board of Statutory Auditors has received various communications and petitions as well as a qualified complaints pursuant to art. 2408 of the Italian Civil Code.

The latter was submitted by the shareholder Bluebell Partners Ltd, in the person of Mr Giuseppe Bivona, with a letter dated 24 December 2019.

The complaint, with text entitled “*serious incompatibility of Messrs Resti and Petrella, as they are both advisors to MPS in the criminal proceedings in which the former directors Messrs Profumo and Viola are charged and advisors to the former directors Messrs Profumo and Viola in the criminal proceedings of which MPS is the plaintiff*”, was sent by certified e-mail to the Board of Directors and Board of Statutory Auditors of BMPS, with a copy to the Chairperson of the Council of Ministers, the Minister of the Economy, the European Commission, the European Central Bank, Chairperson of Consob, the Governor of Bank of Italy and to the IV Commission (Finance) of the Chamber of Deputies and Senate.

The Board then proceeded to ascertain the status as BMPS shareholder of the reporting party, the analysis of which enabled the exclusion of the conditions pursuant to art. 2408, para. 2 of the Italian Civil Code and, therefore, it is not a complaint filed by a shareholder expressing a qualified majority.

With regard to the complaint’s content, the Board also proceeded to investigate and verify each of the points raised by the reporting party and, following the analyses conducted, also making use of the support of an external attorney, reached the conclusion that it could exclude the merits of the complaint because, at present and based on the information gathered, the points therein are groundless.

The comprehensive investigation that led to this result was recorded in the minutes of a dedicated meeting of the Control Body and transcribed in the Registry of the meetings and resolutions of the Board of Statutory Auditors.

With regard to other communications and/or petitions received, in some cases for awareness only, they have been brought to the attention of the competent Bank functions and, if the information received from the reporting party has been verified as having merit, the Board has monitored the process of eliminating the causes that gave rise to the report, especially when referring to aspects of internal organisational or behaviours by the Bank that are not considered appropriate.

5.4 - Corporate governance and the Corporate Governance Code

The Board of Statutory Auditors has reviewed the contents of this year's Annual Report on Corporate Governance and Ownership Structure, verifying its compliance with art. 123-bis of the Consolidated Law on Finance, with the standard most recently released by Borsa Italiana, as well as ascertaining the adequacy and completeness of the information contained therein.

The Supervisory Provisions, together with the provisions contained in the Corporate Governance Code, establish the periodic self-assessment by the Board of Directors on its qualitative-quantitative composition, size, degree of diversity and professional qualifications, the guaranteed balance of non-executive and independent components, the adequacy of the appointment processes and selection criteria, continuing professional training, as well as with reference to the internal committees of the Board of Directors. The Board of Statutory Auditors is also required to carry out this self-assessment annually, pursuant to these Supervisory Provisions.

The Corporate Governance Code also places the Board of Statutory Auditors in charge of verifying the correct application of the criteria and procedures for ascertaining the requirements adopted by the Board of Directors to annually assess the independence of its members. Similarly, the Board of Statutory Auditors also confirmed that its members meet the same independence requirements as Directors, adopting adequate safeguards for the prevention of any potential conflict of interest. The relative reports have been provided to the Supervisory Authorities concerned.

For all the cases indicated above, the presence of the characteristics required by the aforementioned regulations was ascertained.

As envisaged by the Corporate Governance Code, the Appointments Committee, the Remuneration Committee, the Risk Committee and the Related-Party Transactions Committee operate within the Board of Directors, having advisory and consultative functions. They have adopted their own regulations, duly approved with specific resolutions of the Board of Directors.

The Chairperson of the Board of Statutory Auditors or a delegated Statutory Auditor has attended all of the respective meetings.

On 17 December 2019, at the request of the independent directors, the Board of Directors unanimously appointed - with the abstention of the party concerned - the independent Director Marco Giorgino, as the Bank's Lead Independent Director.

In 2019, the Supervisory Body pursuant to Legislative Decree no. 231/01, consisting of three members, two of whom are external professionals and one non-executive director, continued its activities, to which the Board of Directors resolved to assign oversight duties related to this matter.

The exchange of information with this Board was suitable.

