

Siena, Rocca Salimbeni,
sede storica della Banca Monte dei Paschi di Siena



MPS

CAPITAL SERVICES
GRUPPOMONTEPASCHI

FINANCIAL STATEMENTS 2020

FINANCIAL STATEMENTS AT 31 DECEMBER 2020

Contents

<i>Report on Operations</i>	11
<i>Reference Context</i>	13
<i>Significant Aspects of Operations</i>	19
<i>Credit Aggregates</i>	25
<i>Deposits</i>	31
<i>Main financial aggregates</i>	33
<i>Equity investments</i>	37
<i>Income Statement and operating indicators</i>	39
<i>Risk governance</i>	43
<i>The equity position</i>	45
<i>Human Resources</i>	47
<i>Organisational and Technological Trends</i>	49
<i>Regulatory evolutions</i>	51
<i>Internal Audit</i>	53
<i>Compliance</i>	55
<i>Environmental Issues</i>	57
<i>Relations with Group companies</i>	59
<i>Prospects and business outlook</i>	61
<i>Proposals to the Shareholders' Meeting</i>	63
<i>Financial Statements</i>	65
<i>Notes to the Financial Statements</i>	77
<i>Part A - Accounting Policies</i>	79
<i>Part B – Notes to the Balance Sheet</i>	155
<i>Part C - Notes to the Income Statement</i>	227
<i>Part D – Comprehensive Income</i>	253
<i>Part E – Information on risks and related hedging policies</i>	255
<i>Part F - Information on Equity</i>	371
<i>Part G - Business Combinations regarding companies or business units</i>	377
<i>Part H - Transactions with related parties</i>	379
<i>Part I - Share-based Payments</i>	385
<i>Part L – Segment Reporting</i>	387
<i>Part M – Disclosure on leasing</i>	389
<i>Annexes to the Notes to the Financial Statements</i>	391
<i>Certification Report</i>	407
<i>Report of the Board of Statutory Auditors</i>	419
<i>Shareholders' Meeting Resolutions</i>	431

Company Profile

Name

MPS Capital Services Banca per le Imprese S.p.A.
“Monte dei Paschi di Siena” Banking Group

General Information

MPS Capital Services Banca per le Imprese S.p.A. (MPSCS) is the Corporate & Investment Bank of the Monte dei Paschi di Siena Banking Group (MPS Group), specialised in financial support and advice to the Corporate, Public Bodies and Institutional segment.

It is registered as a Joint Stock Company in the Florence Companies Register from 4 September 2007, with No. 00816350482, Registered in the Bank of Italy List of Banks with No. 4770, a subscriber to the Interbank Deposit Protection Fund and to the National Guarantee Fund.

It is a signatory to the Banking and Financial Sector Code of Conduct. It also participates in the Banking and Financial Ombudsman (ABF) through the Bank of Italy, and the Financial Dispute Arbitrator (ACF) through CONSOB, and the Italian Bank Reconciliation Body.

It is subject to the direction and coordination of Banca Monte dei Paschi di Siena SpA (BMPS). In particular the Bank is obliged to observe the rules that the Parent Company issues for the execution of the instructions provided by the Bank of Italy in the interest of the group's stability. The duration of the company is until 31 December 2050. As of 20 December 2019, it became a single share holder company, BMPS.

Year of incorporation

1954 as Mediocredito Regionale della Toscana

Share Capital

€ 1,517,076,384.31 fully paid-up.

Registered Office

Florence - Via Pancaldo, 4 - 50127

General Management

Florence - Via Panciatichi, 48 - 50127
Telephone +39 055-2498.1 – Fax +39 055-240826
Website www.mpscapitalservices.it

Other General Management Offices

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Rome – Via Salaria, 231 (villino 2) - 00199
Telephone +39 06 42048325 – Fax +39 06 42016914

Milan – Via Ippolito Rosellini, 16 – 20124
Telephone +39 02-69705571 - Fax +39 02-88233205

Market Supervisory Structures

Milan – Via Ippolito Rosellini, 16 – 20124
Telephone +39 02-88891947–((electronic channels, e-trade)

Telephone +39 02 88891924/48/31/28/24/21 Fax +39 02-88233205 (Financial Institutions)
Telephone +39 02 88891934 – Fax +39 02 88233205 (Corporates)
Ref. NORTH WEST Territorial Area

Siena – Viale G. Mazzini, 23 - 53100
Telephone +39 0577 537326 – Fax +39 0577 209505
(electronic channels, execution)
Telephone +39 0577 537163 – Fax +39 0577 209505 (Corporates)
Ref. TUSCANY Territorial Area
Telephone 0577 537162 – Fax 0577 209505 (Entities and Institutionals)

Rome – Via Salaria, 231 (Villino 2) - 00199
Telephone +39 06 42450714 - Fax +39 06 42048337
(Corporates) Ref. CENTRE AND SARDINIA Territorial Area,
SOUTH AND SICILY Territorial Area

Padua – Piazzetta Turati, 2 (Torre Est) – 35131
Telephone +39 049 804 6106 – (Corporate)
Ref. NORTH EAST Territorial Area

Territorial Centres

North West

Milan (head office)
c/o Banca Monte dei Paschi di Siena
Largo Cairoli, 1 – 20123
Telephone +39 02-88233210 – Fax +39 02-88233233

Turin - c/o Banca Monte dei Paschi di Siena
Corso Filippo Turati, 43 - 10128
Telephone +39 011 192 17629 - Fax +39 055 240826

Mantua - c/o Banca Monte dei Paschi di Siena
Via Vittorio Emanuele II°, 30 - 46100
Telephone ref. +39 02 88233210

North East

Padua (head office)
c/o Banca Monte dei Paschi di Siena
Piazzetta Turati, 2 – 35131
Telephone +39 049 6991659 – Fax +39 049 6992195

Bologna c/o Banca Monte dei Paschi di Siena
Viale della Repubblica, 23 – 40127
Telephone ref. +39 049-6991659 - Fax +39 055-240826

Tuscany**Florence (head office)**

Via Panciatichi 48 – 50127

Telephone +39 055-2498696 – Fax +39 055-2498457

Siena - Viale G. Mazzini, 23 – 53100

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Centre and Sardinia**Rome (head office)**

Via Salaria (villino 2) 231 – 00199

Telephone +39 06 67345321 - +39 071 2912735

Fax +39 06 67345330

Ancona - c/o Banca Monte dei Paschi di Siena

Via 1° Maggio, 70/d - 60131

Telephone +39 071 2912735 – Fax +39 055 240826

Perugia – c/o Banca Monte dei Paschi di Siena

Via Pietro Cestellini, 13 – 06135

Telephone ref. +39 071 2912735

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c/o Banca Monte dei Paschi di Siena

Via Cervantes de Savaedra, 55/14 – 80133

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Bari - c/o Banca Monte dei Paschi di Siena

Via Nicolò Dall'Arca, 22 - 70121

Telephone +39 080-5226244 - Fax +39 055-240826

Catania - c/o Banca Monte dei Paschi di Siena

Piazza della Repubblica, 32/38 - 95131

Telephone ref. +39 081-7785243 - Fax +39 055-240826

Other administrative offices**Rome** c/o Banca Monte dei Paschi di Siena

Via Pedicino, 5 - 00156

Padua - c/o Banca Monte dei Paschi di Siena

Piazzetta Turati, 2–35131

Corporate Officers and Auditing Company

BOARD OF DIRECTORS

Chairperson	Raffaele AGRUSTI
Deputy Chairperson	Renzo Filippo Riccardo QUAGLIANA
Director	Aleardo ADOTTI
Director	Francesca FRAULO
Director	Fabrizio LEANDRI
Director	Annapaola NEGRI CLEMENTI
Director	Lorenzo PETRETTO
Director	Marina SCANDURRA
Director	Giuseppe SICA

BOARD OF STATUTORY AUDITORS

Chairperson	Franco GHIRINGHELLI
Regular Auditor	Loredana Anna CONIDI
Regular Auditor	Antonella GIACHETTI
Alternate Auditor	Michele APRILE
Alternate Auditor	Aian ABBAS HAGI HASSAN

GENERAL MANAGEMENT

General Manager	Emanuele SCARNATI
Substitute Assistant General Manager	Simone FRESCHI

AUDITING COMPANY

PRICEWATERHOUSECOOPERS S.P.A.
Piazza Tre Torri, 2
20145 Milan
VAT No. IT12979880155

Ratings

The following ratings were assigned to the Bank by Moody's Investors Service Ltd for financial year 2020:

- LONG-TERM DEPOSITS RATING: **B1**
- SHORT-TERM DEPOSITS RATING: ***Not Prime***
- FINANCIAL STRENGTH RATING: **B3**

with outlook under review for a possible upgrade.

The international rating agency Moody's between the end of 2019 and the beginning of 2020 had revised positively the ratings of both the Parent Company and MPS Capital Services, appreciating, as well as the reduction of the non-performing portfolio at the level of the MPS Group, also the containment of the level of risks assumed which had made it possible to maintain the capital ratios well above the regulatory minima.

The subsequent detailed analysis of the 2019 accounting data had confirmed the rating levels assigned. During the last quarter of 2020, following the sale of a portfolio on non-performing loans, Moody's placed the rating of the MPS Group's Legal Entities under review for a possible upgrade, which would have had an impact in particular on the assessment of the financial solidity, because this sale reduced further to a significant extent the proportion of problem loans.

Shareholding structure

The Extraordinary Shareholders' Meeting of MPSCS, held on 2 October 2020, resolved the proportional partial demerger of the Bank in favour of Banca Monte dei Paschi di Siena S.p.A. (BMPS) in the context of the wider operation for the non-proportional partial demerger of BMPS - as demerged company - in favour of AMCO Asset Management Company S.p.A. - as beneficiary company - named operation "Hydra" (cf. Specific paragraph in Part A.2, point 15, letter c) of the Notes to the Statements).

The proportional partial demerger of the Bank in favour of BMPS was completed with a deed registered at the Companies' Register of Florence on 19 November 2020, with effective date 26 November 2020. As a result of this operation, the Bank's share capital was reduced by € 152,439,897.79, going from € 1,669,516,282.10 to € 1,517,076,384.31. As this is a partial demerger in favour of a pre-existing beneficiary and considering that the Beneficiary Company (BMPS) is the sole shareholder of the Demerged Company (the Bank), no assignment of the shares of the Beneficiary Company to the shareholder of the Demerged Company is provided for and, therefore, there is no participation in the profits of the Beneficiary Company by the shareholder of the Demerged Company. As specified at the foot of the specific tables of Section 12. "The Bank's Shareholders' Equity" of the Notes to the Statements, as well as the share capital the profit reserves (negative as a result of previous losses brought forward) were reduced by an amount, in absolute value, of € 38,264,877.74. Consequently, the Bank's Shareholders' Equity decreased by € 114,175,020.05.

Taking into account that the shares of MPS Capital Services S.p.A. have no par value, no change occurred in the total number of the same.

The shareholding structure, which remained unchanged, is summarised below:

<i>Shareholder</i>	<i>Number of shares</i>	<i>Percentage</i>
Banca Monte dei Paschi di Siena SpA	16,051	100.00%
Total	16,051	100.00%

REPORT ON OPERATIONS

Reference Context

The macroeconomic scenario

2020 was, in many ways, certainly a year to forget, but there are also many reasons for which it will be remembered. It was the year in which we saw, among other things, the fastest ever bear market and subsequent bull market and, above all, the first pandemic in a century which forced the Central Banks and governments to take the field with never before seen measures in support of the economy.

In particular, the **ECB** introduced new refinancing operations, **TLTRO** (Targeted Longer-Term Refinancing Operations) and **PELTRO** (Pandemic Emergency Longer-Term Refinancing Operations), at extremely advantageous conditions and, in addition to purchases of securities through the **APP** (Asset Purchase Programme), it launched the **PEPP** (Pandemic Emergency Purchase Programme), a new more flexible and effective purchase plan to tackle the pandemic.

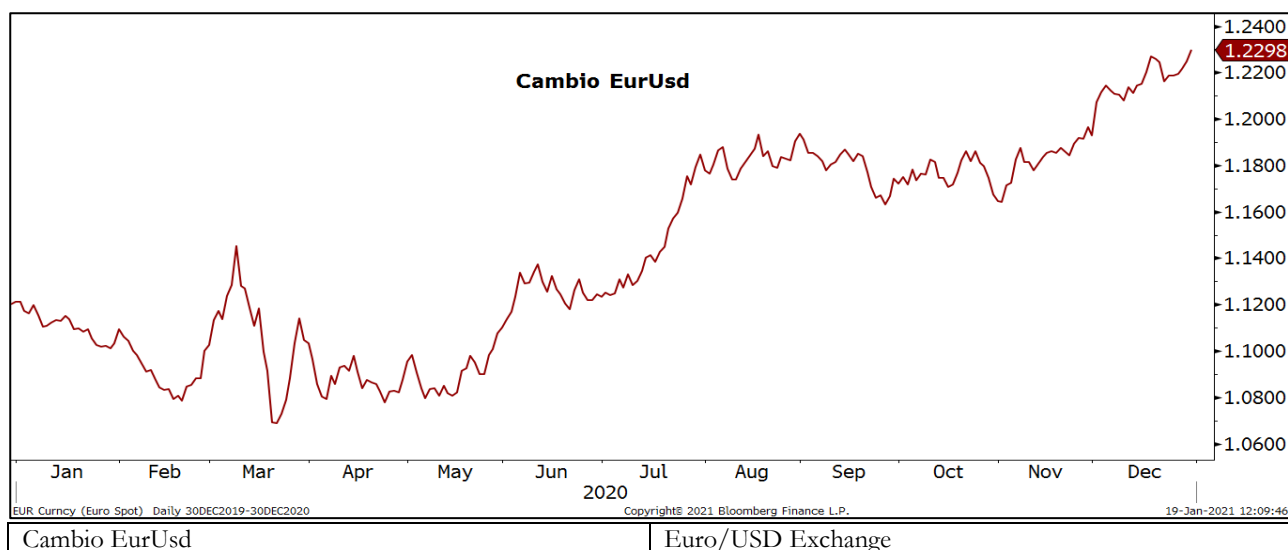
In the United States, the Fed lowered rates by 150 basis points in only two meetings taking them to 0/0.25% and introduced a series of operations aimed at improving the liquidity in circulation as well as an unlimited Quantitative Easing proceeding, through ad hoc vehicles, to purchases of ETFs and corporate IG, fallen angels/HY securities on primary and secondary.

On the **macroeconomic front** the supply and demand shock led to a drop in 2020 global GDP estimated at 4.4% (Bloomberg consensus), while in the USA and in the Euro Area a drop of respectively 3.5% and 7.3% is expected. At the same time, in 2020 a slowdown in inflation was recorded; this was more evident in the Euro area where the price trend, starting from August, was down, taking the annual average to 0.3% (from the 1.2% of 2019). In the USA the inflation rate came out at 1.2% from the 1.8% recorded in 2019.

Following the economic crisis triggered by the spread of the pandemic the rate curves flattened considerably, with new record lows for ten-year rates and with German rates negative also on very long maturities. In detail, in March the ten-year *bund* rate fell to -0.9% and the US rate to 0.3%.

The decisive and prompt intervention of the Central Banks and Governments which was followed, towards the end of the year, by the launch of administration of the first vaccines, rekindled expectations on a recovery of the economy leading to a sharp recovery of inflation expectations (breakeven inflation at 10 years) which came back to pre-Covid levels in the Eurozone (0.91%) and to the 2018 levels in the USA (1.98% at 31 December 2020). There was no stop to purchases of peripheral Euro area securities and in particular Italian ones, rewarded for the extra yield in a context of political stability and supported by the ECB safety net. In the USA, the inflation expectations received a new boost after the victory in the presidential election of the Democratic candidate Biden, in favour of a much more full-bodied fiscal plan than that proposed by the Republicans, which will inevitably lead to an increase in the deficit and in issues, thus contributing to the re-ascent of rates (the ten-year treasury rate ended 2020 just below 1%).

On the **currency front**, in the early months of the year the risk-off on the markets led to purchases of refuge currencies such as the yen, the Swiss franc and above all the dollar (the EurUsd exchange rate came down in March to just below 1.07). Subsequently, starting from May, the French-German announcement of the Recovery Plan was the element that unleashed the new rising trend of the euro/dollar exchange rate, which in the first half of the year reflected the strength of the single currency, while towards the end of the year it reflected instead the weakness of the dollar which was weighed down by the prospect of a growing twin deficit.



With reference to the **equity markets**, 2020 was characterised by a sharp drop of the indices in the early months of the year owing to the explosion of the crisis and by a subsequent rebound that brought new historical records, above all for the US markets. In the Euro Area, in 2020 the **Dax** index (characterised by a higher proportion of cyclical stocks) was the best ending the year in positive territory, while the other indices of the Area, although they were recovering, ended negative (**FTSE Mib** -5.4%).

At the sector level, within the **Euro Stoxx** index, the technological sector distinguished itself positively followed by consumer goods. The excellent performance of the tech segment made the **Nasdaq 100** (approximately +47.58%, price return) the best US index (**S&P** approximately +16.26% and **Dow Jones** +7.25%). Despite the historical records of the US equity markets, the **VIX** index recorded an average value of 29.25 (up from the 15.39 of 2019) and remained at relatively high values, a sign of a still cautious attitude. In March it went up temporarily even above the threshold of 80 in the most acute phase of the crisis. In Asia, the **Nikkei** increased by 16%, while the **MSCI EM** emerging index gained over 15%.

“Brexit”

The event that perhaps most markedly characterised the year from both an economic and a political point of view was the so-called “*Brexit*”.

On 29 January 2020, following the approval by the United Kingdom Parliament and the European Parliament of the agreement on *Brexit* (the Withdrawal Agreement) reached in October 2019, the second stage of negotiations between London and Brussels began. The Brexit Date, confirmed as 31 January 2020, saw the United Kingdom’s exit from the European Union only at the political level but not yet on the economic level.

For the whole of 2020 the community legislation in force at this time remained applicable to the United Kingdom, and to the legal entities resident there, with the substantial crystallisation throughout 2020 of the previous status quo. In the subsequent stage, lasting 11 months, negotiations were launched with the aim of defining the terms of the collaboration agreements which will govern the future relations between the two parties. Given the complexity of the negotiations, carried on besides at the same time as an unprecedented global health crisis, the certainty on the effective methods of implementing withdrawal was obtained only in proximity to the expiry of the term.

Starting from 1 January 2021 the United Kingdom constitutes a market separate from the European Union, outside the Single Market and the customs union, with the status of Third Country for the purposes of the most significant community legislation constituting the Single Market Mechanism, except for:

- the limited provisions contained in the agreement on the future relations between United Kingdom and European Union “EU-UK Trade and Cooperation Agreement”, reached on 24 December 2020, which governs the relations between United Kingdom and European Union in a differentiated way with respect to the WTO rules;

- a barebone agreement, which excludes almost totally the subject of financial services;
- The declaration of intent to arrive at a specific agreement on the subject of financial services by the end of the first quarter of 2021.

Given the limited scope, for financial operators the current framework of relations between United Kingdom and European Union corresponds in practice to the worst case scenario of the feared no deal or Hard Brexit with the consequent cliff edge risks.

The definitive regulatory scenario is completed:

- by the absence at the community level of the recognition of equivalence of UK legislation for the purposes of the main legislative corpus constituting the Single Market Mechanism, in any case circumscribed to the parts that provide for the regimen of “Third Country equivalent”. In particular, this absence regards the community laws on the subject of activities of commercial banks, insurance companies, corporate lending companies. Overall, there are around 40 equivalence areas, related to fundamental laws of reference for banking and financial operators, including CRR, Solvency II, Financial Benchmark Regulation, MIFID II/MIFIR, EMIR; on these no decision of equivalence is expected at least for the first few months of 2021, as besides pre-announced by the European Commission already in its communication of 9 July 2020 “Getting ready for changes - Communication on readiness at the end of the transition period between the European Union and the United Kingdom”;
- by the adoption at the national level of a contingency rule pursuant to art. 22, *Italian Law Decree no. 183 of 31 December 2020, containing urgent measures on legislative terms, creation of digital connections, execution of the decision (EU, EURATOM) 2020/2053 of the Council, of 14 December 2020, and on withdrawal of the United Kingdom from the European Union*, aimed at facilitating the transition of UK financial intermediaries already operating in Italy from the regime of community enterprises to that of Third Country investment firms, authorised to provide investment services in our country.

In order to monitor the risks deriving from Brexit, the MPS Group and, in particular, the Bank as a Group entity active in finance, has carried out for some time certain actions aimed at mitigating them, namely:

- Use of Central Counterparties (CCPs) under the terms of the EMIR 648/2012.
The original question, on the possibility of continuing to make use of UK CCPs to fulfil the EMIR obligations accessing them possibly through UK clearing members, was tackled by the Group right from the start. The first point was overcome by the authorisation that ESMA published in September 2020 which extended to 30 June 2022 the recognition of the UK CCPs authorised under the terms of the EMIR that had operated already in February 2019; the second subject was in turn addressed with the transfer of the outstanding positions with UK clearing brokers to EU clearing brokers. In parallel, the contracts functional to the management of the reporting obligations imposed by the EMIR for the same perimeter of financial instruments were re-contractualised with the EU affiliates of the trade repositories originally used.
- Derivatives Trading Obligations under the terms of the MIFID 2014/65 and the MIFIR II 2014/600.
Given the uncertainty noted on the subject and while awaiting the creation of the solution most hoped for by the market counterparties, that is reciprocal recognition of equivalence of UK (for European entities) and EU (for UK entities) trading venues, the Group opened relations with European trading venues, addressing operations to these starting from 1 January 2021.
- Passporting for the offer of financial services.
The exit of the United Kingdom from the European Single Market entails the loss for British financial firms of the so-called “Passporting”, that is the possibility for financial service companies of the European Union (including banks, insurance companies, fund managers, investment consultants, among others) to conduct cross-border activities in other EU member states, using the authorisation granted by their country of origin, not having therefore to request specific authorisation in every other EU member state in which they want to operate. While awaiting confirmation of the concrete evolution of the market scenario, the Group is oriented to continuing operations with the EU affiliates of the previous UK entities with which contractual relationships were already in progress for various reasons (trading venues, counterparties, brokers etc.) or, subordinately, to verifying on a case-by-case basis the possible

authorisation for performance of the activity (on the basis for example of the regime of the so-called overseas persons' exclusion provided for in the UK legislation or the so-called reverse solicitation provided for in the EU legislation). The Bank has reserved the right to assess any need and/or opportunity to request authorisation to provide investment services in the United Kingdom (in the current state of knowledge, improbable) after verifying the evolution of the scenario during 2021.

- Business continuity

The British counterparties, in the absence of interventions, will lose the aforementioned "Passporting", and therefore will not be able to carry out new transactions with European counterparties or manage the "events" on existing transactions. In order to mitigate this risk, some time ago the Group launched the activity of replicating Framework Agreements that govern operations in OTC derivatives and repurchase agreements (ISDA/CSA and GMRA) with the UK counterparties that have activated new twin bases in the European Union or that have shown an intention to perform their activity in future through an EU subsidiary. Starting from 1 January 2021, the Bank in particular readdressed its business to only EU-based venues, reserving the right to assess a possible resumption of the activity also on UK venues depending on the evolution of the scenario (business, regulatory, deriving from the Brexit plan of the managers etc.) during 2021. The operating and technical solutions adopted were adapted dynamically for the two different stages (a first period, up to 31 December 2020, of operations on a double channel; a second period, starting from 1 January 2021, initially circumscribed to operations on only EU venues).

- Compliance with the share & derivatives trading obligations

Starting from 1 January 2021, given the absence of recognition of equivalence of UK venues for the purposes of the related regulatory obligations, for operations in the perimeter the Bank is active, directly and indirectly, only on EU-based venues. The preparatory activities related to acceptance and activation at the operating-management level were completed before the end of the transitional period.

- Compliance with Regulation (EU) 2016/679 (GDPR)

The subject, potentially very impacting in the field of investment services, is dealt with in the context of the "EU-UK Trade and Cooperation Agreement", with the declaration by the European Union of the imminent decision on the adequacy (pursuant to art. 45 GDPR) of the regulations in the United Kingdom on the matter. The Group continues to monitor the evolution of both the regulatory framework and the operating reality, in order to optimise the economic and financial results on the basis of the trends in the external environment in which it does its business.

The Bank's initiatives in the context of the COVID-19 pandemic

In the early months of 2020 the effects of the pandemic deriving from the spread of COVID-19 had very strong impacts on both production activity and demand in all the major economies, in terms of both consumption and investments.

The worsening of the economic prospects, besides impacting the main stock exchange indices, translated also into greater volatility and an increase in risk aversion, events that involved mainly the western economies. The measures to contain the contagion, put in place in the most incisive way in the first half of the year and then re-proposed, although in a more attenuated manner, after the summer, had the effect of causing a slowdown of the economy in the last few months of the year. From a forecasting point of view, the long-term expectations remained positive, especially as a result of the start of the vaccination campaigns which, although among many difficulties as regards the production and procurement of the vaccines themselves, were launched on a large scale practically all over the world.

The consequences of the health emergency, destined to continue longer than seemed foreseeable at first, were such that in all countries the authorities adopted measures destined to sustain the earnings of businesses and households, with the intention of facilitating recourse to credit and increasing the liquidity present in the system. In parallel with the action of the authorities of the single countries, the European and international institutions adopted specific measures aimed at supporting Banks trying to mitigate the systemic impact of the pandemic deriving from the spread of COVID-19.

In particular, the European Central Bank intervened in several areas with a series of measures aimed at granting greater elasticity with regard to capital and liquidity requirements, granting exceptions to the current laws for the period of duration of the health emergency, considered assimilable to a situation of strong systemic stress. The

ECB, in addition, launched specific monetary policy actions aimed at determining more favourable conditions for recourse to bank credit, extending and making even more elastic recourse to the **TLTRO** (Targeted Longer Term Refinancing Operations) lines through a series of regulatory actions aimed at recalibrating their operating mechanisms to make their use simpler and widen the “audience” of subjects potentially involved in the process. The said measures succeeded each other over time up to the start of the pandemic wave, before continuing for the whole of 2020.

At the same time the ECB acted also on the market, increasing temporarily the **APP** (Asset Purchase Programme) up to € 120 billion with the intention of guaranteeing favourable conditions for the real economy in a context that showed growing critical issues. This action was then, again owing to the continuation of the crisis situation and the onset of situations of strong turbulence on the markets, supplemented by a further programme for the purchase of public and private securities entitled **PEPP** (Pandemic Emergency Purchase Programme), with an initial ceiling of € 750 billion increased by another € 600 billion in June and by a further € 500 billion in December 2020, for a total amount of € 1,850 billion. The PEPP will finish only at the end of the pandemic crisis and in any case not before March 2022.

To the aforementioned measures must also be added the **Next Generation EU** programme approved by the European Council on 21 July 2020 and endowed with a financial capacity of € 750 billion, aimed at supporting the efforts of the single States to stimulate private investments and support businesses in difficulty, accelerating at the same time the transition towards a “green” and “digital” economy.

The government authorities of the single States also took action adopting measures aimed at countering the negative effects of the epidemiological emergency on the economic, social and health fabric with the intention of preventing the effects of the crisis from becoming chronic.

With specific legislative actions (**Treat Italy Decree**) the Italian government intervened to support the health system, households, work, liquidity and businesses, focusing attention on the sectors which, more than others, have been affected by the restrictive measures put in place to avoid the spread of the virus: tourism, restaurants, entertainment, sport, education.

Other actions then followed, namely: the **“Liquidity Decree”**, which introduced a series of measures to favour credit to both businesses and natural persons giving the possibility of making use of a series of public guarantees of coverage (Cassa Depositi e Prestiti, Guarantee Fund in favour of SMEs, Confidi, SACE); the **“Relaunch Decree”** (further measures for businesses); the **“Simplifications Decree”** (bureaucratic slimming) and the **“August Decree”** (expansion and refinancing of the previous initiatives).

For more information please see the paragraph “Contractual changes deriving from COVID-19 and accounting cancellation - Contractual changes and forbearance” in section 16. “Use of estimates and assumptions in preparing financial statements” in Section 1 – The accounting standards of Part A.2 of the Notes to the Statements; we can note that the Bank, in the emergency context due to the pandemic crisis characterised by a high number of requests for the suspension of instalments due, to deal as quickly as possible with the applications received authorised for the extensions pursuant to the “Treat Italy” Law Decree a simplified decision-making process that involves, for accepted requests, a block in advance on the instalments while awaiting the completion of the contractual forms. As of 31 December 2020 a total of 1,077 requests had been received for a residual debt of approximately € 1,213 million, of which 912 granted for € 1,069.8 million. With respect to this last aggregate (extensions granted) approximately 80% of the amount granted has been completed (with finalisation of the contractual forms and adjustment of the repayment schedules in the services of reference) for a residual debt of approximately € 855 million. As of 31 December 2020, item 140. of the income statement “Gain/loss from contractual changes without cancellations” includes a loss referable to COVID-19 suspensions completed for approximately € 1.6 million.

As regards the release of public guarantees on loans, aimed at facilitating the granting of liquidity at favourable conditions on the part of the financial system, the Bank worked after the end of the first quarter of the current year to implement the legislative provisions on guarantees of the Central Guarantee Fund/Ismea, Cassa Depositi e Prestiti and SACE (arts 1 and 13 Liquidity Law Decree, converted with Italian Law no. 40/2020 and art. 57 of the Treat Italy Decree, converted with Italian Law no. 27/2020). As of 31 December 2020 the Bank had disbursed loans backed by these guarantees for a total of € 230.6 million.

As regards the safety of its personnel, the Bank carried out various initiatives, in agreement with and with the coordination of the Parent Company. The most significant were those related to health monitoring and to “making

workers safe” by adopting all the measures necessary to contain the spread of the contagion: obtaining and making available to all the personnel the Personal Protective Equipment (hand sanitizer, disposable masks, disposable gloves); sanitizing rooms; training and information activities on the risks and conduct to be followed to minimise the scope.

The Bank, in addition, to guarantee the safety of the workers, adopted organisational methods aimed at limiting the presence of personnel at the workplace, making massive use of “smart working”. Thanks to the impressive technological and organisational efforts brought into play by the MPS Group structures and, in particular, by the Group Operating Consortium, the Bank continued to perform the ordinary activity according to the usual practices and, although in context in which presence in the office was reduced to a minimum, it was capable of maintaining more than satisfactory service levels as regards both credit management and the activity on the financial markets.

Significant Aspects of Operations

The Business Units (hereinafter BUs) were unchanged with respect to the previous year and serve as the basis of supervision and operational monitoring of the Bank's business. They are listed below:

Ordinary Finance BU
Corporate Finance BU
Global Markets BU
Investment Banking BU

Ordinary Finance BU

As regards the Ordinary Finance BU, disbursements of loans to customers were over 122% more compared to what was done in the previous year, while agreements recorded a drop of approximately 65% in comparison with the final figure for 2019. It remains in any case necessary to recall that, in absolute terms, this type of operation is increasingly assuming a "residual" character following the Bank's now consolidated strategic repositioning on business attributable to structured, extraordinary and project finance.

(amounts in millions of euro)

Ordinary Finance	<i>Final figure at 31/12/2020</i>	<i>Final figure at 31/12/2019</i>	<i>Percentage changes</i>
Transactions agreed	5.8	16.5	(64.8)
Transactions disbursed	20.0	9.0	122.2

In relation to the Subsidised Finance segment, during 2020, the activities continued to serve the Public Administration in managing the main types of national business assistance, in accordance with the commitments assumed with the agreements signed with the Italian Ministry of Economic Development (MED): Sustainable Growth Fund, Guarantee Fund for SMEs, Technological Innovation Fund and Italian Law 488/92.

In this regard we can note in particular the enquiry activities related to 29 research and development projects for a total amount of approximately € 244 million and the important promotion and assistance activity of the Guarantee Fund for SMEs performed in relation to banks and Confidi (Loan Consortia), industrial and business associations, also following public measures issued to tackle the health emergency still in progress, which determined exponential growth of guarantee requests by the business world.

Additionally, the verification and reporting activity was launched in the context of incentives for Supply Chain and District Contracts in the agriculture and food sector, as the bank authorised by the Ministry of Agricultural, Food, Forestry and Tourism Policies.

Corporate Finance BU

The activity of the Corporate Finance BU showed during 2020 a trend marked by disbursement volumes up by 8.1% compared to the final figures of the previous year while, as regards operations agreed, there was a slight drop (-3.4%).

It is in any case once again opportune to note that all of the Bank's lending activities have by now switched to an operating focus which is almost exclusively project and structured finance, transactions that are therefore increasingly characterised by high amounts, related to initiatives of particular interest and importance and often having as partners top-level counterparties.

Another aspect of particular interest is the constant collaboration and interaction of the internal commercial unit with that of the Parent Company, a now structural process as shown by the fact that 78% of the agreements and 77% of disbursements are intermediated by Banca MPS which places itself therefore as primary vehicle for the Bank's lending operations.

(amounts in millions of euro)

<i>Corporate Finance</i>	<i>Final figure at 31/12/2020</i>	<i>Final figure at 31/12/2019</i>	<i>Percentage changes</i>
Transactions agreed	1,163.6	1,204.0	(3.4)
Transactions disbursed	1,176.6	1,088.4	8.1

A summary of the activities performed by the single departments into which the Corporate Finance BU is divided is presented below:

- Project Financing & Real Estate Finance** – In 2020 the Bank confirmed its positioning among the leading banks in Italy for loans in the sector of renewable energies and infrastructures on a project financing basis, and in the Real Estate sector with important property requalification actions and operations catering mainly for qualified institutional customers (for example: Real Estate Funds). In consideration of their complexity, the structuring of loans needs medium-long finalisation times; consequently the closings of the operations regard both mandates acquired during the year and mandates acquired previously. We can note, with reference to financial year 2020, the following most significant operations:
 - refinancing of a wind power plant of 22.5 MWp of power situated in the province of Caltanissetta, owned by the project company Mimiani Wind Srl controlled, through funds making reference to institutional investors, by the French group Ardian as asset manager. The loan project, involving a total of € 25 million, was fully underwritten by the Bank;
 - refinancing of a photovoltaic power plant of 9.6 MWp of power situated in the province of Bari, owned by the project company CGE Palea Arsa Srl controlled, through funds making reference to institutional investors, by the French group Ardian as asset manager. The loan project, involving a total of € 9.75 million, was fully underwritten by the Bank;
 - refinancing and partial revamping of a portfolio of photovoltaic systems with 10 MWp of total power situated in the province of Brindisi, already connected to the national electricity grid and admitted to the twenty-year incentivising tariff through the company Denergia Sviluppo Holding Srl controlled by investment funds attributable to British private equity operators. The financing project totalling € 33.7 million was financed together with another credit institution and the Bank, as the Mandated Lead Arranger (hereinafter MLA), participated with a share of € 15 million;
 - financing of a portfolio of photovoltaic assets for a total of 8.6 MWp to be purchased and situated in various Regions by a leading Italian player, E12E Srl, active in the segment of photovoltaic plants of medium-small size. The loan project for a total of € 20 million, was fully underwritten by the Bank;
 - refinancing of the project in support of the creation of the supporting structures for the assistance activities of the new hospital in Modena undertaken by the company Sesamo SpA. The financing project totalling € 18.7 million was carried out together with another credit institution and the Bank, as the MLA, participated with a share of € 9.35 million;
 - financing of a portfolio of photovoltaic assets of medium-small size situated in various Regions for a total of 10 MWp to be purchased by a company, Sun Berserker Srl, set up by industrial subjects of reference of the Undo Group already active, as well as in the field of energy production, in industrial sectors characterised by high technological application. The loan project for a total of € 15 million, was fully underwritten by the Bank;
 - refinancing in favour of the Italian Copper Fund, a closed-end real estate fund reserved for qualified investors, managed by Coima SGR, of a portfolio of 5 property assets held in various parts of Italy, rented to the Telecom Italia SpA Group. The loan project for a total of € 37.3 million, was fully underwritten by the Bank;
 - refinancing of the current exposure with further project aimed at financing new costs for renovation of a hotel structure classified as 5-star luxury, located in the historical centre of Milan, owned by the company Nepa Srl, controlled by among others the US Group Hyatt Hotels Corporation, a multinational based in Chicago, listed on the NYSE, active in 65 countries in the context of luxury

botellerie. The financing project totalling € 66.4 million was financed together with another credit institution and the Bank, as the MLA, participated with a share of € 43.1 million;

- financing of the project destined for the renovation and transformation of an historical property in a 5-star urban resort located in Florence, undertaken by the company Leeu Italy Srl controlled by an Indian entrepreneur active in various countries in the context of real estate operations and in general in the hospitality segment. The financing project totalling € 48.9 million was carried out together with another credit institution and the Bank participated with a share of € 17.2 million.
- **Corporate Finance** – Despite the context created during the first quarter of 2020 following the spread of the COVID-19 epidemic in our country, the activity of granting loans continued constantly and regarded in particular support to firms operating in the service sector (telecommunications, healthcare, leisure), the industrial sector (automotive), the tourism-hospitality sector, the property and construction sector and shipping. Among the financing operations completed during the year we can note the financing operation in a pool with Cassa Depositi e Prestiti (CDP) in favour of Amplifon S.p.A. (healthcare), in which the Bank assumed the role of MLA, the financing operation (in the role of MLA in a pool with other banks) in favour of the Renco group (operating in the sector of complex civil and industrial works, properties and hospitality) and the financing operation in favour of the Grimaldi group supporting the acquisition of the motor vessel “Eco Valencia” (a latest-generation “green” ship that adopts innovative solutions to improve the energy efficiency and reduce the environmental impact). Starting from May 2020 and, in particular during the second half of the year, loans were entered into for a total of more than € 220 million backed by the SACE Italy Guarantee or the SME Fund, under the terms of Italian Law Decree no. 23/2020 containing, among other things, urgent measure on access to credit connected with the COVID-19 epidemic. In the context of the granting of loans related to subsidies, operations also continued in support of research and development projects, promoted by leading industrial groups operating in Italy, drawing on the FRI (“Sustainable Industry” and “Digital Agenda” Calls) and in support of projects promoted by farms and livestock holdings in the context of “Supply Chain and District Contracts”.
- **Acquisition Financing** – Also during 2020, despite the difficult market context mentioned several times, the Bank confirmed its competitive positioning in the activity of acquisition & leveraged finance in the Mid-Corporate segment with operation marked by strong industrial connotations and important commercial effects for the MPS Group: the activity of origination and structuring of acquisition operations continued in support of counterparties of primary standing, with a focus on industrial integrations carried out by corporate operators and maintaining a strong presence in the leverage market promoted by the leading private equity operators in Italy. Among the main operations organised and financed - with the role of MLA - we can note the following:
 - acquisition of Sorgenia S.p.A. - leading integrated Italian operator in the supply of technologies for the energy transition with installed capacity of approximately 4,800 MW - by the private equity operator F2i (Leverage Buy Out, hereinafter LBO);
 - acquisition of Namirial S.p.A. - leading Italian operator in the market for the supply of software solutions and digital fiduciary services for corporate subjects and public administrations - by the private equity operator Ambienta (LBO);
 - acquisition of Farnese Vini S.r.l. - leading Italian operator active in the production and sale (in particular export) of red, white and rosé wines the grapes of which come mainly from the regions of Central and Southern Italy - by the private equity operator Platinum (LBO);
 - acquisition of Bertoncello S.r.l. - leading Italian operator in the production of *gnocchi* and mixed flours for *gnocchi* for professional use - by the private equity operator Alcedo (LBO);
 - acquisition of Project Informatica S.r.l. - leading Italian operator in the supply of IT services, solutions and advice for businesses - by the private equity operator HIG Capital (LBO);
 - acquisition of Centrale del Latte d'Italia S.p.A. by Newlat Food S.p.A., aimed at creating one of the main hubs of the Italian food industry (with particular reference to milk and derivatives and baked and flour products) (Corporate Acquisition);

- acquisition of Tubilux S.r.l. by COC Farmaceutici S.r.l., leading Italian operator in the market for contract manufacturing for the pharma, health & beauty sectors and already portfolio company of the private equity operator Aksia (Corporate Acquisition).

Global Markets BU

During 2020 the activity with customers and markets for the Global Markets and Sales and Financial Solutions Departments obtained good results, in terms of both risk management and commercial flows, both captive and extra captive.

In relation to the government segment, during the year amounts held in proprietary portfolios were managed, working to optimise the nominal amount of government securities held with the carry matured, within the risk limits granted. The activity observed a marked increase in secondary volumes on the markets compared to the previous year, driven mainly by the MTS. The secondary activity with customers observed a contraction, partially balanced by the excellent performance in relation to auctions.

With reference to the activity of Italian Treasury Specialist also in 2020 the activity which, in the last few years, has brought the Bank into a position of absolute pre-eminence continued. This element made it possible, among other things, to perform also in 2020 important roles in primary syndicate operations.

The credit segment in terms of volumes compared to the previous year recorded an increase on the markets and substantial resistance with reference to operations with customers. The performance of the management of positions in stock was affected by the shock in March linked to the pandemic, but observed in the following months a constant and sharp recovery.

With reference to structuring activity we can note results in contraction compared to the previous year with reference to both protected unit-linked products and funds.

Despite the reduction of volumes placed on structured products, which negatively affected those of retail hedging, the equity and fixed income segments observed excellent results from the trading activity.

The Sales & Financial Solutions Department continued to perform its activity of channelling flows coming from institutional and corporate customers to the entire array of the Bank's business lines. On the front of institutional customers we can note the positive performance of auctions, a slight reduction in securities trading in relation to the government segment and substantial resistance of the credit segment. The syndicated primary results were excellent, with significant increases compared to the previous year. In relation to corporate customers we observed instead growth in the volumes of hedging with the Parent Company's customers, in particular in relation to the interest rate segment which saw sharp growth compared to 2019. Hedging with direct customers also saw growth in terms of volume compared to the previous year, although the activity showed a contraction in terms of marginality.

Investment Banking BU

As regards the activity on the primary debt market, during 2020 the Bank played the role of Joint Lead Manager and Bookrunner in the following bond issues: Cassa Depositi e Prestiti SpA Covid-19 Social Response Bond, issued in two tranches at 3 and 7 years to support the extraordinary plan put into play by CDP in favour of businesses and territorial authorities to counter the effects of the pandemic; Banca Monte dei Paschi di Siena S.p.A. Preferred Senior Bond at 5 years in two separate placings, with maturity 2025 the first, with maturity 2026 the second, and the Subordinated Tier 2 with a maturity 10NC5 years.

As regards government issues, the Bank played the role of Joint Lead Manager and Bookrunner in the new syndicated issues of nominal BTPs with maturity December 2030 and September 2050, as well as in the exchange operation via syndicate carried out by the MEF, during October, through repurchase of the nominal BTPs on the maturities 2021, 2023 and the CCTeu 2025 and issue at the same time of the new nominal BTP with maturity September 2051. The Bank also participated as Dealer in the sixteenth issue of the Italy BTP at 5 years dedicated to financing the actions related to the COVID-19 emergency.

In relation to the so-called "minibond" issues it handled the arrangement of the Private Placement operation "Renco Group S.p.A. 4.25% 2020-2027".

In the same period, the Bank played roles of Co-Lead Manager in numerous bond issues of Italian and foreign financial institutions, among which: the Non-Preferred Senior Bonds at 6 years and 10 years issued by Unicredit S.p.A., the Senior Bond at 7 years issued by Salini Impregilo S.p.A., the Senior Bond at 5 years issued by Webuild S.p.A., Equity Linked Green Bond at 5 years issued by Falck Renewables S.p.A., the Covered Bond with maturity

2031 issued by Crédit Agricole Home Loan SFH and finally the T2 Subordinated Bond with maturity September 2030 issued by the Parent Company.

With the same role of Co-Lead Manager, the Bank also participated in the following government issues: nominal BTP at 5, 15 and 20 years; Global bond issue in US dollars with maturity at 5 years; reopening of the nominal BTP at 30 years.

As regards the equity market, in the same period, the Bank participated as Joint Bookrunner, in agreement with Mediobanca which acted as Sole Global Coordinator and Bookrunner, in the guarantee consortium serving the Capital Increase of BPER Banca S.p.A. aimed at the acquisition of a business unit made up of 532 bank branches of the Intesa Sanpaolo Group.

The Bank continued to work as Nominated Advisor on behalf of Poligrafici Printing S.p.A. listed on Borsa Italiana's AIM Italia market.

Finally, the Bank played the role of financial advisor of Newlat Food S.p.A., a company listed on the Star segment of Borsa Italiana, in the context of the public offer of obligatory purchase and exchange organised under the terms and for the purposes of arts 102 and 106, para. 1 and 2-bis of the Consolidated Finance Law on a maximum of 7,339,778 ordinary shares of Centrale del Latte d'Italia S.p.A., listed on the Star segment of Borsa Italiana.

Credit Aggregates

Commercial flows

The macroeconomic scenario, during 2020, was heavily conditioned by the effects of the pandemic which caused a sharp reduction in GDP together with a drop in both consumption and investments, in a context so negative as to be comparable to a war. The prospects for 2021, at the moment, do not yet seem wholly encouraging despite the massive actions to stimulate the real economy that the Italian and European government authorities, have carried out and are carrying out with the intention of inverting as quickly as possible the aforementioned trends. An important leap in growth is expected from the implementation of the relaunching measures decided at the European level, confiding in a parallel lightening of the pandemic emergency following the acceleration of the vaccination campaigns.

In this context, characterised by recessive trends, the Bank's activity in any case recorded significant commercial volumes, marked by a slight drop in agreements compared to the numbers achieved in the previous year and by an increase in disbursements. On this point, it seems opportune to recall that the Bank, together with the banking system as a whole, operated as a flywheel for all the initiatives that the government authorities brought into play to provide economic aid to the various activities, facilitating the recourse to suspensions of instalments due and to forms of credit backed by public guarantees (cf. the paragraph "The Bank's initiatives in the context of the COVID-19 pandemic" above).

Below are tables which summarise commercial volumes achieved in 2020, compared with the previous year and broken down into transactions submitted, approved, signed and disbursed.

- Loan applications submitted**

	2020	2019	(amounts in millions of euro)	
			Changes	
			absolute	percentage
Number	215	226	(11)	(4.9)
Amount	1,848	2,098	(250)	(11.9)

- Loans approved**

	2020	2019	(amounts in millions of euro)	
			Changes	
			Absolute	percentage
Number	167	193	(26)	(13.5)
Amount	1,200	1,551	(351)	(22.6)

The following table shows the trend, in recent years, of the ratio between loans agreed and applications submitted:

	2020	2019	2018	2017
Number	77.7%	85.4%	83.7%	83.0%
Amount	64.9%	73.9%	86.9%	73.6%

• **Loan contracts signed**

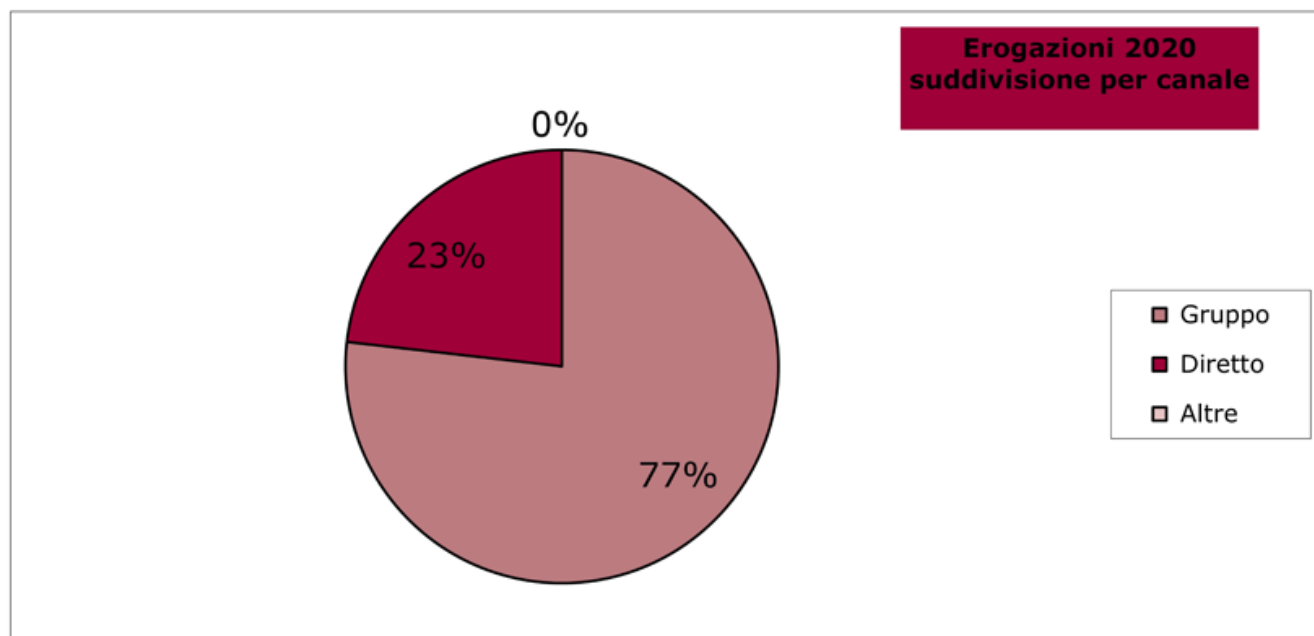
	2020	2019	(amounts in millions of euro)	
			Changes	
			absolute	percentage
Number	229	278	(49)	(17.6)
Amount	1,169	1,221	(52)	(4.3)

• **Loans disbursed**

	2020	2019	(amounts in millions of euro)	
			Changes	
			absolute	percentage
Number	460	437	23	5.3
Amount	1,197	1,097	100	9.1

In the context described above, during financial year 2020 the Bank disbursed a total of € 1,197 million. This result also includes disbursements linked to investments made over a multi-year period, in accordance with precise terms for implementation set in the production development plans. In these cases, the disbursements are made in several tranches, according to the “stage of progress” of the projects financed.

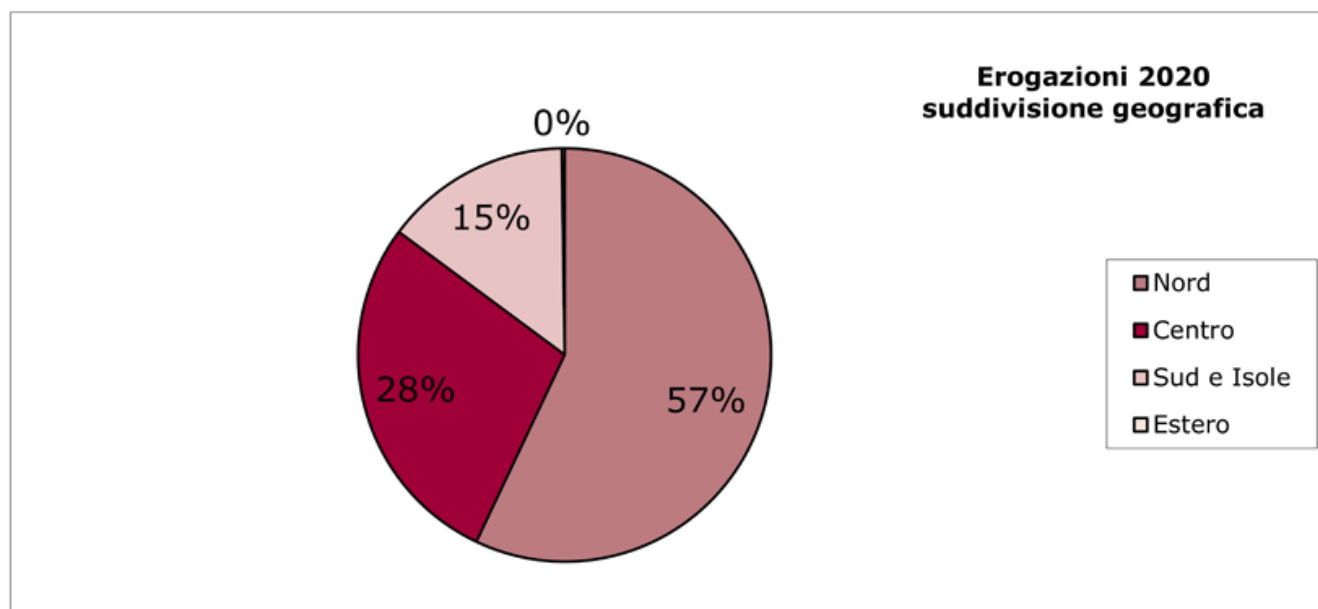
As can be seen from the chart below, 77% of the amounts disbursed during the year related to applications channelled by the MPS Group’s network, a percentage up compared to the previous year, when the operations coming from the Group came out at 63%.



Erogazioni 2020	Loans granted 2020
Suddivisione per canale	Breakdown by Channel
Gruppo	Group
Diretto	Direct
Altre	Other

As regards the geographical distribution of the disbursements, the next chart shows that 85% of the total amounts disbursed in the year were channelled to Northern and Central Italy. Compared to the previous year, the portion disbursed in Northern Italy went from 64% to 57% while disbursements destined for Central Italy fell from 32%

to 28%. The disbursements destined for the South and the Islands recorded growth from 4% in 2019 to 15% in 2020. Operations with foreign countries remain completely marginal.



Erogazioni 2020	Loans granted 2020
Suddivisione geografica	Geographical breakdown
Nord	North
Centro	Central
Sud e Isole	South and Islands

Loans to customers

As shown in the tables below, loans to customers amounted to € 14,854,162 at 31 December 2020, with an increase of € 4,241,830 compared to the previous year. This increase is concentrated in the sub-item “Repurchase agreements”, which are commented on in the paragraph “Main financial aggregates” below. The component related to loans to customers, almost entirely represented in the sub-item “Mortgage loans”, instead shows a progressive decrease in recent years, with a further decrease of € 546,977 thousand in 2020. The drop is attributable, as well as to the early settlements and normal repayments of principal according to schedule, to sale of Non-Performing and Probable Default (PD) exposures in the year, with particular regard to those sold as part of the “Hydra” operation illustrated in detail in the specific paragraph of Part A.2, point 15, letter c) of the Notes to the Statements. The decrease in receivables in stage 3, a total of € 707,140 thousand is referable to this operation, for € 622,545 thousand (divided between non-performing loans of € 345,293 thousand and probable defaults of € 277,252 thousand). New disbursements during the period were insufficient to compensate for the decrease in loans.

(amounts in thousands of euro)

<i>Loans to customers</i>	<i>31 December 2020</i>	<i>31 December 2019</i>	<i>Change absolute</i>	<i>%</i>
Current accounts	2	1	0	33.4
Loans	4,522,865	5,069,842	(546,977)	(10.8)
Reverse repurchase agreements	8,617,117	4,434,020	4,183,096	94.3
Other loans	1,275,056	588,423	686,633	116.7
Loans represented by securities	439,123	520,046	(80,923)	(15.6)
Total	14,854,162	10,612,332	4,241,830	40.0
<i>of which Stage 1</i>	<i>13,133,383</i>	<i>8,148,343</i>	<i>4,985,040</i>	<i>61.2</i>
<i>of which Stage 2</i>	<i>1,603,770</i>	<i>1,639,840</i>	<i>(36,070)</i>	<i>(2.2)</i>
<i>of which Stage 3</i>	<i>117,009</i>	<i>824,149</i>	<i>(707,140)</i>	<i>(85.8)</i>

The table below breaks down loans to customers at amortised cost, represented in item 40 b) of the Assets, by credit quality stage:

(amounts in thousands of euro)

<i>Customer loans at amortised cost</i>	<i>First stage (stage 1)</i>	<i>Second stage (stage 2)</i>	<i>Third stage (stage 3)</i>	<i>Total</i>
Gross exposure	13,144,924	1,666,261	190,963	15,002,148
Value adjustments	(11,541)	(62,491)	(73,954)	(147,986)
Net exposure	13,133,383	1,603,770	117,009	14,854,162
Coverage ratio (%)	0.09	3.75	38.73	0.99
<i>% of total loans to customers at amortised cost</i>	<i>88.42</i>	<i>10.80</i>	<i>0.79</i>	<i>100.00</i>
<i>% of total loans to customers at amortised cost, previous year</i>	<i>76.78</i>	<i>15.45</i>	<i>7.77</i>	<i>100.00</i>

Impaired assets

The tables below show the distribution of impaired assets at 31 December 2020 by portfolio (amounts in thousands of Euro).