The Shareholders' Meeting of 11 April 2019 provided for the replacement of the Alternative Auditor Carmela Regina Silvestri, who had resigned on 9 May 2018, with the appointment of Claudia Mezzabotta.

Conclusions

Based on the description provided above, we can certify that, in carrying out the corporate activity in 2019, no censurable facts or irregularities that merit specific reporting to the Shareholders were found nor were significant omissions identified.

Hence, the Board of Statutory Auditors, having considered the content of the Reports drawn up by the Statutory Auditor, having acknowledged the declarations issued jointly by the Board of Directors and Financial Reporting Officer, with a favourable opinion from the Risk Committee, having no proposals to be made pursuant to art. 153, para. 2 of the Consolidated Law on Finance, requests the Shareholders' Meeting to approve the 2019 financial statements, as well as the proposal to carry forward the entire loss of EUR 1,174.5 mln.

Lastly, the Supervisory Body reminds you that its mandate has reached its natural expiration and invites you to take the consequent decisions, thanking you for the trust you have placed in us.

BOARD OF STATUTORY AUDITORS

Signed by

Elena Cenderelli

Chairman

Signed by

Raffaella Fantini

Standing Auditor

Signed by

Paolo Salvadori

Standing Auditor

Siena, 12 March 2020

ANNEXES

Disclosure of independent auditors' fees

Pursuant the provisions of art.149 duodecies of Consob Issuers'Regolation, the table below shows all payments made to the Auditors, EY SpA, and to others forming part of its network, broken down by type of service provided.

31 12 2019

Type of services	Service provider	Total
Auditing	EY Spa	1,073
Other attest services	EY Spa	785
Other services	Ernst & Young Financial Business Advisory S.p.a.	883
Total		**2,741**

Amounts are exclusive of V.A.T., ancillary expenses and Consob charges.

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PENSION FUNDS - Defined benefit pension funds without plan assets

"Supplementary Pension Fund for personnel of former Tax Collection Agencies"

Accounting statemet as at 31 12 2019	(in units of Eur)
Opening balance as at 01 01 2019	**19,060,667**
Increases	1,131,633
- provisions for the year	128,489
- Other	1,003,144
Decreases	1,685,407
- Benefit paid	1,685,407
- Other	-
Closing balance as at 31 12 2019	**18,506,892**

"Supplementary Pension Fund for personnel of former Banca Operaia di Bologna"

Accounting statement as at 31 12 2019	(in units of Eur)
Opening balance as at 01 01 2019	**5,588,941**
Increases	490,695
- provisions for the year	58,089
- Other	432,606
Decreases	386,505
- Benefit paid	386,505
- Other	-
Closing balance as at 31 12 2019	**5,693,131**

"Supplementary Pension Fund for personnel of former Banca di Credito Popolare e Cooperativo di Reggio Emilia"

Accounting statement as at 31 12 2019	(in units of Eur)
Opening balance as at 01 01 2019	**640,726**
Increases	52,140
- provisions for the year	6,214
- Other	45,926
Decreases	38,684
- Benefit paid	38,684
- Other	-
Closing balance as at 31 12 2019	**654,182**

"Supplementary Pension Fund for personnel of former Banca Popolare Veneta"

Accounting statement as at 31 12 2019	(in units of Eur)
Opening balance as at 01 01 2019	**919,546**
Increases	94,585
- provisions for the year	1,635
- Other	92,950
Decreases	166,126
- Benefit paid	166,126
- Other	-
Closing balance as at 31 12 2019	**848,005**

"Supplementary Pension Fund for personnel of former General Managers"

Accounting statement as at 31 12 2019	(in units of Eur)
Opening balance as at 01 01 2019	**2,981,022**
Increases	24,273
- provisions for the year	24,273
- Other	-
Decreases	315,052
- Benefit paid	250,429
- Other	64,623
Closing balance as at 31 12 2019	**2,690,243**

"Supplementary Pension Fund for personnel of former Credito Lombardo"

Accounting statement as at 31 12 2019	(in units of Eur)
Opening balance as at 01 01 2019	**2,689,431**
Increases	194,912
- provisions for the year	18,086
- Other	176,826
Decreases	250,180
- Benefit paid	250,180
- Other	-
Closing balance as at 31 12 2019	**2,634,163**

"Supplementary Pension Fund for personnel of former Banca Toscana"

Accounting statement as at 31 12 2019	(in units of Eur)
Opening balance as at 01 01 2019	**457,495**
Increases	-
- provisions for the year	-
- Other	-
Decreases	-
- Benefit paid	-
- Other	-
Closing balance as at 31 12 2019	**457,495**

PENSION FUNDS - Defined benefit and defined contribution pension funds with plan assets

"Supplementary Pension Fund for personnel of former BNA" - Defined benefit section

BALANCE SHEET

(in units of Eur)

	Assets	31 12 2019	31 12 2018	Changes
10	**Direct investments**	**23,099,670**	**23,249,460**	**(149,790)**
	a) Deposits	389,792	453,856	(64,064)
	b) Receivables from repo transactions	-	-	-
	c) Securities issued by Governments and other international institutions	-	-	-
	d) Listed debt securities	22,605,858	22,633,989	(28,131)
	e) Listed equity securities	-	-	-
	f) Unlisted debt securities	-	-	-
	g) Unlisted equity securities	-	-	-
	h) Units of UCITS	-	-	-
	i) Options purchased	-	-	-
	l) Accrued income and prepayments	104,020	161,615	(57,595)
	m) Profit guarantees released to pension fund	-	-	-
	n) Other assets from financial activities	-	-	-
	o) Accrued income not yet received	-	-	-
20	**Managed investments**	-	-	-
30	**Profit guarantees on individual accounts**	-	-	-
40	**Assets from administrative activities**	-	-	-
50	**Tax receivables**	-	-	-
	TOTAL ASSETS	**23,099,670**	**23,249,460**	**(149,790)**
	Liabilities	**31 12 2019**	**31 12 2018**	**Variazioni**
10	**Liabilities from social security**	-	-	-
20	**Liabilities from financial activities**	-	-	-
30	**Profit guarantees on individual accounts**	-	-	-
40	**Liabilities from administrative activities**	-	-	-
50	**Tax payables**	**101,960**	-	**101,960**
	b) tax payables for current period	(18,863)	-	(18,863)
	a) tax credit for prior period	120,823	-	120,823
	TOTAL LIABILITIES	**101,960**	-	**101,960**
100	**Net assets available for payment of benefits**	**22,997,710**	**23,249,460**	**(251,750)**
	Net assets availabe for payment of benefits in previous year	23,268,322	24,581,812	(1,313,490)
	Changes in net assets available payment of benefits	**(270,612)**	**(1,332,353)**	**1,061,740**

INCOME STATEMENT

(in units of Eur)

		31 12 2019	31 12 2018	Changes
10	**Balance of social security management**	**(1,116,371)**	**(1,181,452)**	**(65,081)**
	a) Contributions for benefits	-	-	-
	b) Advances	-	-	-
	c) Transfers and redemptions	-	-	-
	d) Transfers to annuities	-	-	-
	e) Payments in capital	-	-	-
	f) Premiums for additional benefits	-	-	-
	g) Payments in annuities	(1,116,371)	(1,181,452)	(65,081)
	h) Other payments	-	-	-
20	**Profit (loss) from direct financial activities**	**966,581**	**(150,901)**	**(1,117,482)**
	a) Interest and profit on bondsand government securities	388,448	539,222	150,773
	b) Interest on cash equivalents	-	-	-
	c) Profits and losses from financial transactions	578,132	(690,122)	(1,268,255)
	d) Interest (expense) from repo transactions	-	-	-
	e) Pension fund profit guarantee difference	-	-	-
	f) Contingent assets	-	-	-
	g) Forfeitures charged to the participants	-	-	-
	h) Kickbacks from UCITS	-	-	-
	i) Commission expense	-	-	-
30	**Profit (loss) from indirect financial activities**	-	-	-
40	**Operating expenses**	**-**	**-**	**-**
	a) Management companies	-	-	-
	b) Custodian bank	-	-	-
	c) Insurance policy	-	-	-
	d) "State supervision" contribution	-	-	-
50	**Financial and insurance income (loss) (20+30+40)**	**966,581**	**(150,901)**	**(1,117,482)**
60	**Balance from administrative activities**	**-**	**-**	**-**
	a) General and administrative expenses	-	-	-
70	**Changesin net assets available for payment of benefits before substitute tax (10+50+60)**	**(149,790)**	**(1,332,353)**	**(1,182,563)**
80	**Substitute tax**	**(120,823)**	**18,863**	**139,685**
	Changes in net assets available for payment of benefits (70+80)	**(270,612)**	**(1,313,490)**	**(1,042,878)**