<i>On-balance-sheet exposure</i>	<i>Gross exposure</i>	<i>Specific adjustments</i>	<i>Net exposure</i>
Financial assets measured at amortised cost	190,963	(73,954)	117,009
Financial assets measured at fair value through other comprehensive income			
Other financial assets obligatorily measured at fair value	3,308	(2,784)	524
Financial assets held for sale			
Total	194,271	(76,738)	117,533

<i>Off-balance sheet exposure</i>	<i>Gross exposure</i>	<i>Specific adjustments</i>	<i>Net exposure</i>
Guarantees given	306	(104)	202
Commitments to disburse funds and other commitments	1,805		1,805
Total	2,111	(104)	2,007

Impaired assets are broken down by type below (amounts in thousands of euro):

<i>Type of on-balance-sheet impaired assets</i>	<i>Gross exposure</i>	<i>Specific adjustments</i>	<i>Net exposure</i>	<i>Net exposure 2019</i>
Non-performing loans	36,849	(23,857)	12,992	12,992
Probable defaults	154,793	(52,320)	102,473	102,473
Impaired past-due exposures	2,629	(561)	2,068	2,068
Total	194,271	(76,738)	117,533	117,533

With reference to the loan exposures to customers presented in table A.1.7 of the Notes to the Financial Statements, the balance of on-balance sheet impaired assets, net of value adjustments and discounting, came out at € 117.5 million. The decrease, compared to the amount at 31 December 2019 (€ 890.6 million), was € 773.1 million (-86.8%). This reduction, as well as to the extraordinary operation entitled “Hydra” commented on in the previous paragraph, is also attributable to the continuation in financial year 2020 of the programme for the disposal of impaired assets, provided for in the MPS Group Restructuring Plan approved on 4 July 2017 by the European Commission and aimed at improving the credit quality of the Group and the Bank.

Total gross exposure for UTP positions disposed of and cancelled during the year amounted to € 63.7 million, of which € 18.4 million due to single name disposals and the remainder to the disposal of portfolios as part of the “Pireo” operation, for a total of € 45.3 million. As regard Non-Performing Loans, gross exposures of € 106.3 million were disposed of and cancelled; these were attributable entirely to single name disposals.

It must be stressed that the impaired loan disposal transactions in which the MPS Group participated during the past three years generally required that the banks carrying out the disposals provide the purchasers with a series of guarantees regarding the quality of information and documents related to the transferred loans. For example, this may involve ownership and transferability of the loan, the validity of guarantees supporting the loans (in particular, mortgages), the regularity of real estate involved in the guarantee and the accuracy of data, etc. If the transferees consider that there are for any of the loans transferred “discrepancies” with respect to what was agreed and hence violations of the declarations and guarantees, the transferor banks must indemnify the related transferees. The most significant contract involving this type of indemnity involves the disposal of the portfolio of bad loans carried out by the Group in December 2017 as part of a loan securitisation operation, in favour of Siena NPL S.r.l. (The “Valentine” operation). This contract establishes that in no case shall the indemnities due by any bank based on violation of declarations and/or guarantees exceed 28% of the purchase price of the related portfolio (indemnities also inclusive of the price of the “flawed” loan, in the case of repurchase by the originally disposing banks). Violation of declarations and guarantees for this portfolio may be claimed by the purchaser by 31 July 2021. For the other disposal transactions for which declarations and guarantees are still in being, that is Ismea and Race, the expiries are set at 1 September 2021. To cover the risk associated with the *Valentine* disposal, as illustrated in the paragraph “Main economic aggregates and management indicators”, the Bank made a provision of € 21.7 million to Provisions for risks and charges; for analogous risks associated with the “Hydra” demerger it also set aside a further € 6 million, plus € 0.1 million for the “Race Project” disposal.

Bad loans went from € 426.1 million at 31 December 2019 to € 12.9 million at 31 December 2020, a reduction of € 413.2 million (-96.97%). The average write-down of bad loans came out at 64.74% (53.79% at 31 December 2019). Gross and net bad loans represent 0.18% and 0.06%, respectively, of total gross and net exposures to customers shown in table A.1.7 in part E of the Notes to the Statements (5.15% and 2.5% at 31 December 2019).

Probable defaults went from € 457.6 million at 31 December 2019 to € 102.4 million at 31 December 2020, a reduction of € 355.2 million (-77.62%). The average write-down of probable defaults came out at 33.79% (37.05% at 31 December 2019). Gross and net probable defaults represent 0.77% and 0.43%, respectively, of total gross and net exposures to customers shown in table A.1.7 in part E of the Notes to the Statements (4.06% and 2.28% at the end of 2019).

Impaired past-due receivables decreased by € 4.8 million (- 69.56%), going from € 6.9 million at 31 December 2019 to € 2.1 million at 31 December 2020. The average write-down of past-due loans was 21.33% (39% at 31 December 2019). Gross and net past-due loans represent 0.013% and 0.01%, respectively, of total gross and net exposures to customers shown in table A.1.7 in part E of the Notes to the Statements (0.064% and 0.059% at the end of 2019).

The table below shows the evolution of the Bank's credit quality indicators in the last three years. The trend reflects positively the process of deleverage of impaired receivables described above:

<i>Credit quality indices</i>	<i>31 December 2020</i> %	<i>31 December 2019</i> %	<i>31 December 2018</i> %
Net impaired loans/Loans to customers	0.8	8.3	11.7
Gross NPL ratio ⁽¹⁾	1.3	14.4	22.3
Coverage of impaired loans ⁽²⁾	39.5	46.4	49.7
Net non-performing loans/Loans to customers	0.09	4.0	4.8
Coverage of non-performing loans ⁽²⁾	64.7	53.8	55.6
Net value adjustments on loans/Loans to customers ⁽³⁾	0.3	(0.04)	(0.2)
Texas Ratio ⁽⁴⁾	15.7	82.7	102.4

⁽¹⁾ Gross NPL ratio: ratio between gross impaired loans to customers and gross loans to customers.

⁽²⁾ Coverage: the coverage ratio on impaired loans and on bad loans is calculated as the ratio between the related provisions for impairment and the corresponding gross exposures.

⁽³⁾ Net adjustments on loans/Loans to customers (provisioning): this is the ratio between net adjustments on loans and loans to customers.

⁽⁴⁾ Texas Ratio: this is the ratio between gross impaired loans and the sum, as denominator, of tangible shareholders' equity (net of goodwill and other intangibles) and the provisions allocated to cover the impaired loans.

Deposits

The table below shows the breakdown of deposits (item 10 of Liabilities) by type and by operating segment at 31 December 2020, compared with the previous year.

At the end of the year, the amount of deposits and loans payable in being with the Parent Company against lending operations was down by € 431 million compared to the previous year, coming out at € 6,504 million (6,935 at the end of the previous year). This trend reflects the reduction of loans presented in the previous paragraph. The aggregate in question is divided as follows: € 1,496 million on-demand and short-term (€ 171 million at 31 December 2019), and € 5,008 million medium- and long-term (€ 6,764 million at 31 December 2019).

The funding for the typical activities of the Global Markets BU is represented by repurchase agreements and, in a minimum part, by deposits made with the Parent Company. In particular, deposits related to the long-term trading activity amounted to € 79 million (€ 400 million at 31 December 2019); those on demand and short-term amounted to € 666 million (€ 3,059 million at 31 December 2019). The reduction of this last aggregate is attributable to the almost total cessation of securities lending operations with customers of the Parent Company, with the consequent decrease from € 1,825 million to € 1 million of the tied deposit opened at the Bank by the Parent Company itself to guarantee its customers lending securities.

For comments on trading operations, please see the paragraph “Main financial aggregates” below.

	<i>(amounts in millions of euro)</i>	
	<i>31 December 2020</i>	<i>31 December 2019</i>
Loans from the Parent Company for Lending activities:	6,504	6,935
- on-demand and short-term against loans to clients	1,496	171
- medium and long-term against loans to clients	5,008	6,764
Loans from the Parent Company for Global Markets activities:	745	3,459
- on demand and short term	666	3,059
- medium and long term	79	400
Funding in repurchase agreements:	11,407	11,092
- of which with Parent Company	1,651	4,765
Subordinated bonds:	456	456
Other payables to Banks and Customers:	810	709
Total	19,923	22,651

Main financial aggregates

The main trends that characterised the activity of the Global Markets BU in financial year 2020 are illustrated below:

- the volumes deriving from hedging of interest rate risk with corporate customers, followed by the Corporate Sales Office, were € 1,924 million compared to € 1,140 million in 2019, a decrease of approximately 69% due to the decline in medium/long-term loans disbursed by the Parent Company and a better result in relation to direct customers;
- the volume of interest rate derivatives with institutional counterparties was € 3,022 million (+137% compared to the previous year);
- the volumes deriving from hedges of exchange rate risk with corporate customers totalled € 1,856 million, up by 4% compared to 2019, while operations linked to the flexible term saw a reduction in volumes of approximately 4% compared to the previous year;
- volumes of commodity hedges with corporate customers came out at € 518 million, substantially in line with 2019;
- the result of equity hedges for institutional customers was notable, with volumes of € 536 million;
- there was a sharp reduction of volumes deriving from repos, down by 53% compared to the previous year;
- the volumes traded on the secondary credit market of securities with institutional customers - Over The Counter and via platforms - showed an increase of approximately 4% compared to 2019 (€ 5,382 million compared to the € 5,175 million of the previous year, combining “secondary credit” with “secondary digital channels”);
- the volumes coming from the secondary market for government securities - OTC and via platforms - and from auctions amounted to € 35,881 million compared to € 41,754 million the previous year, with a reduction of approximately 14%;
- the volumes of placements with institutional investors of primary market securities recorded a very sharp increase (+170% - € 12,708 million compared to € 4,069 million in the previous year), benefiting from greater recourse by the Treasury to syndicated issues during the year.

<i>PRODUCT</i>	<i>31 December 2020</i>	<i>31 December 2019</i>	<i>Percentage changes</i>
Corporate Sales interest rate hedging	1,924	1,140	69
Institutional interest rate hedging	3,022	1,277	137
Corporate Sales exchange rate hedging	1,856	1,782	4
Corporate Sales commodity hedging	518	525	(1)
Corporate Sales flexible term	1,792	1,867	(4)
Flexible term institutional	-	-	(0)
Institutional interest rate hedging	-	-	(0)
Institutional equity hedging	536	174	208
<i>Repos</i>	7,105	15,164	(53)
ETF	4	22	(82)
Secondary credit+Sup/Sov	998	1,106	(10)
Secondary government and auctions	15,367	12,121	27
Primary	12,708	4,713	170
Gov. electronic channels (BET+Vison Bond+TB)	20,514	29,633	(31)
Secondary Credit digital channels (Credit Bet+TB)	4,384	4,069	8
Total	70,728	73,593	(4)

Note: these are commercial volumes determined according to operating criteria, aimed at representing the trend of the volumes moved during the year.

Moving on to examine changes in equity aggregates we can note that compared to 2019, net amounts in securities held for trading showed a decrease of € 3,932,120 thousand, almost entirely concentrated within the government security segment.

(amounts in thousands of euro)

Trading portfolio: long positions in securities	31 December 2020	31 December 2019	Changes	
			absolute	percentage
Government and public entity securities (*)	4,289,158	5,742,086	(1,452,928)	(25.30%)
Other	1,119,311	1,489,042	(369,731)	(24.83%)
Total	5,408,468	7,231,128	(1,822,659)	(25.21%)

(amounts in thousands of euro)

Trading portfolio: short positions in securities	31 December 2020	31 December 2019	Changes	
			absolute	percentage
Government and public entity securities (*)	(4,514,684)	(2,422,100)	(2,092,584)	86.40%
Other	(30,815)	(13,938)	(16,877)	121.08%
Total	(4,545,499)	(2,436,038)	(2,109,460)	86.59%

(amounts in thousands of euro)

Trading portfolio: net long positions in securities	31 December 2020	31 December 2019	Changes	
			absolute	percentage
Government and public entity securities (*)	(225,526)	3,319,986	(3,545,512)	(106.79%)
Other	1,088,496	1,475,104	(386,608)	(26.21%)
Total	862,970	4,795,089	(3,932,120)	(82.00%)

(*) For a detailed analysis of "Sovereign Risk", please see Part E, section 1 "Credit Risk" part A "Credit Quality", of the Notes to the Statements.

The long net position in securities and, in general, the activity of Global Markets is financed entirely (83% at the end of the previous year) through repurchase agreements.

(amounts in thousands of euro)

Repurchase agreements	31 December 2020	31 December 2019	Changes	
			absolute	percentage
repurchase agreements	9,826,800	7,112,552	2,714,248	38.16%
reverse repurchase agreements	(11,407,065)	(11,091,958)	(315,107)	2.84%
Net repurchase agreements	(1,580,265)	(3,979,406)	2,399,141	(60.29%)

The other segment in which the Global Markets Department operates significantly is derivatives, both credit and financial.

With regard to credit derivatives, a comparison between notional values at 31 December 2020 and those for the previous year shows a decrease in nominal terms of € 669 million, substantially due to both protection purchases and protection sales with underlying the Portuguese state. Existing single name transactions are exclusively carried out with banking counterparties or with financial companies. On the other hand, index exposures are carried out with the central counterpart ICE Clear Europe (ICE).

(nominal amounts in thousands of euro)

Credit derivatives	31 December 2020	31 December 2019	Changes	
			absolute	percentage
Protection purchases	344,194	781,558	(437,364)	(55.96%)
Protection sales	3,630,442	3,861,888	(231,446)	(5.99%)

Single-name credit derivatives mainly refer to government issuers. For more details on the contraction of protection purchases with Sovereign underlyings, please see the analysis of “Sovereign Risk” presented in Part E, section 1 “Credit risk” part A “Credit Quality”, of the Notes to the Statements.

Credit derivatives with single name underlyings	Protection purchases %	Protection sales %
Sovereign	64.92%	100.00%
Banking - Insurance	35.08%	0.00%

For additional quantitative information, please see Section 3.1 of Part E of the Notes to the Financial Statements.

As regards financial derivatives, below we offer a breakdown expressed both in notional and fair values:

(nominal amounts in thousands of euro)

Financial derivatives	31 December 2020	31 December 2019	Changes	
			absolute	percentage
Over the counter	251,201,649	389,990,411	(138,788,762)	(35.59%)
Organised markets	172,992	222,353	(49,361)	(22.20%)
Total	251,374,641	390,212,764	(138,838,123)	(35.58%)

OTC financial derivatives are represented for 95.44% by instruments with underlying “debt securities and interest rates” (96.77% at 31 December 2019). Derivatives on Organised Markets were those taken out with Cassa di Compensazione e Garanzia (CC&G), having, for 100.00%, equity/stock indices as underlyings.

The carrying amounts at 31 December 2020 are presented below, compared with the previous year. Obviously, listed future-style agreements, whose marginalisations are included directly in the total treasury balances as offset entries in the income statement, are excluded.

(amounts in thousands of euro)

Financial derivatives (fair value)	31 December 2020	31 December 2019	changes	
			absolute	percentage
Positive market value (item 20 of the Assets)	3,315,041	3,250,410	64,631	1.99%
Negative market value (item 20 of the Liabilities)	(1,784,925)	(1,703,462)	(81,463)	4.78%
Total	1,530,116	1,546,948	(16,833)	(1.09%)

We must stress that, in line with application of IAS 32, paragraph 42, both active and passive exposures with “direct” central counterparties (only CC&G) and with “indirect” access central counterparties (LCH - London Clearing House, ICE – ICE Clear Europe, EUX – Eurex Clearing and central counterparties related to foreign markets which the Bank accesses through BOFA -Bank of America), are subject to offsetting and the net balance is hence shown in the financial statements. For more information on clearing, please see section 2.1 in part B of the Notes and the comments found in paragraphs 5 and 6 of the “other information” section in part B of the Notes to the Financial Statements.

OTC derivatives, which represent the largest proportion of total exposure, are almost exclusively traded with banks and financial companies.

For additional quantitative information on the disaggregation of the fair values of OTC derivatives by counterparty and by underlying, please see Section 3.1 of Part E of the Notes to the Financial Statements. In particular, in the

section referred to, the amounts by type of OTC derivative contracts, whether subject to netting agreements or not, are illustrated. Note that the Bank has signed netting agreements with almost all counterparties with which it works. These agreements, linked to the ISDA Master Agreement, provide for the reciprocal depositing of collateral to mitigate risks deriving from the net exposure.

Equity investments

The amount of equity investments in stocks or those similar to equity securities, classified in the balance sheet under the items: 20. c) “Financial assets obligatorily measured at fair value through profit or loss”, 30. “Financial assets measured at fair value through other comprehensive income” and 70. “Equity investments” (with a zero balance at the end of 2020), totalled € 52.4 million, of which € 36.2 million for investments in UCITS units and € 16.3 million for equity investments in stocks (investments in stocks at 31 December 2019 totalled € 22.4 million). The change in equity investments in stocks is attributable mainly to the write-down for € 5.2 million of shares of the Parent Company; the further changes are attributable for € 0.5 million to write-downs made (of which € 0.1 million for Newco SpA and € 0.4 million for cinema interests with contracts now expired) and for € 0.4 million to the sale of 9 equity interests (of which € 0.2 million for ABS Technology SpA sold to third parties and € 0.1 million for Magicland SpA sold to AMCO in the context of the “Hydra” operation).

In 2020, as a consequence of loan disposal transactions, new units of UCITS were acquired, bringing the value of this segment to € 36.2 million, with a net increase of around € 13.2 million compared to the previous year (€ 23.0 million at 31 December 2019). In particular, in the last quarter of 2020, following the completion of the “Hydra” and “Pireo” operations, units of the Efesto fund valued at approximately € 14.5 million were acquired and units of the Rainbow fund were sold for approximately € 0.3 million; capital distributions for a total of approximately € 0.4 million were also received and, finally, the valuations of the Idea CCR I and II, and Back2Bonis funds were adjusted, recording a total write-down of € 0.5 million.

(amounts in thousands of euro)

<i>Company/type</i>	<i>Carrying amount</i>
Investments in cinema productions	0
Investments in UCITS	36,183
Other	780
20 c. Financial assets obligatorily measured at fair value through profit or loss	36,963
Parent Company shares	15,404
Other	78
30. Financial assets measured at fair value through other comprehensive income	15,482
70. Equity investments	0
TOTAL	52,445

A few brief notes on the investee companies previously included in item 70 of Assets are presented below:

Interporto Toscano Amerigo Vespucci S.p.A. – Leghorn. Company responsible for the construction and management of the logistics centre located on the Guasticce plain, in the municipality of Collesalveti (Leghorn). The Bank and the Parent Company held respectively approximately 19% and 21.8% of the capital, all the shares were sold to AMCO as part of the “Hydra” project.

Terme di Chianciano S.p.A. – Chianciano Terme. Company that manages for commercial purposes the spa located in Chianciano Terme, held by the MPS Group for 45.63% (26.81% the Bank and 18.82% BMPS). In December 2020, following acceptance of the purchase proposal, the equity investment was reclassified for both the Bank and BMPS as an asset held for sale.

Income Statement and operating indicators

The Bank closed the financial statements at 31 December 2020 with a profit of € 43.7 million. The main income statement aggregates, reclassified using operating criteria, are shown below compared with the figures for the previous year.

(amounts in millions of euro)

Operating Income Statement	2020	2019	Absolute change	Change
Net interest income	133.9	125.6	8.3	6.6%
Net fee and commission income	30.5	20.3	10.2	50.1%
Dividends, gains (losses) from equity investments and similar income	1.5	1.7	(0.1)	(8.5%)
Net profit (loss) from trading/valuation at fair value	18.1	34.6	(16.5)	(47.6%)
Net hedging gains (losses)	(0.3)	(0.1)	(0.2)	330.4%
Gains (losses) from sale or repurchase	(0.4)	2.4	(2.8)	(116.4%)
Net gains (losses) on assets/liabilities carried at fair value	3.2	(1.7)	5.0	(286.5%)
Other revenues/expense from financial operations	22.2	36.9	(14.7)	(39.9%)
Other charges/other operating income	0.5	(0.1)	0.6	(577.0%)
Total revenues	187.1	182.7	4.4	2.4%
Administrative expenses	(56.4)	(62.8)	6.3	(10.1%)
- personnel costs	(25.1)	(26.4)	1.3	(4.8%)
- Other administrative expenses	(31.3)	(36.4)	5.1	(13.9%)
Net value adjustments on property, plant and equipment	(2.0)	(2.0)	(0.0)	0.4%
Net value adjustments to intangible fixed assets	-	-	-	(9.8%)
Operating costs	(58.4)	(64.7)	6.3	9.1%
Gross operating profit	128.7	118.0	10.7	(1,387.8%)
Net value adjustments for impairment	(43.8)	3.4	(47.2)	(1,158.3%)
-on loans	(44.4)	4.2	(48.6)	(182.8%)
-on other assets	0.7	(0.8)	1.5	4,617.8%
Gains (losses) on contractual changes without cancellations	(2.4)	(0.1)	(2.3)	(31.9%)
Net operating profit (loss)	82.6	121.3	(38.8)	(0.5%)
DTA fee	(6.1)	(6.2)	0.0	(88.6%)
Provisioning for commitments and guarantees given	0.1	1.2	(1.1)	(1,733.1%)
Other net provisions	(25.1)	1.5	(26.7)	(4.8%)
Risks and charges related to SRG, DGS and similar	(13.0)	(13.6)	0.7	(18.0%)
Restructuring charges	(0.5)	(0.7)	0.1	(100.0%)
Gains (losses) on disposal of investments	-	0.1	(0.1)	(63.5%)
Profit (loss) before taxes	37.9	103.8	(65.8)	(108.6%)
Income taxes on current operations	5.8	(67.2)	72.9	19.4%
Profit (loss) for the year	43.7	36.6	7.1	6.6%

The differences with respect to the official income statement format are motivated by the reclassifications indicated below:

- operating net interest income differs from the statutory amount by € 0.2 million, which refers to interest payable related to previous years transferred, for operating purposes, to “Other operating expense/income”;
- costs related to early retirement of € 0.5 million were deducted from “Personnel Expenses”. These costs were then transferred to the item “restructuring charges”;
- from “Other Operating Income/Charges” is deducted € 1.4 million related to recoveries of expenses transferred, for operating purposes, to “Other administrative expenses” as a direct reduction; “Other Operating Income/Charges” also include the € 0.2 million mentioned above and referable to interest from previous years which for accounting purposes is instead included in net interest income;
- “Other Administrative Expenses” were reduced by the amounts of certain items restated in specific items placed under Net operating profit/(loss) (DTA fee of € 6.1 million; SRF expenses of € 13.0 million);

Net Interest Income recorded an increase of 6.6% compared to the previous year mainly as a result of a series of actions to rebalance and recalibrate the structural liquidity which made it possible to contain the costs of funding significantly.

Net commissions showed a positive trend coming out at € 30.5 million, up by € 10.2 million compared to the previous year. This trend was affected positively (€ +12.1 million) by the result of the Finance segment (Global Markets and Investment Banking), attributable mainly to both the recovery of primary placements of government securities (€ +6.9 million), and the effect of the new process for holding the MEF Auctions which entailed accounting for the related fees (which were previously included in item 80 “Net income from trading activities”) for € +8.3 million. There was a drop, on the contrary, in commission income of the lending segment, in particular arranging fees on loans in pools lead managed (€ -4.7 million), a trend only partially offset by fee income on subsidised operations (€ +1.3 million).

As regards expenses, there was an increase in fee expense reversed to BMPS for the structuring of derivatives with direct customers of the Parent Company (€ +2.7 million) while there was a drop in reversals to the Parent Company of fees on loans disbursed (with a positive effect on the net commission income of € 1.2 million).

The aggregate **Other Revenues/Expenses from Financial Management** recorded a reduction of € 14.7 million (-39.9% compared to FY 2019). This performance reflects mainly the trend in item 80 “Net income from trading activities” which, besides feeling the effects of the pandemic in terms of volatility on the markets in the first three months of the year, was affected by the reduction of the portfolios and of the risks implemented at the end of 2020, as well as the different accounting for the fees of MEF auctions mentioned in the previous point. For more details on the trends that affected the Global Markets and Investment Banking BUs please see what is illustrated in the paragraph “Significant aspects of operations” above. The “Net gains (losses) on other financial assets and liabilities obligatorily measured at fair value” (item 110 b) contributed positively to the trend of the aggregate in question for € 3.2 million; this item increased by 5 million compared to December 2019 thanks, in particular, to the gain of € 6.2 million generated by the sale of an equity instrument (Scarlino SFP) coming within the perimeter of the “Pireo” sale.

As a result of the trend in the components indicated above, **Total Revenues** came out at approximately € 187.1 million, up by € 4.2 million (+2.4%) compared to the result of the previous year.

Operating costs, from an operational point of view include, besides strictly operating expenses, also adjustments of tangible assets excluding on the contrary some items not directly related to the Bank’s operations that are presented in specific items of the reclassified income statement (DTA fee, SRF contributions and the like, restructuring expenses) placed under “Net operating profit/(loss)”. The aggregate in question recorded a reduction of € 6.3 million, or 9.8%.

Examining in detail the single components, we can note that Personnel expenses, recording a reduction of € 1.3 million compared to the previous year, attributable mostly to the effects of the Covid-19 pandemic which in practice blocked operations on the territory (with lower expenses for refunds of travelling expenses, overnight stays, km indemnity) and, more in general, reduced drastically presence in the offices (with compression of the costs related to overtime and meal vouchers); the recovery of € 0.6 million of INPS contributions paid in excess

in previous years also impacted positively on the aggregate in question. In relation to Other Administrative Expenses (OAEs), after deducting the not strictly operating components indicated above, there was a reduction of € 5.1 million compared to 2019 (-13.92%); this trend was almost entirely attributable to lower expenses incurred for: i) the management of recoveries of loans in default entrusted in outsourcing to the Workout Area of the Parent Company (€ -3.8 million); ii) other services centralised at the Parent Company (€ -0.3 million); iii) the services provided by the Group Operating Consortium (€ -0.4 million).

As a result of the trends just illustrated, **Gross Operating Profit (EBIT)** amounted to € 128.7 million, up by over € 10.7 million or 9.1% compared to the previous year.

“**Net value adjustments on loans at amortised cost**” recorded in item 130 a) showed a negative balance of € 44.4 million compared to write-backs of € 4 million recognised in the previous year. The revision of the prospective macroeconomic scenarios made necessary by the spread of the pandemic had a significant impact on the item: the revision generated additional write-downs for a total of € 39.5 million of which approximately € 25.7 million allocates to the performing portfolio and approximately € 13.8 million to the non-performing portfolio. These adjustments reflect significant profiles of uncertainty linked to both the developments of the pandemic and the size and effects of the government measures to support the economy.

Net operating profit came out at € 82.6 million, down by € 38.8 million (-31.9%) compared to the previous year.

As indicated above, some items not strictly linked to the Bank’s “core” operations are presented separately under Net operating profit/(loss). In particular, these included: (i) the costs related to the DTA fee, of approximately € 6.1 million and substantially in line with the previous year; (ii) the contributions to the Resolution Funds, of approximately 13 million, down by approximately € 0.7 million compared to the previous year; (iii) the restructuring expenses of € 0.5 million (compared to € 0.6 million in the previous year), almost totally referable to the early retirement of employees in the context of the MPS Group restructuring plan; iv) the “Other net Provisions for Risks and Charges”, presented in item 170 b), which recorded an increase of € 26.7 million attributable, in particular, to the provision of € 21.7 million for the risks connected with the sale of the portfolio of bad loans to the vehicle Siena NPL S.r.l (in the context of the “*Valentine*” securitisation transaction carried out by the Group in December 2017) and to the provision of € 6 million for analogous risks associated with the “*Hydra*” demerger completed at the end of November 2020.

Profit before taxes (EBIT) came out at € 37.9 million, down by € 65.8 million (-63.5%) compared to the result of the previous year.

“**Income taxes for the year on current operations**” presented in item 270 of the income statement, finally, contributed to the result for the year for € + 5.8 million, benefiting from the positive result of the probability test on the recoverability of deferred tax assets (€ +12.2 million). For more information on the probability test, please see point 16. “Use of estimates and assumption sin preparing the statutory financial statements”, paragraph “Methods of determining deferred tax assets (probability test)”, in Part A.2 of the Notes to the Financial Statements.

Due to the trends illustrated above, **Profit for the year** came out at € 43.7 million, up by € 7.1 million compared to the previous year.

To conclude the review of the performance of income statement components, below are the main management indices, calculated using the reclassified income statement:

Profitability indices (%)	31 December 2020 %	31 December 2019 %	Changes
Net interest income / Operating revenues ⁽¹⁾	71.58	68.73	2.85
Net fees / Operating revenues ⁽¹⁾	16.27	11.14	5.13
Cost/Income ratio ⁽²⁾	31.22	35.45	(4.23)
R.O.E. ⁽³⁾	3.70	3.04	0.66
R.O.A. ⁽⁴⁾	0.16	0.13	0.03

Note:

- (1) Operating revenues: equal to "Total revenues" from operating management in the reclassified income statement.
(2) Cost/Income: the ratio between operating costs and "Total revenues" in the reclassified income statement.
(3) Return On Equity: the ratio between the net result for the period and the average of shareholders' equity (including profit/loss) at the end of the previous year and that of the year in question.
(4) Return On Assets: the ratio between the net result for the period and total Assets at period end.

Risk governance

The risk governance strategies are defined in keeping with the Group's business model, with the medium-term objectives of the Restructuring Plan and with the external constraints of a legislative and regulatory nature.

The policies regarding the assumption, management, hedging, monitoring and control of risks are defined by the Parent Company's Board of Directors (BoD). In particular the BoD defines and approves periodically the strategic guidelines on the subject of risk governance and expresses quantitatively the overall level of risk propensity of the whole Group. Banca MPS's BoD defines, in fact, the total "Risk Appetite Framework" (RAF) for the entire Group and approves the Group Risk Appetite Statement (RAS) at least once a year.

The RAF governance process is centralised within the parent company, which outlines the scope of interest at the MPS Group level and defines the structure at the level of the Group companies, depending on the risks taken on and the overall size and operating complexity of each legal entity. The RAF defines the roles of company bodies and departments involved in defining the "risk appetite", as well as the procedures to be activated in the case it is necessary to bring the risk level back to the objective or within pre-established limits.

The RAS represents a fundamental moment in terms of definition of the Group's risk strategy; it is a formal document which contains an explicit declaration of risk/return objectives and limits (overall, by type and broken down by individual companies/business units) which the MPS Group intends to take on to pursue its strategies. Therefore, the RAS identifies risk objectives/constraints, outlining the indicators for Business Units/Legal Entities as well (known as "cascading down"). This moves in the direction of increasing the Group's Risk Culture and making fully responsible all the relevant Organisational Units for observing and pursuing the risk appetite targets, as required by the legislation and suggested also by the best practices.

The Risk Appetite Process is structured in such a way as to be consistent with the ICAAP and ILAAP processes and with the Planning and Budget and Recovery processes, in terms of governance, roles, responsibilities, metrics, stress test methods and monitoring of the key risk indicators.

The prudential supervisory rules for banks, in line with the indications of the Basel Committee guidelines and the best practices, envisage that credit institutions carry out appropriate stress testing. The Group conducts stress tests regularly on all risk factors. Stress tests make it possible to assess the ability of the Group to absorb sizeable potential losses upon the occurrence of extreme but plausible market events, in order to identify the measures to take to reduce the risk profile and preserve the capital. The Group's methodological approach to stress tests is based on the identification of the main risk factors, for both First and Second Pillar, with the objective being the selection of events and combinations of events (scenarios) that highlight special vulnerabilities at the Group level. The results of the stress tests are brought to the attention of the Top Management and the BoD and are examined formally by the BoD at the moment of approval of the ICAAP/ILAAP Annual Report, with a view to self-assessment of the Group's capital adequacy and current and prospective liquidity.

The Group's risk governance is guaranteed in a centralised manner by the Board of Directors of the Parent Company, which is also responsible for supervising the updating and issuing of policies and the main internal regulations, with a view to promoting and guaranteeing an ever-increasing and more capillary diffusion of risk culture at all levels of the organisational structure. Awareness of risks and correct knowledge and application of the internal processes and models overseeing these risks - primarily those validated for regulatory purposes - constitute the fundamental prerequisite for effective, healthy and prudent business management. The Risk Control Unit is tasked in particular with carrying out the quarterly monitoring of the Key Risk Indicators (KRI), preparing a periodic report to the BoD and activating the escalation/authorisation processes if a position goes over the limit.

The incorporation into the remuneration and bonus policies for the personnel of the macro-indicators of risk and risk-adjusted performance, in keeping with the RAF, represents a further lever for promoting awareness of the appropriate behaviour by all resources and the growth of a healthy risk culture.

On the subject of promoting a risk culture within the MPS Group, during 2020 initiatives aimed at the administrative bodies (board induction programs on specific issues in both the Parent Company and the Subsidiaries) continued, as did general training initiatives aimed at all personnel (online courses) on the subject of risk management and mitigation. Additionally, a training programme for Area Managers was carried out to develop knowledge about credit risk, wealth risk management issues and prevention of money laundering. Monthly

meetings were held with ratings agencies and the managers for the Territorial Areas for the Chief Lending Officer and Chief Commercial Officer, to constantly monitor the credit risk in the respective portfolios. In cooperation with the Chief Human Capital Officer Department, the Chief Risk Officer Department carried out a project, in continuity with the previous year, aimed at all Group personnel on the issue of Risk Culture, through a series of e-Learning appointments which demonstrated typical operational situations within the Bank which generate specific risks.

During 2020, internal initiatives continued, aimed at guaranteeing continuous compliance with national and international regulatory provisions. The methodological risk frameworks related to Model Risk and to Legal Risk were also introduced. Sending of the ICAAP and ILAAP packages to the Regulator was carried out in compliance with ECB regulatory provisions on the “Technical implementation of the EBA Guidelines on ICAAP/ILAAP information for SREP Purposes”, and in compliance with the guidelines contained in the “ECB Guide to the Internal Capital/Liquidity Adequacy Assessment Process (ICAAP/ILAAP)” of November 2018.

The Montepaschi Group is one of the Italian banks that are subject to the ECB’s Single Supervisory Mechanism.

The equity position

Below is a breakdown of Regulatory Capital, compared with the previous year:

(amounts in thousands of euro)

Own Funds	31 December 2020	31 December 2019	Changes	
			absolute	%
Common Equity Tier 1 (CET1)	1,141,926	1,237,282	(95,356)	(7.71)
Tier 1 (T1)	1,141,926	1,237,282	(95,356)	(7.71)
Tier 2 (T2)	285,993	395,698	(109,705)	(27.72)
OWN FUNDS	1,427,919	1,632,980	(205,061)	(12.56)

The table below summarises, comparing them with the previous year, the categories of risks to which the Bank is exposed and the level of capital ratios:

(amounts in thousands of euro)

Capital requirements	Unweighted amounts		Weighted amounts/ requirements	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
A. RISK ASSETS				
A.1 Credit and counterparty risk	14,456,210	15,899,797	4,766,227	5,602,889
1. Standardised approach	8,790,443	9,424,703	1,276,929	1,317,145
2. Internal ratings-based approach	5,612,481	6,451,607	3,442,669	4,248,293
2.1 Basic	0		0	
2.2 Advanced	5,612,481	6,451,607	3,442,669	4,248,293
3. Securitisations	53,286	23,487	46,629	37,451
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			381,298	448,231
B.2 Credit valuation adjustment risk			21,117	17,728
B.3 Regulatory risk				
B.4 Market risks			194,372	207,949
1. Standard approach			194,372	207,949
2. Internal models				
3. Concentration risk				
B.5 Operational risk			60,580	48,144
1. Basic approach				
2. Standardised approach				
3. Advanced approach			60,580	48,144
B.6 Other calculation elements				
B.7 Total prudential requirements			657,368	722,052
C. RISK ASSETS AND SUPERVISORY RATIOS				
C.1 Risk-weighted assets			8,217,101	9,025,639
C.2 Common Equity Tier 1/Risk-weighted assets (CET1 capital ratio)			13.90%	13.71%
C.3 Tier 1 Capital/Risk-weighted assets (Tier 1 capital ratio)			13.90%	13.71%
C.4 Total own funds/Risk-weighted assets (Total capital ratio)			17.38%	18.09%

Note: The amount of the risk-weighted assets as per item C.1 is determined as the product of the total prudential requirements (item B.7) and 12.5 (inverse of the minimum mandatory ratio of 8%).

Total risk-weighted assets (RWAs) at 31 December 2020 amounted to € 8,217 million, down compared to the previous year, and were distributed as follows: 58% represented by credit and counterparty risk (62.08% at 31/12/2019), 29.57% by market risk (28.80% at 31/12/2019) 9.22% by operational risks (6.67% at 31/12/2019) and 3.21% by the risk of Credit Value Adjustment (2.46% at 31/12/2019).

Comparing Own Funds, of € 1,428 million (€ 1,633 million at 31/12/2019), to risk weighted assets (RWAs), of € 8,217 million (€ 9,026 million at 31/12/2019), the Common Equity Tier 1 ratio (Common Equity Tier 1 Capital/Risk-weighted assets) came out at 13.90% compared to a minimum regulatory level of 7%; the Tier 1 ratio (Total Tier 1 Capital/Risk-weighted assets) came out at 13.90% compared to a minimum regulatory level of 8.50%; while the Total Capital Ratio (Total Own Funds/Risk-weighted assets) was 17.38% compared to a minimum regulatory level of 10.50% (the minimum levels include the percentage of the capital conservation buffer, of 2.50%).

As required by the ninth “recital” of Regulation (EU) 2017/2395, we are providing adequate disclosure of the level of Own Funds and of capital ratios without application of the transitional arrangements applied to adjustments recognised on FTA of the accounting standard IFRS9: in the case of non-application of the transitional arrangements the “full application” amount of CET1, Tier 1 and Regulatory Capital would be less than € 71 million; the CET1 ratio and the Tier 1 ratio would come out at 13.04% (-86 basis points), while the Total capital ratio would be 16.52% (-86 basis points).

Human Resources

Staff trend

The Bank's staff at 31 December 2020 is shown in the tables presented below:

	(a) MPSCS employees	(b) MPSCS employees at Group companies or subsidiaries	(c) Group company employees at MPSCS	Work force (a-b+c)
Executives	24	13	5	16
Managers	269	116	33	186
Professionals	195	91	14	118
Total	488	220	52	320

Work force Comparison 2020/2019	31 December 2020	31 December 2019	Changes	
			Absolute	percentage
Executives	16	18	(2)	(11.11%)
Managers	186	186	0	0%
Professionals	118	115	3	2.61%
Total	320	319	1	0.31%

The changes in the workforce in the year are presented below:

<i>Workforce trend</i>	2020	2019
Opening balance	319	330
Increases	14	11
due to hiring	6	6
due to ceased secondments to the Group	5	3
due to secondments from the Group	3	2
Decreases	13	22
due to resignations	6	8
due to access to the Solidarity Fund	2	7
due to secondments in the Group	5	7
Closing number	320	319

Distribution by age

The following information pertains to the workforce situation at 31 December 2020:

	<i>Age group in years</i>				<i>Total</i>	<i>Average age</i>
	<i>up to 30</i>	<i>30-40</i>	<i>41-50</i>	<i>over 50</i>		
Women	5	18	53	38	114	46.6
Men	9	24	72	101	206	49.1
Total 2020	14	42	125	139	320	48.2
<i>Proportion:</i>	<i>4.38%</i>	<i>13.13%</i>	<i>39.06%</i>	<i>43.44%</i>		

Personnel training

The training activity for the year 2020 was not carried out according to the scheduled plans, owing to the health emergency that made it possible only to provide remote courses, thorough online courses and web sessions.

It was in any case possible to meet the parameters established for the obligatory courses, except for those on the subject of Health and Safety that require empirical teaching, which cannot be done remotely.

On the other hand it was possible to reach all categories of employees and specific professionals (employees involved: 320), through online courses available on the Parent Company's Training platform.

It is therefore possible to report the total hours provided according to the following structure:

- online training on business, legal and organisational matters	hours	3,377
<i>of which on the subject of MIFID II</i>	<i>hours</i>	<i>2,511</i>
- training on safety matters	hours	264
<i>of which on the subject of COVID – 19</i>	<i>hours</i>	<i>227</i>
- training on development matters	hours	429
- online training on Compliance matters	hours	3,012

Employment and trade union relations

The Bank favours a model of trade union relations oriented towards transparency, reciprocal respect and sense of responsibility in order to safeguard a corporate climate of positive collaboration and to promote an increasingly active involvement of the trade unions.

In 2020, owing also to COVID 19, “agile work” for employees in service at the Bank was consolidated, becoming an important operational instrument for maintaining the performance of the business structures and the quality of the governance services.

Organisational and Technological Trends

The Covid-19 pandemic was certainly the extraordinary event of 2020 that most affected the global macroeconomic framework. The crisis scenario heavily marked the whole planet from both the health and the economic and social point of view. With specific reference to the activity performed by the Bank - in terms of monitoring health and safety in the workplace - the spread of the virus required numerous actions aimed at ensuring the safety of workers, such as organisation of smart-working and activation of specific health monitoring, constantly reminding the personnel to observe the procedures activated on the occasion of activities performed in presence in the workplaces. As regards instead actions in support of businesses in difficulty, at the national level initiatives of various kinds were provided for, including the moratorium on payment of the instalments of mortgage loans and other loans (Italian Law Decree 18/2020 and subsequent updates) which entailed the revision of the repayment schedules of almost all relationship with the right to them with a significant impact in terms of engagement of personnel.

Financial year 2020 saw in any case strategic technological and organisational developments, which were guided both by the introduction of new external regulations and the stabilisation projects for the Montepaschi Group.

During the year guidelines for a Development Plan of the Bank were refined and consolidated, aligned over time with the schedule of the Risk Appetite Statement, intended to establish a process which can ensure ambitious yet sustainable growth for the Bank. These activities, which in terms of extent had originated through the combined efforts of all company departments, will structure the execution phase, between 2020 and 2024.

In terms of new regulatory reporting requirements for intermediaries, in effect as of 2021, as part of initiatives coordinated by the parent company the Bank will participate in two working groups with the aim of: a) assessing organisational impacts and applications needed to guarantee compliance with the regulatory requirements deriving from Regulation EU 2365/2015 on securities financing transparency (effective as of April 2020); b) definition of the organisational and application effects required by Regulation EU 648/2012 on margins for derivatives not subject to clearing, with specific reference to the exchange of initial margins.

As regards the control activities monitoring the phenomenon of money laundering and countering terrorism the Bank took part in the implementation of the GIANOS product following the introduction of the 4th EU Anti-Money Laundering Directive (Directive 2015/849 transposed by Italian Legislative Decree 90/2017), with consequent activation of the new version 4D, in line with the other L.E.s of the Group.

Other wide-ranging initiatives with significant impacts on Bank and Group activities included those related to the process of deleveraging non-performing loans, with the objective of reducing the number of positions classified as bad or Probable Default within the assets. As well as completing various sale transactions regarding bad loans of various amounts, in November a demerger operation entitled “*Project Hydra*” was concluded (cf. specific paragraph in Part A.2, point 15, letter c) of the Notes to the Statements) which involved a portfolio of loans classified as Bad/Probable Default for a total gross exposure of approximately 1,145.3 million (net € 633.8 million).

On the front of the “new DoD” project, regarding the transposition of the new Default Classification Guidelines issued by the EBA (European Banking Authority), during the year analyses, revision of the processes and implementation of the systems continued and this enabled the Bank to be compliant with the new community standards starting from 1 January 2021.

With particular reference to the corporate organisational structure, 2020 saw the implementation of a revision of the staff structure aimed at obtaining efficiencies and synergies also as a consequence of the asset sale/demerger operations described above. Actions aimed at optimising business units and rationalising support units continued, so as to better satisfy requirements coming from the market as well as internal operating needs.

Financial year 2020 had also, as a further characterising feature and certainly one with a non-negligible impact on the corporate operations, the continuation of a constant level of uncertainty about the methods of achieving the exit of the United Kingdom from the EU and the possible implications in a Hard-Brexit scenario. This made it necessary to assess and undertake actions aimed at guaranteeing operational continuity in a situation in which the United Kingdom no longer had access to the European market. It must be stressed, in any case, that already starting

from the second half of 2018, the Bank - through an inter-functional and specifically established corporate team - constantly monitored the subject of Brexit, observing the progressive evolution of the regulatory framework and aligning to the related evolution the assessment on the possible impacts and the identification of the most effective mitigation actions.

The main results of the assessment, structured on the activities performed by the Bank, showed:

- the almost total absence of operating impacts for the lending activity, historically linked to mainly Italian customers, except for the needs of a general nature associated with the assessment, set up on a case-by-case basis, on the need for adjustments to the contractual clauses, in particular according to the provisions of Directive 2014/59/EU (BRRD);
- potential significant impacts for the Bank's activity in the role of intermediary authorised to provide investment services.

For a detailed examination of the measures adopted by the Bank to guarantee business continuity of the activities impacted by Brexit please see the specific paragraph of the present Report on Operations.

Regulatory evolutions

MREL (Minimum Requirements for own funds and Eligible Liabilities)

The objective of the MREL is to ensure that every intermediary, in the event of resolution, has an adequate amount of capital resources and other liabilities capable of absorbing the losses and reconstituting the capital. The MREL Requirement aims, therefore, to preserve financial stability, promoting an orderly and effective crisis management system.

The rules related to the MREL requirement were revised in the context of the reform of the European framework on recovery and resolution of the crises of entities, implemented by Directive (EU) 2019/879 of the European Parliament and of the Council of 20 May 2019 (the so-called BRRD II) which amends Directive 2014/59/EU (BRRD) and by Regulation (EU) 2019/877 of the European Parliament and of the Council of 20 May 2019 (the so-called SRMR II) which amends Regulation (EU) no. 806/2014 (SRMR). The main changes of the reform regard, substantially, the calibration of the MREL ratio and its level of application, the powers of the Resolution Authorities in the event of breach of the MREL and the obligation on banks to communicate to the Resolution Authorities and to the public. The eligibility requirements of liabilities for MREL purposes, the minimum requirements of subordination for the so-called top-tier banks (with total assets of more than € 100 bln) and the requirements for the sale of subordinated liabilities to retail customers were also identified. The two measures came into force on 27 June 2019. The BRRD II will be transposed into Italy with the European Delegation Law while the SRMR II will apply starting from 28 December 2020.

In the 2020 planning cycle of resolutions the Single Resolution Board (SRB) adopted the MREL decisions on the basis of the new “MREL Policy 2020”, adjusted on 20 May 2020 to the new European legislative framework. In line with what is provided for in Regulation (EU) 2019/877, every new MREL decision establishes two binding MREL objectives: an “intermediate MREL target” to be achieved by 1 January 2022 and the “final MREL target” to be achieved by 1 January 2024. In addition, the so-called “Pillar 1 Banks” (G-SIIs and significant subsidiaries of non European G-SIIs, top-tier banks and other banks chosen by the competent national resolution authorities on the basis of the systemic risks potentially connected with their failure) are subject to a Pillar 1 MREL requirement that must be fully observed making use of own funds and subordinated liabilities that are at least 8% of the bank’s own funds and liabilities. The minimum subordination requirement for top-tier banks is 13.5% in terms of TREA (Total Risk Exposure Amount) and 5% in terms of LRE (Leverage Ratio Exposure Measure).

With reference to the MREL target for the Bank, the Single Resolution Board with Decision SRB/EES/2020/161 of 3 November 2020, established the following minimum requirements beneath which the sum of own funds and admissible liabilities cannot descend:

- 8% of total RWAs (defined in the Decision as “TREA” - Total Risk Exposure Amount);
- 3% of the total exposure used for the financial leverage ratio (defined in the Decision as “LRE” - *Leverage Ratio Exposure*).

The new requirements came into force on 28 December 2020 without application of any transitional arrangements. At 31 December 2020 the Bank stood at 20% in ratio to the TREA (with a surplus of 12% with respect to the minimum requirement) and at 6% in ratio to the LRE (with a surplus of 3% with respect to the minimum requirement).

Financial Benchmark Regulation

On 1 January 2018 the new European Regulation 2016/1011 came into force; this deals with reference indices (among which are commonly widely-used rates such as the Euribor rate, the Libor rate, the Eonia rate) used as benchmark in financial instruments and contracts or to measure the performance of investment funds. The Regulation was subsequently transposed into Italian law by Italian Legislative Decree 19 of 13 February 2019.

The regulation has the primary objective of guaranteeing the integrity of the indices classified as benchmarks (that is widespread and widely used) improving their governance and strengthening the related controls. In this way, the purpose of protecting consumers and investors is pursued through greater transparency and accuracy of the benchmarks.

The Regulation, in addition, classifies also the different kinds of players involved in the process of defining and/or managing the benchmarks, providing for different duties according to the role played (administrators of indices, contributors to indices, users of indices). In particular users of indices, and among them the Bank, are called upon to draw up and maintain solid written plans that specify the actions to be taken in the event of substantial changes in a benchmark index or, if this is no longer provided, describing if possible one or more alternative indices to which to refer. The Bank therefore developed during 2019 a regulation that describes the internal procedures to be applied in the event that a benchmark index ceases or changes in a substantial way.

The Regulation on financial indices with the related obligations for which administrators of indices are responsible, together with the recommendations published by the Financial Stability Board on the main benchmarks used, gave rise to a massive process of reform of the indices which saw the establishment, in the various jurisdictions, of Work Groups for the purpose of identifying possible alternative rates with respect to the current benchmark indices used, if these should cease or can no longer be used.

In Europe the specific Work Group, which involves several financial institutions and has within it as observers the European Central Bank and the European Commission, established that the alternative risk free rate to be used for the Euro area was the “€str” (Euro Short Term Rate), published daily by the European Central Bank starting from 2 October 2019.

This decision, together with analogous actions taken by the Central Banks of other areas - e.g. the Federal Reserve Bank of New York for the new SOFR (Secured Overnight Financing Rate), the Bank of England for the Sonia (Sterling Overnight Index Average) rate, began a process of transition towards alternative rates, that will see in the coming years the financial institutions heavily involved. The MPS Group therefore provided for a specific project on the subject of the reform of financial indices and the transition to the new risk free rates, aimed in this phase at analysing the legislative developments still in progress and at assessing their impacts. In particular, for the new risk free rate of the euro area “€str”, the actions necessary to update the corporate systems to acquire the new rate were carried out, while during the first half of 2020 the actions are focused on managing the switch of the discount curve for OTC derivatives cleared centrally at the Clearing House LCH from the Eonia rate to the “€str” rate, which occurred during the summer of 2020.

As regards the Euribor rate, during 2019 the administrator EMMI defined a new hybrid methodology for determining the parameter, receiving authorisation from the Belgian authority for the purposes of the Benchmark Regulation and confirming the possibility of using this critical index in its contractual relationships. The analyses of the changes introduced by the various industrial associations, such as ISDA, for incorporating the so-called fallback clauses into existing contracts are continuing in any case, assessing also any transversal impacts; to this end, a specific intercompany Work Group is being set up with the objective of coordinating the actions among the various asset classes impacted by the benchmark reform.

Internal Audit

The Internal Audit Office consisted for 2020, within the Bank, of the Internal Audit Unit, as defined in the section on the Internal Controls System of Bank of Italy Circular No. 285/2013 and subsequent amendments and additions.

For the year 2021, the activities and responsibility of the Unit were centralised in the Parent Company's Chief Audit Executive Department, on the basis of a resolution of the Board of Directors of MPS Capital Services of 15 January 2021.

The Internal Audit Unit, which reports directly to the Board of Directors (the Body with the Function of Strategic Supervision), has the task of independently verifying the regularity of operations and the trend in risks and of assessing the functioning of the overall internal control system, in order to pursue also the improvement of the effectiveness and efficiency of the organisation. It also provides advice to the other corporate units where a prior analysis, on the subject of legislation or development of planning activities is considered worthwhile, with the aim of improving the governance, risk management and control processes, in keeping with the evolution of the Bank, the Group and the external legislative framework, bringing to the attention of the Corporate Bodies the possible improvements.

The Internal Audit Unit, in keeping with the Group's organisational model, is an independent structure, free of hierarchical relationships with the managers of the operating structures. The structure of the Internal Control System (I.C.S.) and the regulation of the activity of the Internal Audit Unit, the contents of which must be compliant with the rules of the law and the Supervisory Authorities, are defined observing the guidance approved by the Bank's Board of Directors, which is responsible for the entire I.C.S.

The Unit operates observing the "Audit Standards" of the Montepaschi Group and the related "Code of Conduct", in accordance with a specific Annual Audit Plan approved by the Board of Directors, after examination by the Body with Control Function (Board of Statutory Auditors). The Plan, in addition to establishing strategic objectives for multi-year activity to be carried out within three years, takes into account the need to carry out the audits provided for in specific external and/or internal prescriptions, the indications of the Board of Auditors, of the Oversight Committee pursuant to Italian Legislative Decree 231/2001 and, if expressed and agreed, of the Bank's other Audit Units. Actions on significant components in the area of operations and corporate structures, on compliance with internal and external regulations, on subjects of a transversal nature or with a view to assurance of the Top Management and Auditing Bodies are obviously also planned, depending on the resources available.

For the performance of its tasks, the Unit may accede to all the corporate information, the outsourced activities and the Company's structures (on-site audits).

The Internal Audit Unit reports the activities carried out systematically through a Reporting System consistent with the provisions of the "Audit Standards" and current laws, describing the results of the audits performed, the process of analysis followed, the main critical issues that have emerged and the "grade" assigned to the action. Notes containing the criticisms and observations formulated are transmitted to the audited structures, ensuring that over time the anomalies found are removed (follow-up activity).

Quarterly reports on the work done are prepared for the Top Management and Auditing Bodies, while the report relating to the assessment of the Internal Control System, including also an overall final report on the activities carried out, is presented to the Board of Directors annually. The Office draws up, in addition, specific reports for the Oversight Committee pursuant to Italian Legislative Decree 231/2001, on the auditing activity carried out on current operations exposed to the "231 risk".

During financial year 2020, the Internal Audit Office carried out its duties according to the schedule found in the 2020 Audit Plan approved by the Board of Directors, performing also a number of unplanned actions on the basis of new needs that emerged and/or were requested by the top management bodies and the authorities.

Compliance

In the context of the wider internal control system, the Parent Company's Compliance Unit governs autonomously and independently the risk of non-compliance at the level of the MPS Group, reporting periodically to the top management bodies and to the Supervisory Authorities on the overall compliance status on systems, processes and operations.

The activity performed by the Compliance Unit, during 2020, regarded mainly the resolution of the critical issues that emerged after the Quality Assessment Review (QAR) activity requested by the Board of Statutory Auditors of BMPS and conducted by the consultancy company Protiviti.

The QAR identified a the main area for improvement, the evolution of the instruments and processes currently used. At 31.12.2020 the remedial plan can be considered substantially completed.

During the year, finally, further project initiatives were implemented, with particular reference:

- to strengthening the role of Compliance in a number of processes considered particularly critical, including the process of managing the internal regulations and the process of external communication;
- to the revision of the outsourcing contracts of the Compliance Units of the Italian subsidiaries to the banking Parent Company, with reference to the EBA guidelines on the subject of outsourcing.

With regard to customer complaints, during the year five claims were made regarding Banking Services, broken down as follows:

- 1 regarding notifications made to the Central Credit Register, not accepted;
- 2 regarding aspects related to the granting of credit, both not accepted;
- 2 regarding operational aspects, of which one accepted and one not accepted.

The Complaints Unit also received a complaint regarding Investment Services, which is currently being investigated.

Environmental Issues

The Bank's operations have always included attention to environmental issues. In fact, during the year, activities to maintain the Environmental Management System (EMS) continued. This system is compliant with the new international standard of reference, ISO 14001:2015. The EMS includes management of the direct and indirect impacts of the Bank's activities. Direct impacts are linked to operations, and relate to consumption of paper, water and energy, and to the production of waste and greenhouse gases, while indirect ones are attributable to activities of suppliers and customers, to the environmental risk of activities financed, to the improvement in ecological efficiency encouraged through specific financing and to polluting activities of suppliers or of the products purchased.

The ISO standard also envisages maintaining an adequate level of training as well as increasingly significant involvement of Top Management, including the Board of Directors. All personnel are periodically informed through various initiatives and specific continuing education courses.

With regards to operational aspects related to certification, in October 2020 internal audits were carried out in preparation for verification by the external body, at the offices in Florence, Siena and Rome.

Owing to the health emergency, in October/November 2020 the external audits by the certification body RINA Services were carried out remotely. The auditing activities performed enabled renewal of the certification of the EMS. The scope of application of the management system remained unchanged and includes loan disbursement, corporate finance and structured finance services, investment services and activities on the capital market, consultancy and services to the Public Administration for the concession of public subsidies.