"Supplementary Pension Fund for personnel of former Banca Toscana" - Defined benefit section

BALANCE SHEET

(in units of Eur)

Assets		31 12 2019	31 12 2018	Changes
10	**Direct investments**	**83,209,339**	**90,575,648**	**7,366,309**
	a) Deposts	79,751,384	87,077,605	7,326,222
	b) Receivables from repo transactions	-	-	-
	c) Securities issued by Governments and other international institutions	-	-	-
	d) Listed debt securities	3,394,783	3,434,698	39,915
	e) Listed equity securities	-	-	-
	f) Unlisted debt securities	-	-	-
	g) Unlisted equity securities	-	-	-
	h) Units of UCITS	-	-	-
	i) Options purchased	-	-	-
	l) Accrued income and prepayments	63,172	63,345	173
	m) Profit guarantees released to pension fund	-	-	-
	n) Other assets from financial activities	-	-	-
	o) Accrued income not yet received	-	-	-
20	**Managed investments**	-	-	-
30	**Profit guarantees on individual accounts**	-	-	-
40	**Assets from administrative activities**	-	-	-
50	**Tax receivables**	-	-	-
	TOTAL ASSETS	**83,209,339**	**90,575,648**	**7,366,309**
Liabilities		**31 12 2017**	**31 12 2018**	**Changes**
10	**Liabilities from social security**	-	-	-
20	**Liabilities from financial activities**	-	-	-
30	**Profit guarantees on individual accounts**	-	-	-
40	**Liabilities from administrative activities**	-	-	-
50	**Tax payables**	-	-	-
	TOTAL LIABILITIES	-	-	-
100	**Net assets available for payment of benefits**	**83,209,339**	**90,575,648**	**7,366,309**
	Net assets availabe for payment of benefits in previous year	90,575,648	97,476,737	6,901,089
	Changes in net assets available payment of benefits	**(7,366,309)**	**(6,901,089)**	**465,220**

INCOME STATEMENT

(in units of Eur)

		31 12 2019	31 12 2018	Changes
10	**Balance of social security management**	**(7,453,260)**	**(7,912,196)**	**(458,936)**
	a) Contributions for benefits	-	-	-
	b) Advances	-	-	-
	c) Transfers and redemptions	-	-	-
	d) Transfers to annuities	-	-	-
	e) Payments in capital	-	-	-
	f) Premiums for additional benefits	-	-	-
	g) Payments in annuities	(7,472,328)	(7,912,196)	(439,867)
	h) Other payments	-	-	-
20	**Profit (loss) from direct financial activities**	**86,951**	**1,011,107**	**924,156**
	a) Interest and profit on bondsand government securities	126,865	334,555	207,690
	b) Interest on cash equivalents	-	-	-
	c) Profits and losses from financial transactions	(39,915)	676,551	716,466
	d) Interest (expense) from repo transactions	-	-	-
	e) Pension fund profit guarantee difference	-	-	-
	f) Contingent assets	-	-	-
	g) Forfeitures charged to the participants	-	-	-
	h) Kickbacks from UCITS	-	-	-
	i) Commission expense	-	-	-
30	**Profit (loss) from indirect financial activities**	-	-	-
40	**Operating expenses**	**-**	**-**	**-**
	a) Management companies	-	-	-
	b) Custodian bank	-	-	-
	c) Insurance policy	-	-	-
	d) "State supervision" contribution	-	-	-
50	**Financial and insurance income (loss) (20+30+40)**	**86,951**	**1,011,107**	**924,156**
60	**Balance from administrative activities**	**-**	**-**	**-**
	a) General and administrative expenses	-	-	-
70	**Changesin net assets available for payment of benefits before substitute tax (10+50+60)**	**(7,366,309)**	**(6,901,089)**	**465,220**
80	**Substitute tax**	-	-	-
	Changes in net assets available for payment of benefits (70+80)	**(7,366,309)**	**(6,901,089)**	**465,220**