The audit was completed positively with the notification of four recommendations for improvement, which are currently being managed.

Relations with Group companies

Transactions carried out with the Parent Company Banca Monte dei Paschi di Siena and with the other MPS Group Companies were numerous and significant throughout the financial year. Part H “Transactions with Related Parties” in the Notes to the Financial Statements gives a breakdown of the existing financial and economic relations with Group companies as of 31 December 2020. The most important aspects are commented on below.

While the guidance, control and support provided by the Parent Company over the Bank’s operations was focused on the areas of planning and control, legal and compliance, corporate identity and oversight of relations with supervisory authorities, these relations were characterised by proactive, constant and constructive cooperation, in accordance with the guidelines (directives, policies, process regulations) issued by the Parent Company and promptly brought to the attention of the Bank’s Board of Directors, which ensured they were implemented.

The outsourcing of specific activities to other MPS Group organisations and companies has enabled the Bank to continue upon its own path to maximise synergies and economies. Services outsourced to and financial transactions carried out with MPS Group counterparties, summarised below, are as a rule settled on the basis of ordinary market conditions regulated by dedicated agreements between the Parties called Service Level Agreements (SLAs).

As regards relations with the Parent Company and its subsidiaries, the following is specifically noted:

- operations on the financial markets carried out as part of the Bank’s strategic mission, set forth in detail in the paragraphs above;
- the agreement on the subject of regulating relations with other Group companies regarding the repurchase on the secondary market of innovative finance products designed by MPSCS and placed with customers through the Group’s commercial networks;
- the granting of short and medium/long-term loans by Banca MPS aimed at funding the Bank’s normal activity; all carried out in keeping with and observing the objectives and limits set by the Parent Company in the context of the centralised management of liquidity risk and interest-rate risk;
- non-performing loan recovery activities and the delegated management of the related expense items, entrusted to the Parent Company’s Workout Area, and governed by specific SLAs;
- the presence of personnel seconded from the Parent Company and other Group entities to the Bank;
- the secondment of Bank employees to the Parent Company and its subsidiaries, including the Consorzio Operativo Gruppo MPS (MPS Group Operational Consortium);
- the centralised supervision of Risk Management by the Parent Company’s Chief Risk Officer Department;
- the activities of monitoring advertising, communication and the image by the Communication, Institutional Relations and Sustainability Department of Banca MPS;
- the centralised supervision of Compliance by the Parent Company’s Compliance Department;
- technological supervision, maintenance and development of the IT system assigned to the MPS Group’s Operational Consortium, with which a specific SLA has been defined;
- the Back Office and Middle Office administrative activities of the finance area centralised respectively at the Operations Department and at the Chief Financial Officer Department - Finance, Treasury and Capital Management Area of the Parent Company;
- the purchases of goods and services in amounts exceeding the specific thresholds by Parent Company structures, in the function of the Centralised Group Procurement and Supplier Management Service of the Parent Company’s Procurement and Real Estate Area;
- conferment to the Parent Company’s CFO Department - Equity investments and Extraordinary Operations Area - Real Estate Investments and Disinvestments Staff of the activities connected to the disposal/sale of properties still owned by the Bank;
- conferment of the delegated management of the expense items of the real estate sector to the Parent Company’s COO Department - Procurement and Real Estate Area - Real Estate Maintenance Service;
- the support provided by the Parent Company’s CSO Department - Prevention, Protection and Environment Service regarding workplace health and safety, as well as the sustainable development of the Bank’s activities, with reference to the possible consequences in terms of the environment;
- the lease of premises owned by the Group.

During financial year 2020 – as a consequence of the Parent Company’s strategic decisions on the management model of the Control Units - the activities necessary to arrive at the outsourcing to the Parent Company itself were launched and defined for the following function of MPSCS:

- AML - Anti-Money Laundering unit;
- Internal Audit unit.

For AML the Board was involved in the meeting on 11 November 2020 at which the outsourcing of the Anti-Money Laundering unit through centralisation at the Banking Parent Company’s Anti-Money Laundering unit was approved; this is to be done after obtainment of the authorisation from the Supervisory Bodies and guaranteeing the maintenance of adequate monitoring of the roles, responsibilities and activities falling as of today within the scope of the current AML and Risk Officer Office of MPS Capital Services and of its Manager.

For Internal Audit, at the meeting on 14 January 2021 the Board approved the outsourcing to the Parent Company’s Internal Audit Unit (Chief Audit Executive Department) of the Internal Audit Unit currently present at the Bank, identifying the Manager - under the terms of the supervisory regulations, Bank of Italy Circular no. 285/13 - as the *pro tempore* Manager of the Internal Audit Unit (Chief Audit Executive Department) of the Parent Company itself.

Prospects and business outlook

In 2020, the collapse of global economic activity should, with the final results, be less serious than what was previously forecast, owing mainly to less deep contractions in the advanced economies and a stronger recovery in China. Although the global economy is expected to expand (+4% global growth expected in 2021 according to the World Bank) the recovery remains fragile and uncertain, given the evolution of the pandemic and the vaccination campaign against COVID-19 which has just started. At the end of 2020, in response to the second wave of infections, many countries were forced to reintroduce containment measures that will remain in force at least for the early months of 2021. The risk of viral mutations increases the probability of further cycles of restrictions in the short term. The pandemic has caused many victims, it has amplified the risks linked to the accumulation of debt and it could depress economic activity and earnings for a prolonged period. The Authorities must not only try to control the epidemic guaranteeing a rapid and widespread distribution of the vaccine, but also continue to support the economic recovery with virtuous stimulation measures (in Europe the Next Generation EU and the ECB's policies) which must sustain a cycle of reinvestment aimed at sustainable growth less dependent on public debt in the medium period.

In Italy, thanks to the sharp summer recovery, the 2020 recession does not come close to double figures (-8.9%, the preliminary estimate of GDP according to the ISTAT data) but the recovery in progress clashes with the difficult management of the epidemic and the containment measures introduced to limit it. The crisis could be overcome in the second half of 2021 also thanks to the good outcome of the vaccination campaign and the use of the Next Generation EU (NGEU) funds: more than € 200 billion the amount reserved for Italy between loans and subsidies starting from 2021, although possible delays in implementing the projects could further put off the recovery. Fiscal policy should in any case maintain an expansive tone favouring a rise in the level of debt which will come back down only in the medium term.

To the liquidity crisis that hit Italian businesses following the pandemic, the Italian banking system responded increasing significantly loans to the production sector (more than 2.7 million applications for a moratorium on loans for approximately € 300 billion; more than € 129.5 billion the value of requests to the SME Guarantee Fund; € 20.8 billion the total volumes of loans guaranteed by SACE). The risk that, once the emergency is over, the deterioration of the scenario will be reflected negatively in the assets of banks makes it crucial to correctly manage credit risk as requested by the Supervisory Bodies.

When the extraordinary expenses associated with the pandemic have been absorbed the cost containment process will continue, also through a new organisation of work. There will be an increase in resources destined to expand investments in technology and human capital, necessary to continue quickly in the process of remodulating the business model in a context that does not permit a significant improvement in profitability on traditional activities. The actions to support liquidity continue to favour new loans to the private sector. With the health crisis still in progress, some measures have been extended, such as the moratorium for SMEs, professionals and the self-employed with a VAT number, extended up to June 2021 (2021 Budget Law) and the guidelines on moratoria by the EBA until March 2021. The ECB also expanded its monetary policy instruments. With the recovery of the economic cycle, the next two years may be characterised by a sharp increase in loans to households, up to now sustained by moratoria, with an increase in the demand for mortgage loans and a recovery of consumer credit; loans to businesses will grow at a slower rate, affected by the cessation of the measures supporting liquidity (guarantees/moratoria) from the middle of 2021 and the displacing effect on demand for credit caused by the ample availability of liquidity deposited at banks that can be used to finance productive activity and investments. The credit offer policies will remain loose, favoured by the monetary measures adopted which will ensure that the liquidity available to banks remains ample, while stable interest rates will make it possible to contain the cost of funding and the expense of debt, contributing to limiting the risk of insolvency of the counterparty.

In the next few months funding will continue to increase driven by deposits: the economic crisis and the high uncertainty push businesses and households to increase their liquidity respectively for precautionary purposes and for a high propensity to save oriented to liquid and low-risk forms of investment. Subsequently, the improvement in the economic situation should lead to a release of deposits in current accounts, both to finance the investment cycle, and for greater propensity to consumption and also following a lower risk aversion of households that will turn towards more remunerative forms of investment (e.g. managed savings). In the medium term an increase in

bond issues is estimated together with higher flows of tied deposits at the time of the end of the TLTRO-III operations and the beginning of the first repayments.

The ECB introduced further accommodating measures in December 2020 and no substantial changes are expected in the interest rate remunerating deposits at the Monetary Authority in the next three years. This tone of monetary policy should entail a substantially stable trend of the interest rate on loans (for both households and businesses) and a very slight increase in the average rate on long-term deposits; the interest rate on bonds should grow in a more lively manner in line with the slight rise in Italian government securities in the long term.

The higher volumes of credit of 2020 will not be sufficient to sustain the recovery of traditional net banking income, still penalised by the reduction of the banking spread. Only from the next few months the margin from customers may start to grow again slightly. Total net interest income will continue to be sustained by the benefit linked to the ECB funds, thanks to the more favourable conditions on TLTRO-III operations extended until June 2022 and to the additional auctions that will be conducted in 2021. The contribution to net interest income coming from the profitability of the securities portfolio will be less, given the revision of government bond yields. Revenues from management and broking of savings are expected to recover: from 2021 the contribution to profitability of revenues from indirect funding will be higher, these will be conditioned however by the ability of brokers to intercept the accumulation of liquidity created in the financial portfolios of households. The pressures on revenues from management of liquidity and payments will also be higher. The new payment habits of consumers acquired above all during the lockdown and the legislative actions to limit tax evasion, although they favoured cost reduction for banks, may erode some revenue items given the lower commissions on electronic instruments compared to more traditional ones.

Although the extraordinary measures introduced to support the solvency of households and businesses made it possible in 2020 to limit the increase in default rates, in 2021 an increase in risk is probable owing to the gradual ending of the effects of the extraordinary measures and the delay in the formation of impaired loans. The impact on income statements will also be affected by the extraordinary adjustments associated with the sales of Non Performing Loans (NPLs) that are expected to continue. The strong attention of the Supervisory Bodies on the prompt emergence of credit risk, the EBA request to introduce new documentation that assesses the potential UTP exposures and the improvement of the economic situation, should make it possible to monitor the formation of new impaired loans and to continue in the derisking process. Overall the ROE of the sector, confirmed down in 2020 and gradually improving from 2021, will remain below 4% for a long time yet.

The worsening of the scenario that happened in 2020, which postpones a sustained recovery of the Italian economy, may continue to impact on the Bank's performance. It is realistic to imagine, with the end of the measures supporting the economy, the emergence of new impaired loan flows but, at the same time, the cost of credit will benefit from the effects connected with the synthetic securitisation transactions and the creation of the "Hydra" demerger operation, which has been mentioned in the above paragraphs.

Proposals to the Shareholders' Meeting

Dear Shareholders,

We invite you to approve the 2020 separate Financial Statements, comprising the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity with the related movements in reserves, the cash flow statement and the Notes to the Financial Statements, as well as the related annexes and Report on Operations, as a whole and in their individual items, as presented by the Board of Directors, and to allocate the profit recorded for the year of € 43,663,968.22 to reducing the residual loss carried forward from financial year 2017.

FINANCIAL STATEMENTS

BALANCE SHEET - ASSETS

Asset items	31 12 2020	31 12 2019	Changes	
			absolute	%
10. Cash and cash equivalents	250	54	196	n.a.
20. Financial assets measured at fair value through profit or loss	8,807,937,962	10,578,554,732	(1,770,616,770)	(16.74%)
a) financial assets held for trading	8,723,784,088	10,484,213,962	(1,760,429,874)	(16.79%)
b) financial assets designated at fair value	-	-	-	-
c) other financial assets obligatorily measured at fair value	84,153,874	94,340,770	(10,186,896)	(10.80%)
30. Financial assets measured at fair value through other comprehensive income	124,383,168	105,872,568	18,510,600	17.48%
40. Financial assets measured at amortised cost	18,089,415,239	16,877,686,198	1,211,729,041	7.18%
a) loans to banks	3,235,253,415	6,265,354,006	(3,030,100,591)	(48.36%)
b) loans to customers	14,854,161,824	10,612,332,192	4,241,829,632	39.97%
70. Equity investments	-	1	(1)	(100.00%)
80. Property, plant and equipment	29,659,948	21,213,514	8,446,434	39.82%
100. Tax assets	450,233,066	477,420,055	(27,186,989)	(5.69%)
a) current	296,253,936	313,266,891	(17,012,955)	(5.43%)
b) deferred	153,979,130	164,153,164	(10,174,034)	(6.20%)
110. Non-current assets and disposal groups held for sale	470,397	27,099,494	(26,629,097)	(98.26%)
120. Other assets	144,483,485	148,899,299	(4,415,814)	(2.97%)
Total assets	27,646,583,515	28,236,745,915	(590,162,400)	(2.09%)

BALANCE SHEET - LIABILITIES

Liabilities items		31 12 2020	31 12 2019	Changes	
				absolute	%
10.	Financial liabilities measured at amortised cost	19,922,930,541	22,650,748,001	(2,727,817,460)	(12.04%)
	a) due to banks	9,505,260,334	15,716,169,019	(6,210,908,685)	(39.52%)
	b) due to customers	9,961,350,969	6,478,223,561	3,483,127,408	53.77%
	c) outstanding securities	456,319,238	456,355,421	(36,183)	(0.01%)
20.	Financial liabilities held for trading	6,459,295,990	4,264,214,278	2,195,081,712	51.48%
40.	Hedging derivatives	4,220,017	-	4,220,017	-
80.	Other liabilities	46,460,612	57,897,714	(11,437,102)	(19.75%)
90.	Employee severance indemnities	2,163,690	2,287,182	(123,492)	(5.40%)
100.	Provisions for risks and charges	48,208,361	23,182,779	25,025,582	107.95%
	a) commitments and guarantees given	1,025,089	1,165,935	(140,846)	(12.08%)
	b) pensions and similar obligations	3,629,422	4,039,034	(409,612)	(10.14%)
	c) other provisions for risks and charges	43,553,850	17,977,810	25,576,040	142.26%
110.	Valuation reserves	(102,975,240)	(141,062,509)	38,087,269	(27.00%)
140.	Reserves	(294,460,808)	(326,599,999)	32,139,191	(9.84%)
160.	Capital	1,517,076,384	1,669,516,282	(152,439,898)	(9.13%)
180.	Profit (Loss) for the year (+/-)	43,663,968	36,562,187	7,101,781	19.42%
Total Liabilities and Shareholders' Equity		27,646,583,515	28,236,745,915	(590,162,400)	(2.09%)

INCOME STATEMENT

Items	31 12 2020	31 12 2019	Changes	
			absolute	%
10. Interest and similar income	290,302,852	300,385,688	(10,082,836)	(3.36%)
<i>of which interest income calculated with the effective interest rate method</i>	157,928,705	162,832,729	(4,904,024)	(3.01%)
20. Interest expense and similar charges	(156,639,951)	(175,240,433)	18,600,482	(10.61%)
30. Net interest income	133,662,901	125,145,255	8,517,646	6.81%
40. Fee income	58,885,700	49,407,282	9,478,418	19.18%
50. Fee expense	(28,405,911)	(29,104,024)	698,113	(2.40%)
60. Net fee and commission income	30,479,789	20,303,258	10,176,531	50.12%
70. Dividends and similar income	1,546,453	1,693,308	(146,855)	(8.67%)
80. Net trading gains (losses)	18,119,779	34,601,983	(16,482,204)	(47.63%)
90. Net hedging gains (losses)	(284,947)	(66,201)	(218,746)	n.a.
100. Gains (losses) on disposal or repurchase of:	(399,119)	2,427,689	(2,826,808)	n.a.
a) financial assets measured at amortised cost	(276,065)	2,426,903	(2,702,968)	n.a.
b) financial assets measured at fair value through other comprehensive income	(123,054)	786	(123,840)	n.a.
c) financial liabilities	-	-	-	-
110. Net gains/(losses) on financial assets and liabilities measured at fair value through profit or loss	3,226,793	(1,727,120)	4,953,913	n.a.
a) financial assets and liabilities designated at fair value	-	-	-	-
b) other financial assets obligatorily measured at fair value	3,226,793	(1,727,120)	4,953,913	n.a.
120. Operating income	186,351,649	182,378,172	3,973,477	2.18%
130. Net value adjustments for credit risk of:	(43,784,270)	3,397,932	(47,182,202)	n.a.
a) financial assets measured at amortised cost	(44,446,549)	4,195,316	(48,641,865)	n.a.
b) financial assets measured at fair value through other comprehensive income	662,279	(797,384)	1,459,663	n.a.
140. Gains (losses) on contractual changes without cancellations	(2,358,925)	(45,535)	(2,313,390)	n.a.
150. Net income from financial management	140,208,454	185,730,569	(45,522,115)	(24.51%)
160. Administrative expenses	(77,494,620)	(83,979,556)	6,484,936	(7.72%)
a) personnel expenses	(25,667,629)	(27,173,953)	1,506,324	(5.54%)
b) other administrative expenses	(51,826,991)	(56,805,603)	4,978,612	(8.76%)
170. Net provisions for risks and charges	(25,008,801)	2,782,611	(27,791,412)	n.a.
a) commitments and guarantees given	140,845	1,243,759	(1,102,914)	(88.68%)
b) other net provisions	(25,149,646)	1,538,852	(26,688,498)	n.a.
180. Net value adjustments on property, plant and equipment	(1,978,267)	(1,967,160)	(11,107)	0.56%
200. Other operating income/charges	2,145,432	1,063,331	1,082,101	n.a.
210. Operating costs	(102,336,256)	(82,100,774)	(20,235,482)	24.65%
220. Gains (losses) on equity investments	-	(1)	1	(100.00%)
250. Gains (losses) on disposal of investments	100	89,692	(89,592)	(99.89%)
260. Profit (Loss) from continuing operations before tax	37,872,298	103,719,486	(65,847,188)	(63.49%)
270. Income taxes for the period on profit from continuing operations	5,791,670	(67,157,299)	72,948,969	n.a.
280. Profit (Loss) from continuing operations net of taxes	43,663,968	36,562,187	7,101,781	19.42%
300. Profit (Loss) for the year	43,663,968	36,562,187	7,101,781	19.42%

BASIC AND DILUTED EARNINGS PER SHARE

	31 12 2020	31 12 2019
Basic earnings per share		
- of continuing operations	2,720	2278
- of asset disposal groups held for sale		
Diluted earnings per share		
- of continuing operations	2,720	2278
- of asset disposal groups held for sale	-	-

STATEMENT OF COMPREHENSIVE INCOME

Items	31 12 2020	31 12 2019
10. Profit (Loss) for the year	43,663,968	36,562,187
Other income components after tax without transfer to income statement	37,002,093	(1,786,095)
20. Equity securities designated at fair value through other comprehensive income	37,072,869	(1,434,095)
70. Defined benefit plans	(70,776)	(352,000)
80. Non-current assets and disposal groups held for sale	-	-
Other income components after tax with transfer to income statement	1,085,176	2,144,943
140. Financial assets (other than equity securities) measured at fair value through other comprehensive income	1,085,176	2,144,943
150. Non-current assets and disposal groups held for sale	-	-
170. Total other income components net of taxes	38,087,269	358,848
180. Comprehensive income (Item 10+170)	81,751,237	36,921,035

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY 31/12/2019 - 31/12/2020

	Esistenze al 31 12 2019	Changes in initial balances	Esistenze al 01 01 2020	Allocation of previous year's results		Changes during the period									Patrimonio netto al 31 12 2020
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary dividend distribution	Change in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity investments stakes	Redditi complessivi al 31 12 2020	
Capital:	1,669,516,282	-	1,669,516,282	-	-	-	-	-	-	(152,439,898)	-	-	-	-	1,517,076,384
a) ordinary shares	1,669,516,282	-	1,669,516,282	-	-	-	-	-	-	(152,439,898)	-	-	-	-	1,517,076,384
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premiums	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reserves:	(326,599,999)	-	(326,599,999)	36,562,187	-	(42,687,874)	-	-	-	38,264,878	-	-	-	-	(294,460,808)
a) of profits	(326,599,999)	-	(326,599,999)	36,562,187	-	(42,687,874)	-	-	-	38,264,878	-	-	-	-	(294,460,808)
b) other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Valuation reserves	(141,062,509)	-	(141,062,509)	-	-	-	-	-	-	-	-	-	-	38,087,269	(102,975,240)
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit (Loss) for the year	36,562,187	-	36,562,187	(36,562,187)	-	-	-	-	-	-	-	-	-	43,663,968	43,663,968
Total shareholders' equity	1,238,415,961	-	1,238,415,961	-	-	(42,687,874)	-	-	-	(114,175,020)	-	-	-	81,751,237	1,163,304,304

Note: in the context of the *Hydra* operation (cf. specific paragraph in Part A.2, point 15, letter c) of the Notes to the Statements), the share capital was reduced by € 152,440 thousand and the reserves related to Losses carried forward € 38,265 thousand, for a total reduction in shareholders' equity of € 114,175 thousand.

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY 31/12/2018 - 31/12/2019

	Balances at 31/12/2018	Changes in initial balances	Balances at 01/01/2019	Allocation of previous year's results		Changes during the period									Shareholders' equity at 31/12/2019
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary dividend distribution	Change in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity investments stakes	Comprehensive income 31/12/2019	
Capital:	1,669,516,282	-	1,669,516,282	-	-	-	-	-	-	-	-	-	-	-	1,669,516,282
a) ordinary shares	1,669,516,282		1,669,516,282	-											1,669,516,282
b) other shares	-	-	-	-											-
Share premiums		-	-												-
Reserves:	(407,279,882)	-	(407,279,882)	80,699,465	-	(25,464)	-	-	-	-	-	-	-	5,882	(326,599,999)
a) of profits	(407,279,882)		(407,279,882)	80,699,465	-	(25,464)								5,882	(326,599,999)
b) other		-	-	-											-
Valuation reserves	(141,440,939)		(141,440,939)	-	-	25,464								352,966	(141,062,509)
Equity instruments	-	-	-	-											-
Treasury shares	-	-	-	-											-
Profit (Loss) for the year	80,699,465	-	80,699,465	(80,699,465)										36,562,187	36,562,187
Total shareholders' equity	1,201,494,926	-	1,201,494,926	-	-	-	-	-	-	-	-	-	-	36,921,035	1,238,415,961

CASH FLOW STATEMENT (indirect method)

The cash flow statement was prepared following the indirect method, whereby flows deriving from operating activities are represented by the profit/loss for the year rectified of effects due to operations of a non-monetary nature.

A. OPERATING ACTIVITIES	31 12 2020	31 12 2019
1. Operations	(133,395,982)	481,963,732
Profit (loss) for the period (+/-)	43,663,968	36,562,187
Gains/losses on financial assets held for trading and on financial assets/liabilities at fair value through profit or loss (-/+)	(222,866,696)	110,098,042
Capital gains/losses on hedging activities (-/+)	284,947	-
Net value adjustments for credit risk (+/-)	41,743,987	(5,178,174)
Net value adjustments to property, plant and equipment and intangible assets (+/-)	1,978,267	1,967,160
Net provisions to risks and charges and other costs/revenues (+/-)	24,766,055	(2,081,898)
Taxes, duties and tax credits not liquidated (+)	(5,791,670)	67,157,299
Net value adjustments of discontinued operations net of the tax effect (+/-)	-	-
Other adjustments	(17,174,840)	273,439,116
2. Cash flows generated/absorbed by financial activities	828,905,347	(2,646,160,288)
Financial assets held for trading	2,030,321,021	(1,229,412,161)
Other financial assets obligatorily measured at fair value	4,681,755	7,703,744
Financial assets measured at fair value through other comprehensive income	(17,583,811)	(8,229,751)
Financial assets measured at amortised cost	(1,226,245,043)	(1,427,764,737)
Other assets	37,731,423	11,542,617
3. Cash flows generated/absorbed by financial liabilities	(580,807,672)	2,164,079,358
Financial liabilities measured at amortised cost	(2,725,790,804)	1,708,153,930
Financial liabilities held for trading	2,146,964,373	788,815,765
Other liabilities	(1,981,241)	(332,890,337)
Net cash flows generated/absorbed by operating activities	114,701,693	(117,198)

B. INVESTMENT ACTIVITIES

1. Cash flows generated by	-	720,308
Sales of equity investments	-	-
Dividends from equity investments	-	-
Sales of property, plant and equipment	-	720,308
Sales of intangible assets	-	-
Sales of business units	-	-
2. Cash flows absorbed by	(526,477)	(603,063)
Purchase of equity investments	-	-
Purchase of property, plant and equipment	(526,477)	(603,063)
Purchase of intangible assets	-	-
Purchases of business units	-	-
Net cash flows generated/absorbed by investing activities	(526,477)	117,245

C. FUNDING ACTIVITIES

Issue/purchase of treasury shares	-	-
Issue/purchases of equity instruments	-	-
Distribution of dividends and other purposes	(114,175,020)	-
Net cash flows generated/absorbed by funding activities	(114,175,020)	-

NET CASH FLOWS ABSORBED/GENERATED during the year	196	47

Note: the item “Distribution of dividends and other purposes” in the section “C. Funding activity” includes the portion of shareholders’ equity transferred to the Parent Company in context of the “Hydra” demerger operation (cf. specific paragraph in Part A.2, point 15, letter c) of these Notes to the Statements).

Reconciliation

Items	31 12 2020	31 12 2019
Cash and cash equivalents at the beginning of the year	54	7
Total net cash flows generated/absorbed during the year	196	47
Cash and cash equivalents: effect of changes in exchange rates	-	-
Cash and cash equivalents at the end of the period	250	54

Note: the item “Cash and cash equivalents” includes only cash on hand (item 10 of balance sheet Assets).

NOTES TO THE FINANCIAL STATEMENTS

Part A - Accounting Policies

A.1 - General information

Section 1 – Statement of compliance with the International Accounting Standards

These separate Financial Statements, in application of Italian Legislative Decree No. 38 of 28 February 2005, have been drawn up according to the International Accounting Standards issued by the International Accounting Standards Board (IASB) and the related interpretations by the IFRS Interpretations Committee endorsed by the European Commission, as established by EU Regulation No. 1606 of 19 July 2002, and in force at 31 December 2020.

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 2020 or those endorsed in previous years, the application of which is provided for in financial year 2020 (or future years), please see “Section 4 – Other information” below.

In the Report on Operations and in the Notes to the Financial Statements, all the information required under the international accounting standards and by the Regulatory Bodies (Bank of Italy, CONSOB and ESMA) has been provided, as well as non-required information deemed necessary to provide a full, correct, relevant, reliable, comparable and comprehensible representation of the Bank’s equity and financial situation and its economic results.

Section 2 - General principles for preparation of the financial statements

The separate financial statements are made up of the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in shareholders’ equity, the cash flow statement and the notes to the financial statements and are accompanied by the directors’ report on operations, on the economic results achieved and on the Bank’s financial situation and capital.

The Bank, controlled by the Parent Company Banca Monte dei Paschi di Siena S.p.A., which draws up consolidated financial statements compliant with the IAS/IFRS for public use, presents its own separate financial statements as its sole annual financial statements.

The Consolidated Financial Statements are drawn up by the Parent Company Banca Monte dei Paschi di Siena S.p.A. – with registered office in Piazza Salimbeni No. 3 – Siena, enrolled in the Banking Register and the Banking Groups Register with No. 5274 - and are made available to the public at the said registered office.

The separate financial statements at 31 December 2020 were prepared on the basis the provisions contained in Circular no. 262 of 22 December 2005 issued by the Bank of Italy “Banking Financial Statements: Formats and Rules for Compilation”, as amended by the sixth update of 30 November 2018 and supplemented by the Bank of Italy communication of 15 December 2020 regarding the impacts of COVID-19 and of the measures in support of the economy and amendments to the IASs/IFRSs.

The Financial Statements were prepared with the view of the company as a going concern, in accordance with the accruals concept, observing the principles of the importance and significance of information, and of the prevalence of substance over form, as well as in order to favour consistency with future presentations.

The Financial Statements were prepared with clarity and truly and accurately represent the economic and financial situation, the economic result for the year, changes in shareholders’ equity and cash flows.

If the disclosures required by the International Accounting Standards and the provisions contained in the cited Circular are not deemed sufficient to provide a true and accurate representation, then supplementary information required for this purpose is provided in the Notes to the Financial Statements.

If, in exceptional cases, the application of a provision of the International Accounting Standards were to be incompatible with the true and accurate representation of the equity and financial situation and the economic result, this provision would not be applied. The Notes to the Financial Statements provide explanations for these derogations and their influence on the presentation of the equity/financial situation and the economic result.

The prior-year balance has also been reported for each item of the balance sheet, income statement and statement of comprehensive income, unless the accounting standard or interpretation does not allow this or establishes otherwise.

Assets and liabilities and costs and revenues are not offset, except where allowed or required by the International Accounting Standards or the provisions of Bank of Italy Circular no. 262.

In the tables of the balance sheet, income statement and statement of comprehensive income items with a zero balance for the year and for the prior year are not presented. If an asset or liability can be booked to more than one balance sheet item, the Notes to the Financial Statements provide an explanation of its referability to accounts other than the account in which it is recognised, if necessary, for the purpose of understanding the financial statements.

Revenues are reported in the income statement, the statement of comprehensive income and the related section of the Notes to the Financial Statements without a +/- sign, while costs are indicated in brackets.

The statement of comprehensive income, starting from the profit (loss) for the year, presents the income components recognised against the valuation reserves, net of the related tax effect, in accordance with the international accounting standards. Comprehensive income is presented providing separate evidence of the income components which will not in future be recognised in the income statement and of those which, on the contrary, may subsequently be reclassified in the profit (loss) for the period if certain conditions are fulfilled.

The statement of changes in shareholders' equity shows the breakdown of and changes in shareholders' equity during the reporting and previous periods, divided into share capital (ordinary shares), capital and profit reserves, reserves from the valuation of accounting assets and liabilities, equity instruments and operating results. The Bank does not possess treasury shares in its portfolio to be brought to decrease the shareholders' equity.

The cash flow statement was prepared following the indirect method, whereby flows deriving from operating activities are represented by the income/loss for the year rectified by the effects of operations of a non-monetary nature. Cash flows are divided into those deriving from operating activities, those provided by investing activities and those produced by funding activities. In the statement, cash flows provided during the year are indicated without a sign, while those used are indicated in brackets.

In compliance with Article 5 of Italian Legislative Decree No. 38 of 28 February 2005, the financial statements have been prepared using the Euro as the functional currency. In particular, the balance sheet, the income statement, the statement of comprehensive income and the statements of changes in shareholders' equity are prepared in Euro units, whilst the Notes to the Financial Statements are in Euro thousands. Tables that do not contain any figures were omitted in the Notes to the Financial Statements.

Items with different natures or purposes have been presented separately, unless the related amounts were considered immaterial. When necessary, the amounts indicated in the Financial Statements were adjusted to reflect events subsequent to the reporting date which, pursuant to the standard IAS 10, involve the obligation of making an adjustment (adjusting events). Subsequent events that do not involve adjustments and that hence reflect circumstances that occurred after the reporting date (non-adjusting events) are disclosed in section 3 of this Part A below when relevant and able to influence the economic decisions of users.

Significant accounting policies in preparing the financial statements in the context of the COVID-19 pandemic

Financial year 2020 was dominated at the European level by the spread of the COVID-19 pandemic: after the sharp drop at the same time as the suspensions of the activities ordered in the spring, the economy recovered in the summer; however the second wave of the pandemic that spread in Italy in the autumn caused a slowdown of global activity at the end of 2020. The launch of the vaccination campaign is reflected favourably in the prospects for the medium term, but the timing and intensity of the recovery remain in doubt. Although in the light of the obvious uncertainty associated with the health developments, the consolidated view of the possible future macroeconomic scenarios is that the important government actions carried out in most countries and at the Community level can enable a significant recovery of economic activities or in any case make it possible to limit the negative effects of a resumption of circulation of the virus and that, therefore, the reflections on the productive contexts are significantly negative in the short term (2020) but already from the beginning of the next year we shall be able to observe a rapid turnaround with a significant recovery of GDP in 2021. It therefore seems reasonable – at the moment – to continue to agree with the expectations expressed by the various Authorities that have recently published their forecasts (ECB *in primis* this past 10 December), confirming that the current period of extreme negativity on the real economy will be followed by a significant recovery of production, in the wake of the measures of state support for the economy.

In this situation the various European Regulators expressed themselves with a series of measures that aim to guarantee to intermediaries flexibility in managing this period of tension, ensuring – in *primis* – their support for the measures adopted by national governments to cope with the systemic economic impact of the COVID-19 pandemic in the form of ex *lege* payment moratoria, and for the analogous initiatives introduced autonomously by banks. In addition, credit institutions were encouraged to apply their judgement in the forward-looking IFRS 9 credit assessments to better reflect the specific nature of this wholly exceptional situation. In the documents published by the Authorities/standard setters, it is suggested in fact that, in the light of the current uncertainty, in determining the Expected Credit Loss (ECL) according to IFRS 9 the methods already in use should not be applied mechanically and the need to use appropriate judgement is recalled. In particular, it was recalled that IFRS 9, at the same time, requires and permits changing the accounting approach, adapting it to different circumstances.

In detail, with reference to the accounting context, the actions of the regulators/standard setters were concentrated on, among other things, the following subjects:

- indications on the classification of loans, issued by IASB, ECB and EBA, which provide the guidelines for treatment of the moratoria with particular reference to the classification as forborne loans and performing/non-performing loans;
- determination of the Expected Credit Loss (ECL) according to IFRS 9 with a forward-looking approach, in particular the subject of the use of future macroeconomic scenarios (a question dealt with by the IFRS Foundation in general and, in more detail by the ECB), the assessment of the significant increase in credit risk (SICR) and the inclusion of state guarantees in the calculation of the expected credit loss;
- accounting for the effects (gain/loss from concessions) referable to the contractual changes deriving from the measures in support of customers;
- financial disclosure.

In the table below a list is provided of the main documents of an interpretative kind and in support of the application of the accounting standards in relation to the impacts of COVID-19, issued by the European regulatory and supervisory bodies and standard setters by 31 December 2020 and used in preparing these separate financial statements:

Authority/type of document	Date	Title
International Accounting Standard Board (IASB)		
Statement	27/03/20	Accounting for expected credit losses applying IFRS 9 Financial instrument in the light of current uncertainty resulting from the covid-19 pandemic
Amendment	28/05/20	Covid-19 related rent concessions (implemented by (EU) Regulation (UE) 2020/ 1434 of 9 October 2020 by the Commission)
European Central Bank (ECB)		
Communication	20/03/20	ECB Banking Supervisor provides further flexibility to banks in reaction to coronavirus
ECB Letter	01/04/20	IFRS 9 in the context of the coronavirus (Covid-19) pandemic
Communication	04/12/20	Identification and measurement of credit risk in the context of the coronavirus (COVID 19) pandemic
European Banking Authority (EBA)		
Statement	25/03/20	Statement on the application of the prudential framework regarding Default, Forbearance and IFRS 9 in the light of Covid-19 measures
Guidelines	02/04/20	Guidelines on legislative and non-legislative moratoria on loan repayment applied in the light of the Covid-19 crisis EBA GL 2020/02)
Guidelines	25/06/20	Guidelines amending Guidelines EBA GL 2020/02 (EBA GL/2020/08)
Communication	21/09/20	EBA phases out its Guidelines on legislative and non-legislative loan repayments moratoria
Guidelines	02/12/20	Guidelines amending Guidelines EBA/GL/2020/02 (EBA GL 2020/15)
European Securities and Market Authority (ESMA)		
Recommendations	11/03/20	ESMA recommends action by financial market participant for Covid-19 impact
Statement	25/03/20	Accounting implication of the Covid-19 outbreak on the calculation of expected credit losses in accordance with IFRS 9
Public Statement	20/05/20	Implication of the Covid-19 outbreak on the half-yearly financial report
Public Statement	28/10/20	European common enforcement priorities for 2020 annual financial reports
Commissione Nazionale per La Società e la Borsa (CONSOB)		
Call for attention	09/04/20	Covid-19 - Call for attention for financial disclosure
Call for attention	16/07/20	Covid-19 - Call for attention for financial disclosure
Call for attention	16/02/21	Covid-19 - measures to support the economy - Call for attention to the information to be provided
International Organization of Securities Commissions (IOSCO)		
Statement	03/04/20	IOSCO Statement on Application of Accounting during the Covid-19 Outbreak

Classification as forbearance of loans involved in moratorium actions

The European Banking Authority (EBA) intervened on this specific aspect with a document dated 25 March 2020 “Statement on the Application of the Prudential Framework regarding Default, Forbearance and IFRS9 in light of COVID-19 measures”, which dealt with the accounting and prudential issues related to the potential reclassification of loans induced by public and private moratoria and by other forms of support adopted in response to the pandemic crisis.

In particular, the EBA specified that the public and private moratorium measures, granted in relation to the pandemic crisis, as they are aimed at mitigating risks of a systemic nature and not specific needs of a debtor, need not be automatically classified as “forbearance” measures either for the purposes of classifying the loans that benefit from them, or for IFRS9 purposes (and therefore of migration between risk stages, in particular with greater transfer to stage 2 and consequent recognition of the expected lifetime loss instead of that at 12 months) or again for prudential classification of the positions among non-performing loans.

This said, the EBA stresses that, also in this specific circumstance, banks are required to assess the creditworthiness of debtors that benefit from the moratorium and, consequently and possibly, to reclassify debtor that show a deterioration of creditworthiness.

In conducting these assessments - that may regard a wide range of debtors - banks must avoid automatic approaches and prioritise analyses with risk-based criteria. In addition, once the moratoria have ended, particular attention must be paid to businesses that present delays in payments or other signs of deterioration of creditworthiness.

On 2 April 2020, the EBA also published the document “Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis” which provides the detailed criteria that must be observed for public and private moratoria granted by 30 June 2020 (the deadline was extended to 30 September 2020 with respect to the original 30 June 2020, on the basis of the EBA’s decision made public on 18 June 2020), so that the same are not classified as forbore exposures or distressed restructuring. The guidelines also establish that entities must continue to identify punctually situations of possible financial difficulty of debtors and proceed to consistent classification in accordance with the regulatory framework.

The EBA guidelines make reference equally to *ex lege* moratorium measures and to those of private initiative that have a “general scope” (general payment moratoria) that is ones that are granted by banks in order to prevent systemic risk through support spread over all businesses temporarily in difficulty due to the pandemic in progress. We can note that the guidelines list a series of conditions that must all be met in order for a moratorium measure to be considered “with a general scope”:

1. the source of the moratorium is a national law or a private initiative. In this latter case the measure must be based on an action plan widely accepted within the banking sector, in order to guarantee uniformity in the moratoria granted by the various credit institutions;
2. the moratorium is applied in relation to a wide spectrum of debtor, determined on the basis of general criteria, such as being a certain type of customer (retail, SME, etc.), origin from one of the areas most affected by the pandemic, the type of exposure (mortgage loan, lease, etc.), belonging to a particularly hard-hit production sector, etc.;
3. the measure consists exclusively of a change in the payment times and, therefore, may consist of a suspension of payments, their rescheduling, or a temporary reduction of principal and/or of interest to be paid. The moratorium, therefore, cannot entail changes to other contractual clauses (such as the interest rate);
4. the moratorium is applied at the same conditions to all the subjects that benefit from it;
5. the measure is not granted on loans disbursed after the date on which the moratorium was announced;
6. the moratorium is provided for in order to cope with the emergency generated by the COVID-19 pandemic and is applied before 30 June 2020, a deadline then extended to 30 September 2020.

The moratorium measure, if it meets the requirements listed above, must not be classified as a “forbearance measure” unless it already was at the moment of applying the measure.

Although it recognised that its guidelines on the subject of moratoria helped banks to manage effectively the large quantities of requests from customers that wanted to participate in these moratorium schemes, on 21 September 2020, the EBA communicated that it did not consider it appropriate to proceed to a further extension of this exceptional measure beyond 30 September (limit date already extended by three months from the original 30 June of which many operators had requested a further extension). The Authority therefore considered it opportune, with reference to the moratoria linked to COVID-19, to return to the practice according to which any renegotiation of loans must be assessed following a case-by-case approach, when, according to the rule expiring on 30 September 2020, the payment moratoria, if compliant with the guidelines, did not trigger automatically classification as forbore and did not require the check on whether to consider them distressed restructuring. According to the EBA banks can in any case continue to support their customers with payment moratoria extended also after 30 September 2020 ⁽¹⁾, but these loans must be classified according to the usual prudential framework, that is with an analysis aimed at assessing whether the measure is to be considered a forbearance and/or a default event.

⁽¹⁾ On this point we can remind you that article 65 of Italian Law Decree no. 104 of August 2020 provided for the extension of the *ex lege* moratoria in favour of SMEs initially introduced by Italian Law Decree no.18 “Treat Italy” of March 2020, extending up to 31 January 2021 the right to make use of the extraordinary support measures initially provided for up to 30 September 2020.

On 2 December 2020 the EBA published the “Guidelines amending Guidelines EBA/GL/2020/02 on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID 19 crisis” with which it extended the end of the benefit up to 31 march 2021.

The Authority also introduced two new constraints to guarantee that the support provided by the moratoria would be limited to bridging the liquidity shortages caused by the new lockdowns and that there would be no operational constraints on the continual availability of credit.

Specifically:

- 1) the possibility of benefiting from the guidelines is limited to loans that have made use of a total suspension period of not more than 9 months;
- 2) the obligation of documenting to the relevant Supervisory Authority the assessments according to which exposures subject to moratorium are not destined to become probable defaults.

As regards the limit of the total period, the EBA specified that:

- 1) for moratoria granted after 30 September 2020 for the purpose of counting the 9 months the suspension periods included in the definition of general payment moratoria granted and ended before 30 September must be counted; if the total suspension fulfils the time condition of 9 months, under the terms of the guidelines, the position cannot be classified as non-performing and/or forborne;
- 2) for moratoria in being agreed before 30 September 2020 and that provided for a suspension period of more than 9 months application of the time constraint is not provided for; the positions to which a general payment moratorium of more than 9 months has been granted will therefore continue to benefit from the rules provided for in the EBA guidelines of 2 April 2020.

For exposures that were classified as in default and/or forborne in the period between 1 October 2020 and 31 December 2020 following moratoria granted that otherwise would have fulfilled the conditions indicated in the EBA guidelines, the possibility is provided for to reclassify the position as under a general payment moratorium benefiting from the conditions of the EBA guidelines. In any case these position are subject to the constraint of the 9 months.

The ECB with a communication of 4 December 2020 “Identification and measurement of credit risk in the context of the coronavirus (COVID 19) pandemic” reaffirmed the importance for significant entities to assess and classify, on the basis of single cases, loans subject to changes that do not fulfil the criteria of general payment moratoria established by the EBA, in order to check whether the changes meet the definition of forbearance and financial difficulty.

Classification as performing/non performing of loans involved in moratorium actions

The moratoria granted in the context of the COVID-19 pandemic produce impacts on the recognition and reporting of the past-due amount because the calculation of this amount takes into account the changes agreed at the payment due dates; consequently the aforesaid concessions should entail, in the short term, a reduction of transfers to non-performing of exposures as a result of the suspension of the terms for the purpose of counting past-due amounts.

Art. 18 of the EBA “Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013” of 18 January 2017 (in force for the Bank starting from 1 January 2021) established, in relation to *ex lege* moratoria, the interruption of the calculation of the past-due amount in the period in which the suspension of payments is in force, entailing an extension of the 90-day period, as the trigger for reclassification of the exposures as non-performing loans.

The EBA guidelines of 2 April 2020 mentioned above, equated to public moratoria the moratoria granted on a private basis in response to COVID-19; consequently the latter also benefit from the interruption of the count of the past-due amount provided that they observe the requirements mentioned in the EBA guidelines.

The EBA reaffirmed that concessions made in the COVID-19 context, in cases of substantial invariance of the present value of the cash flows after the contractual change, are not to be considered distressed, do not entail reclassification as in default and represent temporary relief for those that are unable to fulfil their contractual obligations owing to the interruption of activities due to the pandemic.

The EBA stressed that banks are in any case obliged to assess any classification of customers that benefit from moratoria among probable defaults, considering the debtor's ability to comply with the new payment plan (irrespective of any public guarantee) and excluding the attribution of these loans to the category of "distressed restructuring".

In this regard, the EBA recognised that it can be difficult to make individual assessments for the purpose of classifying the concession as non-performing; in this case banks must adopt a risk-based approach (that is taking into account for example of the sectors most exposed to the long-term effects of the crisis such as transport, tourism, hospitality, retail sales). Therefore, it is important to intercept, after the suspensions associated with COVID-19 moratoria, exposures that present delays in payments with respect to the new repayment plans, for the purpose of prompt classification as non-performing.

Among the various initiatives undertaken, the ECB, with the communication of 20 March 2020 "ECB Banking Supervision provides further flexibility to banks in reaction to coronavirus", provided indications on the classification and assessment of loans. The measure reassures banks on the fact that acceptance of the moratorium should not be considered an automatic trigger of probable default, as the payments have been postponed *ex lege* and, consequently, the counting of past-due days has been deactivated for the purpose of identifying past-due amounts up to the end of the moratorium.

In the communication of 4 December 2020 ECB reaffirmed the expectation that significant entities will perform a periodic assessment of probable default (or unlikelihood to pay) of debtors, including exposures that benefit from general payment moratoria, using all the relevant and available information; for assessments conducted manually in addition banks are expected to adopt a risk-based approach. Significant entities should make sure that they have improved their processes, indicators and classification criteria (triggers) in order to make them adequate for the current risk context, and analogously the effectiveness of their early warning systems.

Updating of the macroeconomic scenarios

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

- an objective amount weighted on the basis of the probabilities, determined assessing a range of possible results;
- the time value of money;
- reasonable and demonstrable information that is available without excessive costs or efforts at the reporting date on past events, current conditions and forecasts of future economic conditions (particular in this case is reference to inclusion of forward-looking macroeconomic scenarios).

In the context of IFRS 9, of particular significance is information on the future macroeconomic scenarios in which the Bank could find itself operating and which affect, very evidently, the situation of the debtors with reference both to the "riskiness" of migration of the exposures to lower quality classes (regarding therefore the "staging") and the recoverable amounts (regarding therefore the determination of the expected loss on the exposures).

The crisis triggered by the COVID-19 pandemic produced a sharp deterioration of the economic prospects: the context of great uncertainty limits the reliability of the available information, making the task of producing detailed long-term forecasts extremely difficult. On this point several authorities have intervened, providing indications and references to the use of forecasts in preparing estimates of expected losses on loans during this period characterised by the COVID-19 pandemic.

The ECB with the communication of 20 March 2020 "ECB Banking Supervision provides further flexibility to banks in reaction to coronavirus" although not strictly its responsibility, in the context of its prudential mandate expressed itself also on the IFRS 9 forward-looking assessments, recommending to banks to avoid excessively procyclical assumptions in their models for estimating provisions. In determining Expected Credit Losses, the ECB invited institutions to *"give greater weight to the stable long-term prospects highlighted by past experience in estimating provisions for losses on loans"*.

The ECB also sent to the supervised banks a further communication "Letter to banks: IFRS 9 in the context of the coronavirus (COVID-19) pandemic" of 1 April 2020, taken up in the communication "Identification and measurement of credit risk in the context of the coronavirus (COVID 19) pandemic" of this past 4 December,

aimed at providing additional indications and references on the inclusion of forward-looking information in determining ECLs according to IFRS 9 in the current context of the COVID-19 pandemic. In the letter reference is made to the expectations already expressed by the ECB to intermediaries, that is to avoid the use of excessively pro-cyclical assumptions, in consideration of the extreme uncertainty of the context and in the light of the impossibility of having forward-looking information that can be considered “reasonable and supportable”. The ECB, therefore, invites intermediaries to focus on the long-term macroeconomic forecast expectations in determining IFRS 9 ECLs, considering all the historical evidence that cover at least one or more entire economic cycles. It is the Central Bank’s opinion that the provisions of IFRS 9 lead to the conclusion that, where there is no reliable evidence for specific forecasts, the long-term macroeconomic prospects provide the most relevant basis for the estimate.

Again in the communication of this past 4 December, the ECB stated that provision levels are estimated correctly using realistic assumptions and parameters which are appropriate to the current context. In this regard, it recommended to the significant entities i) to continue to anchor the basic scenarios of IFRS 9 to the ECB forecasts in an undistorted way; ii) not to limit themselves to approaches based on the whole economic cycle (through-the-cycle) or average long-term ones, but to assess the recourse to macroeconomic forecasts (if available), reliable for specific years and iii) to ensure that the overlays follow the same direction as the macroeconomic scenarios on the basis of verifiable evidence.

The ESMA and EBA documents of 25 March 2020 mentioned above, with reference to forward-looking estimates, also stress the complexity of the context and confirm substantially the aforementioned observations of the ECB.

Finally, we can note that the IASB on 27 March 2020 published the document “COVID-19 - Accounting for expected credit losses applying IFRS 9 Financial Instruments in the light of current uncertainty resulting from the COVID-19 pandemic”. The document does not amend the IFRS 9 standard, but suggests an interpretation of it in the current pandemic context. Specifically, it is clarified that entities should not continue to apply mechanically the existing methodology for determining the ECL “Entities should not continue to apply their existing ECL methodology mechanically”; in addition the difficulty of incorporating into the models both the effects of the pandemic, and the related government aid is recognised. Therefore, if the models are not capable of reflecting completely the effects of the COVID-19 pandemic and the related government support measures, the possibility is admitted to make use of post-model overlays or adjustments.

2020, 2021 and 2022 macroeconomic forecasts

The ECB had provided to the banks indications on the methods of determining the forecasts of losses on loans for the purposes of estimates related to the closures of March and June, indicating to use as anchor points the macroeconomic projections published quarterly on the ECB website. These forecasts are published four times a year:

- March and September – forecasts for only the Euro area produced by the ECB staff;
- June and December – forecasts produced by the ECB staff with the contribution of the Eurosystem, to which must be added the prospective information for the single Euro Area countries published by the single central banks.

On 10 December 2020 the ECB published the periodical update of the macroeconomic forecasts for the Euro area prepared by its staff, presenting minimum differences with respect to the previous forecasts of September. More precisely, as outlined in the table below, the basic scenario sees a containment of the drop in GDP for the Euro Area in 2020, expected to be down 7.3% (compared to -8.0% forecast in September and -8.7% forecast in June), followed by a rebound in 2021, currently forecast at +3.9% (+5.0% in September and +5.2% in June). The alternative scenarios (moderate and serious) also present lower revisions compared to the June forecasts, summarisable as a different distribution of the recovery over the three years of the forecast.

December 2020 projections												
	Moderate Scenario				Basic Scenario				Serious Scenario			
	2020	2021	2022	2023	2020	2021	2022	2023	2020	2021	2022	2023
GDP in real terms	-7.2	6.0	4.3	2.1	-7.3	3.9	4.2	2.1	-7.6	0.4	3.0	2.9
IAPC (*)	0.2	1.1	1.3	1.5	0.2	1.0	1.1	1.4	0.2	0.7	0.6	0.8
Unemployment rate	7.9	8.8	7.5	6.9	8.0	9.3	8.2	7.5	8.1	10.3	9.9	9.4
September 2020 projections												
	Moderate Scenario				Basic Scenario				Serious Scenario			
	2020	2021	2022	2023	2020	2021	2022	2023	2020	2021	2022	2023
GDP in real terms	-7.2	8.9	3.2	-	-8.0	5.0	3.2	-	-10.0	0.5	3.4	-
IAPC (*)	0.3	1.2	1.3	-	0.3	1.0	1.3	-	0.3	0.7	0.7	-
Unemployment rate	8.3	7.8	8.8	-	8.5	9.5	8.8	-	8.9	11.4	11.2	-
June 2020 projections												
	Moderate Scenario				Basic Scenario				Serious Scenario			
	2020	2021	2022	2023	2020	2021	2022	2023	2020	2021	2022	2023
GDP in real terms	-5.9	6.8	2.2	-	-8.7	5.2	3.3	-	-12.6	3.3	3.8	-
IAPC (*)	0.4	1.1	1.7	-	0.3	0.8	1.3	-	0.2	0.4	0.9	-
Unemployment rate	8.8	8.5	8.0	-	9.8	10.1	9.1	-	11.3	12.5	11.2	-

(*) Harmonised consumer price index

The specific scenario related to Italy, included in the basic scenario of the ECB projections, was issued by the Bank of Italy in the document “Macroeconomic projections for the Italian economy” published this past 11 December, in which a drop in Italian GDP of 9.0% in 2020 is forecast (compared to -9.2% forecast in June), followed by a rebound of 3.5% in 2021 (+4.8% forecast in June), of 3.8% in 2022 (+2.5% in June) and of 2.3% in 2023.

Assessment of the Significant Increase in Credit Risk (SICR) for IFRS 9 purposes

The analysis of the significant increase in credit risk and, therefore, the identification of the exposures to be included in stage 2 is an analysis, as indicated in the standard IFRS9, of a multi-factorial and holistic kind, which takes into account the changes in the risk of default along the expected life of financial instruments. In this regard the ESMA, in the statement of 25 March 2020, indicated that when the programmes of economic support for businesses implemented by the governments reduce the risk of insolvency on a financial instrument s, they must be opportunely considered in the aforesaid assessment; therefore, a moratorium should not be considered in itself a representing a significant increase in the credit risk of the financial instrument. In addition, the specific circumstances associated with the COVID-19 epidemic constitute a adequate reason for confuting the presumption of a significant increase in credit risk for loans past due for more than thirty days. This provision also constitutes a significant change with respect to the ordinary rules of the standard IFRS9 and will produce effects on transfers to stage 2. The ESMA also suggests to consider approaches of a collective kind, recommended also by the ECB, to assess the significant increase in credit risk; in other words given the difficulty of identifying factors or indicators on the subject of the riskiness of single borrowers, a top-down logic must be used, that is one that starts from the level of riskiness of specific portfolios (e.g.: hardest-hit sectors such as tourism, hospitality, air travel, etc..) and from the creditworthiness prior to the COVID-19 pandemic.

For staging purposes the EBA also stresses the need to distinguish exposure that will suffer a temporary worsening of the credit standing from those that will suffer a structural worsening: transfer to stage 2 must be considered only for the latter.

Finally, the ECB in its communication of this past 4 December, reaffirmed that significant entities should not use exclusively days past due as the criterion for identifying a significant increase in credit risk, as also they should avoid practices such as defining objectives in terms of amount for transfers between stages or the use of reverse engineering for the achievement of these objectives.

Inclusion of state guarantees in calculating the ECL for IFRS9 purposes

The guarantee measures of sovereign states provided at the same time as *ex lege* moratoria or other support measures have diverse characteristics in the various jurisdictions, but share the fundamental one of guaranteeing the partial or complete recovery of the loans being supported.

The ESMA reaffirms, on the basis of what is provided for in the accounting standard IFRS 9, that the aforesaid guarantees impact the measurement of expected losses to the extent to which they can be considered an integral part of the contractual conditions governing the loans and are not autonomously recognised. In this regard, the ESMA states, with reference to the first aspect, that it is not necessary for the guarantee to be explicitly established in the contractual clauses (as besides provided for in the Transition Resource Group for Impairment in December 2015): this is the case, for example, of public guarantees provided in combination with *ex lege* debt moratoria applicable on a large scale or with economic support measures. The Authority stresses the importance of providing adequate disclosure with regard to the assessments made.

Accounting for the effects (gain/loss from concessions) referable to the contractual changes deriving from the measures in support of customers

The ESMA considers that it is necessary to assess whether the economic support and relief measures can entail a change in the characteristics of the financial assets and, consequently their derecognition also in relation to the substantial nature of the change itself. This assessment must include both qualitative and quantitative criteria. In the light of the current circumstances the Authority reaffirms that it is to be considered improbable that the change can be considered substantial and lead to derecognition if the financial support measures provide temporary relief to borrowers affected by the COVID-19 epidemic and if the net economic value of the loan is not significantly affected. It is any case necessary for entities to provide adequate disclosure of the accounting policies adopted to determine the substantial nature of the change.

Financial disclosure

Consob, in line with the ESMA's statements published in March and May 2020 and the IOSCO document of April, published in April and July 2020 two calls for attention, aimed at stressing the importance of providing up-to-date information on the risks associated with COVID-19 that can have an impact on the economic, financial and equity situation, on any actions undertaken or planned to mitigate the said risks, on the potential significant impacts for the estimate of future performance. The attention of directors is also called to assessing carefully the impacts, including future ones, of COVID-19 on the strategic planning and on the plan targets, the economic performance, the financial situation and the cash flows, and on the going concern assumption.

To this end please see what is illustrated in the paragraphs "*The Bank's initiatives in the context of the COVID-19 pandemic*" and "*Prospects and business outlook*" contained in the Report on Operations.

We can note also that Consob and ESMA stress that the risks related to the pandemic could compromise achievement of the objectives of the plan on which are based the analyses of recoverability of certain assets, such as goodwill and other intangible assets with indefinite life and deferred tax assets. It is therefore pointed out that there is a need to conduct checks on recoverability of the aforesaid assets and to provide adequate accounting disclosure, with particular reference to sensitivity analyses.

On 28 October 2020, the ESMA published the document "ESMA32-63-1041, European common enforcement priorities for 2020 annual financial reports" with which it reiterated the recommendations already provided in preparing the interim financial statements highlighting the importance of readers of the financial statements understanding the impacts of the pandemic on the results, the financial and equity situation, the cash flows and the assessments.

Consob published in February 2021 a call for attention on the disclosure to be provided, in the light of consequences of the Covid-19 pandemic, on the subject areas of particular significance identified by the ESMA in the document of October 2020 and on the importance of taking into account in preparing the financial statements the specific indications provided by the European regulatory and supervisory bodies on the application of the accounting standard IFRS 9 with regard to the measurement of the expected credit losses. In particular, mention is made of the instructions provided by the ECB with the letter of 4 December 2020 and by the Bank of Italy in the Communication of 15 December.

In this context, issuers must ensure that the assessments in the financial statements based on company plans are consistent with each other and provide in this regard information in reports on operations, highlighting in particular the description of the evolution of the business model in response to the pandemic and of the actions that the businesses have adopted and intend adopt to cope with the short- and medium-term uncertainty that arose following Covid-19.

In attention, Consob requires issuers that avail themselves of the suspension of art. 6 of Italian Law Decree no. 23 of 8 April 2020 “Temporary provisions on the subject of reduction of capital” to indicate in the Notes to the Financial Statements distinctly the losses with specification, in specific schedules, of their origin and of the changes that occurred during the year, as well as the assessments on the timing with which they expect to be able to comply with the obligations to settle the same. If the conditions are fulfilled Consob stresses that the shareholders’ meeting must be called without delay to reconstitute the share capital and specific disclosure must be provided on the situation in which the issuer finds itself, on the losses for which the suspension measures intervene and on the times for settling the same and for reconstituting the share capital.

Lastly, with reference to the disclosure of the effects of the crisis, Consob and ESMA believe that the construction of *ad hoc* items or alternative performance measures is not capable of providing a more correct representation of the issuer’s economic and financial situation, considering the temporary nature of the effects; they consider it instead necessary to concentrate the disclosure on the impacts of the epidemic on the economic results of the period, also of a quantitative nature, in a single accounting note. To this end the Report on Operations presents the effects on the economic results for the year 2020 to which you are therefore referred. With reference to the alternative performance measures, in line with the indications contained in the update of the document “ESMA 32_51_370 – Questions and answers – ESMA Guidelines on Alternative Performance Measures (APMs)” published on 17 April 2020, we must specify that the Bank did not introduce any changes, with respect to the measures in use, aimed at highlighting in a separate way the effects of the COVID-19 crisis.

Section 3 – Events after the reporting period

IAS 10, “Events after the Reporting Period” expressly governs the treatment to be applied to favourable or unfavourable events occurring between the reporting date and the date on which the Board of Directors authorises the financial statements for publication. The standard distinguishes between events requiring an adjustment to accounting data and events which do not require adjustment but necessitate the provision of disclosure should the events be significant or important. On this point there is nothing significant to be reported.

Section 4 – Other information

Going concern

These Financial Statements have been drawn up considering appropriate the assumption of the Bank's continuation as a going concern.

The going concern assessment is based essentially on the prospective evolution of the equity position and the liquidity position over a horizon of at least 12 months. For a subsidiary the overall situation of the MPS Group and, in particular, of the Parent Company Banca Monte dei Paschi di Siena S.p.A. (BMPS), which exercises management and coordination activities, also assumes significance.

More particularly, the Bank does not note current and prospective financial shortfalls and does not present critical operating and financial issues over the horizon of at least 12 months.

However given the high interconnection with the Parent Company the uncertainties to which the latter is exposed are presented below.

From the analysis of the capital adequacy of the Parent Company and of the MPS Group there emerged a prospective capital shortfall with respect to the overall capital requirements, which could occur already during 2021, while the Group's liquidity position remains solid as a result of the significant actions carried out by the ECB and the funding flows from customers. To deal with this shortfall, the Parent Company approved the 2021-2025 Strategic Plan and the Capital Plan and sent them to DG Comp and to ECB for the assessments they are responsible for. This uncertainty is mitigated by the possible scenario of the "structural solution" and by the full support of the controlling shareholder (MEF). In the absence of the "structural solution", the feasibility of the State intervention and that of the market capital increase depend on the assessment of the DG Comp on the stand alone viability of Banca MPS, which in principle creates some significant uncertainties on the Bank's process of capital strengthening. For this purpose the 2021-2025 Strategic Plan was prepared and supplemented with further corrective actions on the commitments of the 2017-2021 Restructuring Plan. After the incisive actions on credit risk carried out from 2018 which reduced the proportion of non-performing exposure to the lowest levels among the most significant Italian banks, the Parent Company is continuing in the initiatives aimed at reducing the business risks, working actively in order to reduce the legal risks. In the light of these elements the Parent Company considers it probable that the capital shortfall can be overcome through the "structural solution" or through a capital strengthening at market conditions with the pro-rata participation of the State. Finally, if the postponement is confirmed of the process of revision of the AIRB models for alignment to the EBA Guidelines on PD/LGD from the end of 2021 to the first half of 2022, to which a significant part of the expected increase of the RWAs, it is reasonable to expect that the Parent Company would manage, also in the absence of the capital strengthening operation, to contain the shortfall in financial year 2021 within the limits of the Capital Conservation Buffer the use of which was permitted by the ECB at the beginning of the pandemic.

In any case we believe that the uncertainties of the Parent Company will not reflect on the Bank's capital and liquidity position over the horizon of at least 12 months.

In the light of these elements and assessments, and with reference to the indications provided within the scope of Document no. 4 of 3 March 2010 issued jointly by Bank of Italy, CONSOB and IVASS, as updated, the Bank has the reasonable expectation of continuing with its operating existence in a foreseeable future and, therefore, it has prepared the Financial Statements with the assumption of its continuation as a going concern.

List of IAS/IFRS international accounting standards and related SIC/IFRIC interpretations whose application is mandatory as from the 2020 financial statements

On 6 December 2019 Regulation (EU) no. 2019/2075 was published; this endorsed the document **“Amendments to the Conceptual Framework”**, issued by the IASB in March 2018, which amends a number of accounting standards and interpretations in order to update the existing references to the previous version of the Conceptual Framework, replacing them with references to the updated version of the said Conceptual Framework. The amendments came into force on 1 January 2020.

On 10 December 2019 Regulation (EU) no. 2019/2104 was published; this endorsed the document **“Amendments to the Standards IAS 1 and IAS 8 - Definition of Material”**, issued by the IASB in October 2018. The amendments have the objective of clarifying the definition of “material” in order to help companies to formulate judgements on significance and to improve the relevance of the information in the notes to the statements. The amendments were applied starting from 1 January 2020.

On 15 January 2020, the European Commission endorsed, publishing Regulation (EU) no. 2020/34, the document **“Interest Rate Benchmark Reform (amendments to IFRS 9 “Financial Instruments”, IAS 39 “Financial Instruments: Recognition and Measurement” and IFRS 7 “Financial Instruments: Disclosures”)** which amends IFRS 9, IAS 39 and IFRS 7. The Regulation, which provided for the mandatory application of the related provisions starting from 1 January 2020, introduced a number of changes on the subject of hedge accounting with the aim of preventing uncertainties on the amount and timing of cash flows deriving from interest rate reform from entailing the interruption of existing hedges and the difficulty of designating new hedging relationships. In this regard, the IASB identified the following accounting provisions for the purposes of hedge accounting that could be impacted by benchmark reform in the stage that precedes the replacement of the existing benchmark rates with the new rates:

- 1) the highly probable requirement: IAS 39 and IFRS 9 state that planned operations, to be able to be designated as hedged elements, must observe the highly probable requirement;
- 2) the prospective and retrospective assessment of the effectiveness of the hedges: as regards passing the effectiveness test (prospective and retrospective assessment) provided for in IFRS 9 and IAS 39 to enable the application of hedge accounting;
- 3) the designation of the risk components: IFRS 9 and IAS 39 permit the designation of a risk component which is not contractually defined when it is separately identifiable and reliably measurable.

For each of these provisions the IASB provided for a simplification, presuming that the existing interest rate benchmark indices will not be changed following the interbank rate reform. The Bank availed itself of the option of early application of Regulation no. 2020/34 starting from the Financial Statements at 31 December 2019 to which you are referred for more details.

With the publication of the aforementioned Regulation the first phase of the IASB project on the possible accounting impacts of the interest rate benchmark reform was completed with particular reference to the period that precedes the replacement of the existing benchmark rates with the new rates (the pre-replacement issue). On completion of the second phase of the project, focused instead on the analysis of the possible accounting impacts deriving from the application of the new rates and other less urgent issues (the so-called replacement issue), the IASB issued this past 27 August the document **“Interest Rate Benchmark Reform – Phase 2 (amendments to IFRS 9 “Financial Instruments”, IAS 39 “Financial Instruments: Recognition and Measurement” IFRS 7 “Financial Instruments: Disclosures” and IFRS 16 “Leases”)**. The document, published with Regulation (EU) no. 2021/25 of 13 January 2021, very briefly, provides for the possibility of considering the amendments consequent to the reform on financial assets, financial liabilities and leasing as if they were amendments consequent to an update of the benchmark interest rate and the possibility not to interrupt hedging relationships as a result of only the reform. The amendments came into force on 1 January 2021. The Bank did not avail itself of the option of early application.

On 22 April 2020 Regulation (EU) no. 2020/551 was published, this adopts the document **“Definition of a Business (Amendments to IFRS 3)”**, in order to respond to the worries highlighted by the post-implementation review of IFRS 3 “Business Combinations” with regard to the difficulties encountered in the practical application of the definition of a “business”. The amendments were applied starting from 1 January 2020.

On 12 October 2020 Regulation (EU) no. 2020/1434 was published, this adopts the document **“COVID-19-Related Rent Concessions (Amendments to IFRS 16)”** effective for financial years that begin from 1 June 2020. The document introduces the exemption for the lessor from having to assess whether the suspension or reduction of rents, obtained as a consequence of the pandemic, meets or not the definition of a contractual modification. In this case, the modifications are to be accounted for as if they were variable payments. The exemption is applicable for concessions that have the following characteristics:

- the consideration for the lease following the rent concession is the same as, or less than, the original consideration;
- the reduction of the rents regards the year 2020;
- there is no substantive change to other terms and conditions of the lease.

The application of the expedient is optional: it extends to all leases with similar characteristics and, on first application, entails determination of the retrospective effects, recognising the cumulative effect as a change in the profit reserves in the financial statements that include the FTA. The Bank applies the exemption for concessions on rents obtained as a lessor.

The amendments to the accounting standards indicated above are not significant (in terms of impacts on the accounting balances) for the Bank.

List of IAS/IFRS international accounting standards and related SIC/IFRIC interpretations whose application becomes mandatory after 31 December 2020

On 16 December 2020 Regulation (EU) 2020/2097 was published, this amends Regulation (EC) no. 1126/2008 which adopts some international accounting standards in accordance with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council as regards **IFRS 4 “Insurance Contracts”**. The amendments to IFRS 4 aim to remedy the temporary accounting consequences of the difference between the date of entry into force of IFRS 9 “Financial Instruments” and the date of entry into force of the future IFRS 17 “Insurance Contracts”. In particular, the amendments to IFRS 4 extend the expiry of the temporary exemption from the application of IFRS 9 up to 2023 in order to align the date of entry into force of IFRS 9 to the new IFRS 17.

Businesses and financial conglomerates apply the amendments pursuant to article 1 of the aforesaid Regulation starting from 1 January 2021 for financial years beginning on 1 January 2021 or later.

We must specify in addition that on 1 January 2021 the document “Interest Rate Benchmark Reform – Phase 2 (amendments to IFRS 9 “Financial Instruments”, IAS 39 “Financial Instruments: Recognition and Measurement” IFRS 7 “Financial Instruments: Disclosures” and IFRS 16 “Leases”) came into force; this was published with Regulation (EU) no. 2021/25 of 13 January 2021 and is mentioned in the previous paragraph.

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

On 23 January 2020 the IASB published the document amending IAS 1 **“Presentation of Financial Statements: Classification of Liabilities as Current or Non-current”** with the objective of clarifying how to classify payables and other liabilities among those at short or long term. The amendment specifies that the classification must be done on the basis of the rights existing at the reporting date, without considering the expectation of exercising the payment deferment. The entry into force of the aforesaid amendments was initially set at 1 January 2022, with early application permitted. Subsequently, on 15 July 2020, the IASB published a further document which provided for the deferment of one year of the date of first application, from 1 January 2022 to 1 January 2023.

On 14 May 2020 the IASB published the following documents:

- **“Reference to the Conceptual Framework (Amendments to IFRS3)”** which updates the reference present in IFRS 3 to the Conceptual Framework in the revised version, without this entailing changes to the provisions of the standard;
- **“Property, Plant and Equipment - Proceeds before Intended Use (Amendments to IAS 16)”** which prohibits a company from deducting from the cost of property, plant and equipment amounts received from selling items produced in the testing phase of the said asset. These revenues from sale and the related costs are to be recognised in the income statement;

- **“Onerous Contracts — Cost of Fulfilling a Contract (Amendments to IAS 37)”** which clarifies what costs must be considered in assessing the onerousness of the contract. More precisely, the assessment must include all the costs directly attributable to the contract. These may be incremental costs (for example, costs of material directly used in the processing) but also costs that the company cannot avoid because it has signed the contract (e.g. the portion of personnel expenses and of the depreciation of the machinery used in fulfilling the contract);
- **“Annual Improvements to IFRS Standards 2018–2020”** which contains proposals for amendments to four standards: IFRS 1 – “Subsidiary as a first-time adopter”; IFRS 9 – “Fees in the ‘10 per cent’ test for derecognition of financial liabilities” (the amendment clarifies which fees are to be considered in performing the test in application of para. B3.3.6 of IFRS 9, to assess the derecognition of a financial liability); IFRS 16 – “Lease incentives” (the amendment regards an illustrative example) and finally IFRS 41 – “Taxation in fair value measurements”.

The amendments proposed are effective from 1 January 2022. Early application is permitted.

Lastly, we can note that on 18 May 2017 the IASB issued the new accounting standard **IFRS 17**, which governs contracts issued by insurance companies, with application planned as of 1 January 2021. In virtue of the complexity of the standard, the IASB proposed this past 26 June 2019 to postpone for a year – that is 1 January 2022 - the date of application, with possibility at the same time of extension for a year - so again to 2022 - of the term for temporary deferment of application of IFRS 9 for insurance companies (the so-called “Deferral Approach”), so as to align it with the application of IFRS 17. On 25 June 2020 the IASB also proposed a further deferral of a year - at 1 January 2023 - with possibility at the same time of extension of the Deferral Approach. The proposals are still in the consultation stage. For operations of the Bank no direct impacts are expected because it does not do insurance business.

A.2 - Principal financial statement aggregates

Section 1 - Accounting standards

The accounting standards adopted with reference to the principal asset and liability items for the preparation of the separate Financial Statements at 31 December 2020 are described below.

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

a) classification criteria

Financial assets other than those classified among “*financial assets measured at fair value through other comprehensive income*” and among “*financial assets measured at amortised cost*” are classified in this category. They include:

- debt securities and loans included in a Business Model “Other”, that is a method of managing financial assets not aimed at collecting contractual cash flows (Business Model “Held to Collect”), nor at collecting contractual cash flows and selling financial assets (Business Model “Held to Collect and Sell”);
- debt securities, loans and UCITS units with contractual terms which do not involve solely payments of principal and interest (i.e. those which do not pass the “SPPI test”);
- equity instruments - not classifiable as in subsidiaries, associates and joint ventures - held for trading purposes or for which the option was not taken, on initial recognition, for designation at fair value through other comprehensive income;
- derivative contracts, accounted for among financial assets held for trading, which are presented as assets if the fair value is positive and as liabilities if the fair value is negative.

With reference to the latter it is possible to offset the positive and negative current values deriving from transactions carried out with the same counterparty only if the entity has the legal right to offset the amounts recognised in the accounts and intends to proceed with settlement on a net basis of the positions subject to offsetting.

More detailed information is provided below on the three sub-items that make up the category in question, represented by: “*financial assets held for trading*”, “*financial assets designated at fair value*”; and “*other financial assets obligatorily measured at fair value*”.

a) Financial assets held for trading

A financial asset (debt security, equity security, loan, UCITS unit) is classified as held for trading if it is managed with the objective of realising cash flows through the sale of the same, because:

- it has been acquired or borne mainly in order to sell it or repurchase it soon;
- it is part of a portfolio of financial instruments that are managed uniformly and for which the existence is proven of a strategy aimed at obtaining a profit in the short term;

The sub-item also includes derivatives with a positive fair value not designated as part of an hedge accounting relationship. Derivative contracts include those incorporated in complex financial instruments, in which the primary contract is a financial liability, which are separately recognised in that:

- their economic characteristics and the risks are not strictly related to the characteristics of the underlying contract;
- the incorporated instruments, even if separated, meet the definition of a derivative;
- the hybrid instruments to which they belong are not measured at fair value, with the related changes recognised in the income statement.

b) Financial assets designated at fair value

A financial asset (debt security or loan) may be designated at fair value irrevocably at the moment of initial recognition, only when this designation makes it possible to eliminate or reduce significantly an “accounting mismatch”. At the moment this category is not used by the Bank.

c) Other financial assets obligatorily measured at fair value

Other financial assets obligatorily measured at fair value represent a residual category and include:

- debt securities and loans when i) the related contractual flows do not represent solely payment of principal and interest on the residual principal (– SPPI test not passed), or ii) are not held in the context of a business model the objective of which is to hold assets with the aim of collecting the contractual cash flows (“Held to Collect” business model) or the objective of which is achieved both through collecting the contractual cash flows and through the sale of financial assets (“Held to Collect and Sell” business model);
- UCITS units;
- equity securities held with purposes other than trading for which the option of classification at fair value through other comprehensive income has not been taken.

b) recognition criteria

Initial recognition occurs on the settlement date for debt securities, equity securities and UCITS units, on the disbursement date for loans and on the subscription date for derivative contracts. At the moment of initial recognition, financial assets measured at fair value through profit or loss are recognised at their fair value, which generally corresponds to the price paid, without considering the transaction costs or income directly attributable to the instrument itself, which are instead booked directly to the income statement.

c) measurement criteria

After initial recognition, financial assets measured at fair value through profit or loss are carried at fair value, recording changes as counter-entries in the income statement.

To determine the fair value of financial instruments quoted on active markets, market prices are used. In the absence of an active market, commonly adopted estimation methods and measurement models are used; these take into account all the risk factors related to the instruments and are based on data observable on the market such as: measurement of listed instruments that have analogous characteristics, discounted cash flow calculations, models for determining option prices, figures observed in recent comparable transactions, etc. For equity securities and derivative instruments that regard equity securities, not quoted on an active market, the cost criterion is used as an estimate of fair value only residually and limited to a few circumstances, that is in the case of non-applicability of all the aforementioned measurement methods, or in the presence of a wide range of possible measurements of fair value, in the context of which cost represents the most significant estimate.

For more information on the criteria for determining fair value, please see Section “A.4 Disclosure on Fair Value” in Part A of the Notes to the Financial Statements.

d) income recognition criteria

Interest relative to the three sub-items which make up the category in question are shown in item “10 - Interest and similar income”.

Realised gains and losses, including differentials on derivatives, and capital gains and losses from measurement related to “*financial assets held for trading*”, including derivatives associated with financial assets/liabilities measured at fair value, are recognised in the income statement in item “80 - Net gains (losses) on trading activities”.

The same income effects related to “*financial assets designated at fair value*” and “*other financial assets obligatorily measured at fair value*” are recognised in the income statement under item “110 - Net gains (losses) on other financial assets and liabilities measured at fair value through profit or loss”, respectively in the sub-items “a) *financial assets and liabilities designated at fair value*”; and “b) *other financial assets obligatorily measured at fair value through profit or loss*”.

e) derecognition criteria

Financial assets are derecognised i) when the contractual rights to the cash flows deriving from the assets expire, ii) when the sale of the asset entails the substantial transfer of all the related risks and benefits. On the other hand, if a significant portion of the risks and benefits relative to the disposed of financial assets remains, they continue

to be recognised in the financial statements even if legally ownership of the assets themselves has been effectively transferred.

If it is not possible to verify the essential transfer of risks and benefits, the financial assets are derecognised from the financial statements when no type of control is held over them. Conversely, the maintenance of even partial control requires the assets to be kept in the financial statements in an amount equal to the residual involvement, measured by the exposure to changes in the value of the assets transferred and to changes in their cash flows.

Lastly, financial assets transferred are eliminated from the financial statements if the contractual right to receive the related cash flows has been retained, with the concurrent assumption of an obligation to pay said flows, and only said flows, to other third parties without a significant delay.

f) reclassification criteria

According to the general rules laid down in IFRS 9 on the subject of reclassification of financial assets (with the exception of equity securities, for which no reclassification is permitted), reclassifications to other categories of financial assets are not permitted except when the entity changes its business model for managing financial assets. In these cases, which are expected to be extremely infrequent, financial assets can be reclassified from the category measured at fair value through profit or loss to one of the other two categories provided for in 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 moment of reclassification and the effects of the reclassification operate prospectively starting from the reclassification date. In this case, the effective interest rate of the reclassified financial asset is determined on the basis of its fair value at the reclassification date and this date is considered as date of initial recognition for allocation in the different stages of credit risk (stage assignment) for the purposes of impairment.

For more information on the classification criteria of financial instruments please see the paragraph “Classification criteria of financial assets”.

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

a) classification criteria

The present category includes:

- financial assets represented by debt instruments, managed in the context of a “Held to collect and sell” business model¹, the contractual flows of which represent solely payment of principal and interest (SPPI test passed);
- financial assets represented by equity instruments (not classifiable as involving control, association and joint control), held in the context of a business model other than trading, for which, at the moment of initial recognition, the option of recognising in other comprehensive income the changes in fair value subsequent to initial recognition in the financial statements (OCI election) has been taken irrevocably.

b) recognition criteria

Financial assets are initially recorded at the settlement date for debt and capital securities, and at the disbursement date for loans.

At the moment of initial recognition, they are accounted for at their fair value, which normally corresponds to the price paid, inclusive of the transaction costs or income directly attributable to the instruments.

c) measurement criteria

Financial assets represented by debt securities and loans, after initial recognition continue to be measured at fair value, with recognition in the income statement of the interest (on the basis of the effective interest rate method), the expected credit losses and any exchange rate effect. Changes in fair value, net of expected credit losses, are

⁽¹⁾ Financial instruments held under a business model with the objective of both holding the instruments to collect cash flows and selling the instruments are associated with the Held to Collect and Sell Business Model.

allocated to a specific shareholders' equity reserve net of the related tax effect (item "110. Valuation reserves"). At the moment of total or partial disposal, cumulative gain or loss in the valuation reserve is recognised, wholly or in part, in the Income Statement.

Financial assets represented by equity instruments, after initial recognition, continue to be measured at fair value with allocation of the changes in a specific shareholders' equity reserve net of the related tax effect (item "110. Valuation reserves"). The amount recognised as a counter-entry of shareholders' equity (Statement of Comprehensive Income) must not subsequently be transferred to the income statement, not even in the event of sale. In this case, it is reclassified to another shareholders' equity item (item "140 Reserves"). In addition, no write-down in the income statement is envisaged for these assets because they are not subjected to any impairment process. The only component referable to the equity securities in question which is recognised in the income statement is represented by the related dividends.

For the equity securities included in this category, not listed in an active market, the cost criterion is used as an estimate of fair value only residually and limited to a few circumstances, that is in the case of non-applicability of all the aforementioned measurement methods, or in the presence of a wide range of possible measurements of fair value, in the context of which cost represents the most significant estimate.

For more information on the criteria for determining fair value, please see Section "A.4 Disclosure on Fair Value" in Part A of the Notes to the Financial Statements.

Financial assets measured at fair value through other comprehensive income – in the form of both debt securities and receivables – are subject to verification of the significant increase in credit risk (impairment) provided for in IFRS 9, as are assets at amortised cost, with consequent recognition in the income statement of a write-down to cover the expected losses. In brief, on instruments classified in stage 1 (that is on financial assets at the origination date, if unimpaired, and on instruments for which no significant increase in credit risk has occurred with respect to the date of initial recognition) an expected loss at one year is accounted for, at the date of initial recognition and at each subsequent reporting date. Instead, for instruments classified in stage 2 (performing, for which a significant increase in credit risk has occurred with respect to the date of initial recognition) and in stage 3 (impaired exposures) an expected loss for the entire residual life of the financial instrument financial is accounted for. Vice versa equity securities are not subjected to the impairment process.

For more details, please see point 16 below "Use of estimates and assumptions in preparing the financial statements" – paragraph "Methods of determining the impairment of IFRS 9 financial instruments".

d) income recognition criteria

As regards financial assets represented by debt instruments:

- the interest is presented in item "10. Interest and similar income";
- the expected credit losses recognised in the period are accounted for in item "130 - *Net value adjustments for credit risk* of: b) *financial assets measured at fair value through other comprehensive income*"; the same applies for recoveries of some or all of the write-downs carried out in previous years;
- at the moment of derecognition, the measurements accumulated in the specific shareholders' equity reserve are transferred to the income statement under item "100 - *Gains/losses on disposal/repurchase* of: b) *financial assets measured at fair value through other comprehensive income*".

As regards financial assets represented by equity instruments, for which the so-called "OCI election", was selected, only dividends are recognised in the income statement (item "70. Dividends and similar income"). Changes in fair value subsequent to initial recognition are recognised in a specific valuation reserve in shareholders' equity (item "110. Valuation reserves"); in the case of derecognition of the asset, the cumulative balance of this reserve is not transferred to the income statement but is reclassified among the profit reserves of shareholders' equity (item "140. Reserves").

e) derecognition criteria

Financial assets are derecognised i) when the contractual rights to the cash flows deriving from the assets expire, ii) when the sale of the asset entails the substantial transfer of all the related risks and benefits. On the other hand,

if a significant portion of the risks and benefits relative to the disposed of financial assets remains, they continue to be recognised in the financial statements even if legally ownership of the assets themselves has been effectively transferred.

If it is not possible to verify the essential transfer of risks and benefits, the financial assets are derecognised from the financial statements when no type of control is held over them. Conversely, the maintenance of even partial control requires the assets to be kept in the financial statements in an amount equal to the residual involvement, measured by the exposure to changes in the value of the assets transferred and to changes in their cash flows.

Lastly, financial assets transferred are eliminated from the financial statements if the contractual right to receive the related cash flows has been retained, with the concurrent assumption of an obligation to pay said flows, and only said flows, to other third parties without a significant delay.

f) reclassification criteria

According to the general rules laid down in IFRS 9 on the subject of reclassification of financial assets (with the exception of equity securities, for which no reclassification is permitted), reclassifications to other categories of financial assets are not permitted except when the entity changes its business model for managing financial assets. In these cases, which are expected to be extremely infrequent, financial assets can be reclassified from the category measured at fair value through other comprehensive income to one of the other two categories provided for in IFRS 9 (financial assets measured at amortised cost or financial assets measured at fair value through profit or loss). The transfer value is represented by the fair value at the moment of reclassification and the effects of the reclassification operate prospectively starting from the reclassification date. In the event of reclassification from the category in question to that of amortised cost, the cumulative gain (loss) recognised in the valuation reserve is taken to adjust the fair value of the financial asset at the reclassification date. In the event instead of reclassification to the category of fair value through profit or loss, the cumulative gain (loss) previously recognised in the valuation reserve is reclassified from shareholders' equity to profit (loss) for the period.

For more information on the classification criteria of financial instruments please see the paragraph "Classification criteria of financial assets".

3. Financial assets measured at amortised cost

a) classification criteria

The present category includes financial assets represented by loans and debt securities, managed in the context of a "Held to collect" business model⁽¹⁾, the contractual flows of which represent solely payment of principal and interest (SPPI test passed).

The portfolio of financial assets at amortised cost includes:

- the entire portfolio of loans in the various technical forms, which comply with the above requirements (including repurchase agreements), stipulated with both banks and clients;
- debt securities which fulfil the above requirements;
- operating loans connected with the provision of financial activities and services, as defined by the Consolidated Law on Banking and the Consolidated Law on Finance (for example distribution of financial products and servicing activities).

b) recognition criteria

Financial assets are initially recognised at the settlement date for debt securities, and at the disbursement date in the case of loans; more specifically, this item includes:

- loans to banks;
- loans to customers.

⁽¹⁾ The Held to Collect Business Model includes financial instruments held in the context of a business model the objective of which is to hold the same with the aim of collecting the cash flows.

Initial recognition is determined on the basis of the fair value of the financial instrument, normally equal to the amount disbursed, or the subscription price, including costs/income directly attributable to the individual instrument, which can be defined from the beginning of the transaction, even if settled subsequently. Costs that have the aforementioned characteristics but are reimbursed by the debtor counterparty or which can be classified as normal internal administrative expenses are excluded.

Repurchase agreements with obligation to repurchase are recognised as loan transactions for the spot amount received.

c) income measurement and recognition criteria

After initial recognition, financial assets recognised in this category are measured at amortised cost, using the effective interest rate criteria. This interest is recognised under item “10. Interest and similar income”.

The gross book value is equal to the value on first recognition, decreased/increased:

- by repayments of principal;
- by amortisation - calculated with the effective interest rate method - of the difference between the amount disbursed and that repayable on maturity, attributable typically to the costs/income allocated directly to the single loan.

The amortised cost method is not used for short-term loans, for which the effect of application of the discounting logic is negligible, or for loans with a defined maturity date and loans valid until revoked.

For more details on the amortised cost, please see point 15 below Other information – letter b) Other significant accounting treatments – amortised cost.

The book value of financial assets at amortised cost is adjusted in order to take into account any provisions to cover expected credit losses. At each annual or interim reporting date the said assets are in fact subjected to an impairment test with the objective of estimating the expected losses in value related to credit risk (so-called “ECLs - Expected Credit Losses”). These losses are recognised in the income statement under item “130. Net value adjustments for credit risk”.

More specifically, the impairment model, better defined under point 16 below “Use of estimates and assumptions in preparing the financial statements” – paragraph “Methods of determining the impairment of IFRS 9 financial instruments”, provides for the classification of assets in three distinct “stages” (stage 1, stage 2, stage 3), according to the evolution of the creditworthiness of the debtor, to which correspond different criteria for measuring the expected losses:

- stage 1: this comprises non-impaired (performing) financial assets for which no significant deterioration of credit risk has been observed with respect to the date of initial recognition or the credit risk of which is considered low. The impairment is based on the estimate of expected loss using as reference a time horizon of one year (expected loss that results from default events on the financial asset that are considered possible within one year from the reference date);
- stage 2: this comprises non-impaired (performing) financial assets which have suffered a significant deterioration of credit risk with respect to the initial recognition. The impairment is commensurate to the estimate of expected loss having as reference a time horizon of the entire residual life of the financial asset;
- stage 3: represented by impaired financial assets (100% probability of default), to be measured on the basis of an estimate of the expected loss along the whole life of the instrument.

For performing assets the expected losses are determined according to a collective process based on certain risk parameters represented by Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD), deriving from the internal models for calculating regulatory credit risk opportunely adjusted to take into account the specific requirements laid down in the accounting standards.

For impaired assets, that is for assets for which besides a significant increase in credit risk objective evidence of impairment has been found, the impairment losses are quantified on the basis of a measurement process - analytic

or flat-rate on the basis of uniform risk categories - aimed at determining the present value of the forecast recoverable future flows, discounted on the basis of the original effective interest rate, or a reasonable approximation of the same, if the original rate cannot be obtained directly.

The category of impaired assets includes exposures to which has been attributed the status of bad loan, probable default or past-due/over-the-limit for more than 90 days according to the definitions established by the current supervisory regulations (Bank of Italy Circular no. 272 “Accounts Matrix”) and referred to in Bank of Italy Circular no. 262, as they were considered consistent with the accounting rules provided for in IFRS 9 in terms of objective evidence of impairment.

In the case of sales scenarios, determination of cash flows is also based, beyond forecasts of flows recoverable through internal management, on the basis of flows which could be obtained through sale on the market, using the approach described in point 16 below, “Use of estimates and assumptions in preparing the financial statements” – paragraph “Methods of determining the impairment of IFRS 9 financial instruments”.

The forecast cash flows also take into account expectations in terms of recovery times and estimated net realisable value of any guarantees, as well as costs associated with obtaining and selling collateral. To that end, in the case in which the Bank makes use of a third party for impaired loan collection activities, the commission paid to the outsourcer for activities closely linked to the collection are considered when estimating impairment losses. These costs are considered both for impaired and non-impaired exposures, if for the latter it is probable that in the case of a transfer to the bad loan category collection activities would be assigned to third parties.

For fixed rate positions, the original effective rate used for discounting the forecast recovery flows, determined as illustrated above, remains unchanged over time even if a change is made to the contractual rate attributable to financial difficulties of the debtor.

For floating interest rate positions, the rate used for discounting the flows is subject to updating in relation to the indexing parameter (for example Euribor), keeping instead constant the spread originally fixed.

The original value of the financial assets is restored in subsequent years, in the event of an improvement in the credit quality of the exposure with respect to the level that entailed the previous write-down. Writebacks are recognised in the income statement under the same item (130. Net value adjustments for credit risk) and, in any case, may not exceed the amortised cost that the asset would have had in the absence of previous write-downs.

For details of the impairment model please see what is explained in point 16 below “Use of estimates and assumptions in preparing the separate financial statements” below - paragraph “Methods of determining the impairment of IFRS 9 financial instruments”.

For impaired exposures the interest accruing is calculated on the basis of the amortised cost, that is on the basis of the value of the exposure - determined on the basis of the effective interest rate - adjusted by the expected losses. In the case of improvement in impaired positions, i.e. transfer from stage 3 to stage 2, interest is again calculated on the basis of the gross value of the exposure. The positive difference is recognised, in the case of recovery from previous impairment losses, under item 130 “Net value adjustments for credit risk”. The same accounting entry is made in the case in which interest collected exceeds expected cash flows.

Finally, for impaired exposures that do not accrue contractual interest, such as bad loans, the said interest corresponds to the progressive release of discounting for recovery forecasts, as a result of the simple passing of time.

d) derecognition criteria

financial assets are derecognised if one of the following cases occurs:

- The contractual rights to the cash flows deriving from the same have expired;
- the financial asset is sold with substantial transfer of all the risks and benefits deriving from ownership of the same;
- if it is not possible to ascertain the substantial transfer of the risks and benefits, the financial asset is derecognised when no type of control is kept over the same;

- the entity keeps the contractual right to receive the cash flows deriving from the same, but at the same time assumes a contractual obligation to pay the same flows to a third party (pass through arrangements) without delay and only for the amount of those received;
- the asset is subject to a change that can be classified as “substantial”, as described in more detail in the paragraph “Renegotiations”.

As regards impaired financial assets, the derecognition can occur following acknowledgement of the irrecoverability of the exposure and the consequent conclusion of the recovery process (definitive derecognition), and entails the reduction of the nominal value and gross book value of the receivable. These cases occur in the presence of settlement agreements signed with the debtor that entail a reduction of the receivable (full and final settlement agreements) or in the presence of specific situations, such as:

- a definitive judgement has been handed down which declares extinguished some or all of the receivable;
- Closure of the arrangement or enforcement procedure in relation to both the debtor and the guarantors;
- conclusion of all possible actions in and out of court for recovery of the receivable;
- Completion of a mortgage restriction on an asset in guarantee, with consequent derecognition of the receivable guaranteed by the mortgage subject to restriction, in the absence of further specific guarantees or further feasible actions for recovery of the exposure.

These specific situations may entail total or partial derecognition of the exposure but do not necessarily imply a waiver of the legal right to recover the receivable.

In addition, for impaired financial assets, the derecognition may occur after they have been written off, following acknowledgement of the non-existence of reasonable expectations of recovery, even though actions aimed at their recovery continue. The said write-off is carried out in the year in which the receivable, or part of it, is considered non-recoverable – even without closure of the legal procedure – and may occur before the legal actions brought against the debtor and the guarantors for recovery of the receivable have been definitively concluded. It does not imply the waiver of the legal right to recover the receivable and is carried out if the lending documentation contains reasonable financial information from which the impossibility of the debtor to repay the amount of the debt emerges. In this case the gross nominal value of the receivable remains unchanged, but the gross book value is reduced by an amount equal to the write-off, which may be referred to the entire exposure or to a portion of the same. The amount written off cannot be written back subsequently following an improvement in the recovery forecasts, but only following recoveries involving collection.

In the event of derecognition, the difference between the book value of the asset at the derecognition date and the price received, including any assets received net of any liabilities assumed, must be accounted for in the income statement, under the item “100. a) Gains (losses) on disposal or repurchase of: financial assets measured at amortised cost” in the case of sale and, in all other cases, under the item “130. Net value adjustments for credit risk”.

e) reclassification criteria

According to the general rules laid down in IFRS 9 on the subject of reclassification of financial assets, reclassifications to other categories of financial assets are not permitted except when the entity changes its business model for managing financial assets. In these cases, which are expected to be extremely infrequent, financial assets can be reclassified from the category measured at amortised cost to one of the other two categories provided for in IFRS 9 (financial assets measured at fair value through other comprehensive income or financial assets measured at fair value through profit or loss). The transfer value is represented by the fair value at the moment of reclassification and the effects of the reclassification operate prospectively starting from the reclassification date. Gains or losses resulting from the difference between the amortised cost of the financial asset and the related fair value are recognised in the income statement in the case of reclassification among “*financial assets measured at fair value through profit or loss*” and in equity, in the specific valuation reserve, in the case of reclassification among “*financial assets measured at fair value through other comprehensive income*”.

For more information, please see the paragraph “Classification criteria of financial assets”.

4. Hedging transactions

The Group availed itself of the possibility, provided for on first application of IFRS 9, to continue to use fully on the subject of “hedge accounting” the provisions of the international accounting standard IAS 39 (in the carved out version endorsed by the European Commission) for all types of hedging (for both micro- and macro-hedges).

a) classification – hedging type

Risk hedging transactions are aimed at neutralising potential losses recognisable on a certain financial instrument or on a group of financial instruments, attributable to a certain risk, if that particular risk effectively manifests itself.

The following types of hedging are envisaged:

- hedging of fair value, which has the objective of hedging the exposure to a change in the fair value of an accounting item attributable to a particular risk. It includes also macro-hedges of fair value with the objective of reducing the oscillations of fair value, attributable to interest rate risk, of a cash amount, deriving from a portfolio of financial assets and liabilities (including “core deposits”). Net amounts deriving from the balancing of assets and liabilities cannot be the subject of macro-hedging;
- cash flow hedging, which has the objective of hedging exposure to changes in future cash flows attributable to specific risks associated with accounting items or to a highly probable planned transaction;
- foreign investment hedging, which aims at hedging the risks of an investment in a foreign operation in foreign currency.

At the level of the consolidated financial statements, the designation of the derivative as a hedging instrument is possible only if it was entered into in relation to a counterparty external to the Group. Results attributable to internal transactions carried out between different Group entities are eliminated.

Given the choice made by the Group to avail itself of the possibility of continuing to apply fully the rules of IAS 39 for hedging relationships, it is not possible to designate equity securities classified among “*fair value through other comprehensive income*” (FVOCI) as hedged items for price or exchange rate risk, given that these instruments have no impact on the income statement, not even in the case of sale (except for dividends which are recognised in the income statement).

A derivative instrument is designated as for hedging if there is formalised documentation of the relationship between the hedged instrument and the hedging instrument and if this relationship is effective at the moment in which the hedging begins and, prospectively, during the whole life of the same. In addition, the hedging transaction must be attributable to a predefined risk management strategy and must be in keeping with the risk management policies adopted.

b) recognition criteria

Hedging derivatives, like all derivatives, are initially recognised at the fair value as of the date the contract is stipulated and are classified, based on the positive or negative value of the same, either under the balance sheet assets in item “50. Hedging derivatives” or in the balance sheet liabilities, in “40. Hedging derivatives”.

c) measurement and income recognition criteria

Hedging derivatives are measured at fair value. Specifically:

Fair value hedges

In the case of specific fair value hedges, the fair value change in the covered element (with regards to changes produced by the underlying risk factor) changes the book value of the covered element and is recognised immediately, regardless of the category to which the covered asset or liability belongs, together with the fair value change in the hedging instrument, in item “90 - Net gains (losses) on hedging activities”, in the income statement. Any difference, which represents the partial ineffectiveness of the hedging, constitutes its net economic effect. In the case of interruption of the hedging relationship, the hedged instrument, if it is not derecognised reacquires the original measurement criterion of the class it belongs to. More specifically for instruments measured at amortised cost the cumulative write-downs/write-backs recognised as a result of changes in fair value of the risk hedged are

recognised in the income statement among interest income and expenses along the residual life of the hedged element, on the basis of the effective interest rate. Instead if on interruption of the hedging there is also derecognition of the hedged element (for example sale or prepayment), the portion of fair value not yet amortised is allocated immediately to the income statement under item “90 - Net gains (losses) on hedging activities”.

As regards fair value macro hedging transactions, the changes in fair value with reference to the hedged risk of the assets and liabilities being hedged are recognised in the balance sheet, respectively, under item “60 Value adjustment of financial assets subject to macro hedging” or “50. Value adjustment of financial liabilities subject to macro hedging”.

The economic counter-entry of value changes related to both the hedged element and the hedging instrument, as with micro fair value hedges, is made under item “90. Net gains (losses) from hedging” in the income statement. In the case of interruption of a fair value macro hedging relationship, the cumulative write-downs/write-backs recognised in the balance sheet items indicated above are recognised in the income statement among interest income and expenses along the residual duration of the original hedging relationships, after verification of the existence of the basic conditions.

Cash flow hedging

Fair value changes in the hedging instrument are recognised in a specific shareholders' equity reserve (under item “110 Valuation reserves”) for the effective portion of the hedge, while fair value changes in the hedging instrument not compensated for by the change in the cash flows of the hedged operation are recognised in the income statement under item “90. Net gains (losses) from hedging”. If the cash flow hedging is no longer considered effective, or the hedging relationship has ended, any portion in the reserve is transferred to the income statement when the hedged object, still in being, generates its effects in the income statement. However, if the hedged instrument is derecognised, expires or is extinguished, the reserve is transferred fully to the income statement at the time the hedged element is derecognised.

Hedging of an investment in foreign currency

Foreign investment hedges are accounted for using the same method as for cash flow hedges.

Hedging effectiveness depends on the degree to which the changes in fair value of the instrument hedged or the related expected cash flows are offset by those of the hedging instrument. Consequently, the effectiveness is measured by comparing these changes, taking into account the intended goal of the company at the time the hedge was established.

A hedge is effective when the changes in the fair value (or cash flows) of the hedging financial instrument almost completely neutralise (within the limits established by the range 80-125%) the changes in the hedged instrument, resulting from the risk element being hedged.

The effectiveness of the hedge is assessed at the end of each year or at each interim reporting date, using:

- prospective tests, which justify application of hedge accounting, as they demonstrate its expected effectiveness;
- retrospective tests, which highlight the degree of hedging effectiveness achieved during the related period.

d) derecognition criteria

If the checks do not confirm the effectiveness of the hedging, both retrospectively and prospectively, the hedge accounting is interrupted according to what has been explained above.

In addition, the hedging relationship ceases when:

- the derivative expires, is extinguished or exercised;
- the hedged element is sold, expires or is repaid;
- it is no longer highly likely that the hedged future transaction will be carried out.

The hedging derivative contract, if it has not expired or been extinguished, is reclassified among “*financial assets held for trading*”, while the financial instrument being hedged, if it has not been sold or repaid, goes back to being measured according to the criterion of the class it originally belonged to.

5. Equity investments

a) classification criteria

The item includes interests held in subsidiaries, associates or joint ventures, which are accounted for on the basis of the cost method.

Entities are considered subsidiaries when the Bank directly or indirectly holds equity investments or equity securities which represent an absolute majority of voting rights and the rights are substantial, as well as those for which it holds a relative majority of voting rights and the voting rights held by other investors are highly divided. Control may also exist in situations in which the Bank, despite lacking a majority of voting rights, holding sufficient rights to grant it the practical ability to unilaterally direct the relevant assets of the investee, or in the presence of:

- substantial potential voting rights through underlying call options or convertible instruments;
- rights deriving from other contractual agreements which, combined with voting rights, grant the Bank the effective capacity to direct the production processes or other management or financial activities able to significantly impact the returns achieved by the investee;
- the ability to impact, through the Articles of Association or other contractual agreements, governance and methods used to make decisions with regards to significant activities;
- a majority of voting rights through contractual agreements formalised with other holders of voting rights (for example: shareholders' agreements).

With reference to structured entities/investment funds, the Bank has the following positions with regards to the funds:

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

This equivalent to a control relationship, in the presence of the following circumstances:

- the Bank, as a subscriber of units, is able to remove the investment fund manager without just cause or for reasons attributable to the performance of the fund, and these rights are substantial;
- there are provisions in the fund regulations which provide for the establishment of committees within the fund, on which the Bank participates, which intervene in the governance of significant business and have the legal and/or practical ability to control the activities carried out by the fund manager;
- the existence of other relationships with the fund, such as the presence with the fund of personnel with strategic responsibilities linked to the Bank and the presence of contractual relationships which bind the fund to the Bank for the subscription or placement of units.

Finally, with reference to structured entities - special purpose vehicles for securitisation, in determining the presence of the requirements for control over special purpose vehicles for securitisation, the Bank considers both the possibility of exercising to its own benefit the power over significant assets and the ultimate purpose of the operation, beyond the involvement of the investor/sponsor in structuring the operation.

For auto-pilot entities, subscription of the substantial totality of the notes by the Bank is considered an indicator of the presence, during the structuring phase, of the power to manage the significant assets to influence the economic returns achieved by the operation.

Companies that are not controlled but in which significant influence is exercised are considered associates. It is presumed that the company exercises notable influence in all cases in which it holds at least 20% of the voting rights (including “potential” voting rights) and, irrespective of the stake held, if there exists the power to participate in determining management and financial policies for investees, in virtue of particular legal ties, such as shareholders' agreements, with the purpose, for participants in the agreement, to ensure representation in the

management bodies and to safeguard uniformity in management guidance, without, however, having control over them.

Entities in which the control is shared between the Bank and one or more other operators on the basis of contractual or other agreements, on the basis of which the unanimous consent of all parties that share control is necessary for taking financial and operational decisions of strategic importance are considered joint ventures.

b) recognition criteria

The initial recognition of financial assets classified in the present category occurs on the settlement date, for an amount equal to the cost, including any goodwill paid on acquisition, which is therefore not the subject of autonomous and separate recognition.

c) income measurement and recognition criteria

Equity investments in subsidiaries, associates and jointly-controlled entities are recognised using the cost method. At each reporting date or interim report, any evidence that the equity investment has undergone impairment is assessed.

If evidence exists that the value of any equity investment may have undergone impairment, steps are taken to estimate the recoverable value of said equity investment represented by the higher amount between the fair value net of sale costs and the value in use. Value in use is equal to the current value of the future cash flows which the investment may generate, including its final disposal value.

If the recovery value is lower than the book value, inclusive of any goodwill, the related difference is stated in the income statement under item “220. Profit (loss) from equity investments”. If the reasons for the impairment cease to exist following an event which occurs after the recognition of the impairment, write-backs are made with booking to the income statement under the same item, up to the amount of impairment previously recognised.

Dividends relating to these investments are recorded in the income statement within the Bank's financial statements, regardless of whether they were generated by the investee company before or after the acquisition date. The result of disposals of equity investments is recognised in the income statement under item “220. Profit (loss) from equity investments”.

d) derecognition criteria

Equity investments are eliminated when the contractual rights over the cash flows deriving from the assets expire or when they are sold, with substantial transfer of all risks and benefits connected to the same. In the presence of a situation that determines the loss of the notable influence or joint control, any residual equity investment is reclassified to the portfolios of IFRS 9 financial assets.

6. Property, plant and equipment

a) classification criteria

Property, plant and equipment items include land, properties used for business purposes, investment properties, plant, furniture and furnishings, all kinds of equipment and works of art.

Those held by the Bank and used in the production or provision of services or for administrative purposes are defined as instrumental property (classified as “property, plant and equipment used in the business” and recognised according to IAS 16) while those held by the Bank in order to collect rents and/or held for appreciation of the invested capital are defined as investment property (classified as “property, plant and equipment used for investment” and follow the rules provided for in IAS 40).

The item also includes property, plant and equipment classified on the basis of IAS 2 – Inventories, related mainly to items acquired with a view to adding value to the investment, perhaps through restoration or renovation work, with the explicit intent of selling them in the immediate future in the context of the normal performance of the business, including assets deriving from the activity of enforcement of guarantees received or from purchase at auction.

Property, plant and equipment includes assets connected with finance lease contracts which have come back into the company's possession, as the lessor, following the termination of the contracts and closure at the same time as the original lending position.

This category also includes property, plant and equipment obtained through the enforcement of guarantees received and rights of use acquired through leasing, whether financial or operating, in relation to tangible assets which the Bank uses as the lessee, for business or investment purposes; ii) assets granted in operating leases (for lessors), and iii) improvements and incremental expenses paid on owned assets and third party assets, the latter provided that they are identifiable and separable (e.g. ATMs).

b) recognition criteria

Property, plant and equipment items are initially recognised at cost, which comprises both the purchase price and all the possible related charges directly attributable to the purchase and commissioning of the asset.

Extraordinary maintenance costs which involve an increase in the future economic benefits are booked as an increase in the value of the assets, while ordinary maintenance costs are recorded in the income statement.

In the case of real estate withdrawn following the closure of the original lending position (*datio in solutum*), recognition is at the lower between the value of the gross receivable recognised at the moment of return of the asset and:

- the "market value" resulting from a specific appraisal, if their classification among "assets held for sale" is not foreseeable in a short-term time horizon;
- the "readily realisable value" taken from a specific appraisal, which adjusts the "market value" with the prospect of a sale in a very short time, if at the termination date the subsequent allocation among "assets held for sale" is known;
- at the price being negotiated, if at the moment of initial recognition there are concrete negotiations for the sale, demonstrated by commitments assumed by the parties involved in the negotiation.

With regard to properties, the components referring to land and buildings represent separate assets for accounting purposes and, in virtue of the application of the approach by components, are recognised separately at the time of acquisition. The division between the value of the land and the value of the building is made on the basis of appraisals by independent experts.

Right of use assets ("RoU") acquired through leases are recognised in the financial statements as of the date the contract takes effect, or on the date on which the asset is made available to the lessee and is initially measured at cost. This cost includes:

- the amount of the initial measurement of the leasing liability, including VAT;
- any leasing payments made before the date of effectiveness, net of any leasing incentives;
- any initial direct costs sustained, meaning incremental costs sustained to obtain the lease that would not otherwise have been paid (e.g. brokering fees or success fees);
- estimated costs for restoration or dismantling if the contract provides for these.

Relative to the right of use asset, the lessee recognises a leasing liability under item 10 "Financial liabilities at amortised cost", corresponding to the current value of payments due for the lease. The discount rate used is the implicit interest rate, if this can be determined. If not, the lessee's marginal loan interest rate is used.

When an implicit interest rate is not present in the contract, the Bank uses as its discount rate the curve by maturities aligned to individual leasing contracts, consisting of the Euribor 6M base rate and funding spread blended, the latter equal to the weighted average of funding curves for senior unsecured bonds, protected deposits and privileged deposits.

If a leasing contract contains "non-leasing components" (for example the provision of services, such as ordinary maintenance, to be recognised based on the provisions of IFRS 15), the lessee must separately recognise the "leasing components" and "non-leasing components", dividing up the contract fee between the various components on the basis of the relative individual prices.

The lessee may decide to recognise the payments due for the lease directly as a charge in the income statement, at constant rates throughout the duration of the lease, or use a different systematic method which represents the method of using the economic benefits, in the case of:

- short-term leases (less than or equal to 12 months), which do not include an option to purchase the leased asset on the part of the lessee
- leases in which the underlying is a low-value asset.

The Bank has decided to directly recognise the charge in the income statement at constant rates throughout the duration of the lease.

c) income measurement and recognition criteria

Property, plant and equipment, including properties not used for business purposes and with the exception of those governed by the rules of IAS 2, are measured at cost, less any accumulated depreciation and impairment losses.

Property, plant and equipment, whether owned or acquired through rights of use, are systematically depreciated over their useful lives, adopting the straight-line basis as the depreciation method, with the exception of land and works of art which have an indefinite useful life and cannot be depreciated. The useful life of property, plant and equipment subject to depreciation is periodically verified; in case of adjustment of the initial estimate, the related depreciation rate is changed accordingly. For assets underlying leases, determination of the useful life must also take into account the possible transfer of ownership of the asset to the lessee at the end of the lease. If exercising of the option to acquire the asset by the lessee is considered probable, and hence is reflected in the value of the RoU, the useful life considered is that of the underlying asset as of the day the contract took effect. Otherwise, useful life is determined as the shorter of either the useful life of the asset or the duration of the lease. The specific sections of the Notes to the Financial Statements show the depreciation rate and the consequent expected useful life of the main asset categories.

At each annual or interim reporting date, the presence of any signs of impairment - meaning indications which demonstrate that an asset may have undergone a loss in value - must be checked.

In the event of the presence of the said signs, for real estate owned or leased, the book value of the asset is compared to its recoverable value, i.e. the greater of the fair value, net of any costs to sell, and the related value in use of the asset, understood as the present value of the future flows originated by the asset. Any adjustments are recognised in the income statement under item "180. Net value adjustments on property, plant and equipment". Periodic depreciation is recorded in the same item.

If the reasons which led to the recognition of the impairment loss cease to exist, a write-back is made. This must not exceed the value that the asset would have had, net of the depreciation calculated in the absence of prior impairment.

Additionally, during the course of the leasing contract, the book value of the right of use must be adjusted if redetermination of the leasing liability is envisaged. For example, in the case of a change in the duration of the lease or the valuation of an option to purchase the underlying asset in the light of new circumstances.

Tangible assets to which IAS 2 applies are measured in the same way as inventories and therefore at the lower between the cost of accounting recognition and the net realisable value, represented by the estimated selling price less the estimated costs for completion and the other costs necessary to make the sale. Any impairment losses, if they become manifest, are recognised in the income statement under item "180. Net value adjustments on property, plant and equipment". This category is not subject to periodic depreciation.

d) derecognition criteria

Property, plant and equipment is derecognised at the time of disposal or when the assets are permanently withdrawn from use and future economic benefits are not expected from their disposal. Any capital gains and capital losses deriving from disinvestment or disposal of property, plant and equipment are determined as the difference between the net selling price and the book value of the asset and are recognised in the income statement under item "250. Gains (losses) on disposal of investments".

Assets consisting of rights of use, recognised on the basis of IFRS 16, are eliminated at the end of the lease.

7. Intangible assets

a) classification criteria

Intangible assets are non-monetary assets, which are identifiable and lacking a physical presence, held to be used over the long-term or indefinitely. Intangible assets also include goodwill, representing the positive difference between the purchase price and the fair value of the assets and liabilities associated with the acquired company.

b) recognition criteria

They are recognised at cost, as adjusted by any related charges, only if it is probable that the future economic benefits attributable to the assets will arise and if the cost of the assets can be reliably determined. Otherwise, the cost of the intangible assets is recorded in the income statement in the period in which it was incurred.

Goodwill is recognised among assets when it derives from a business combination transaction in accordance with the calculation approach envisaged by the accounting standard IFRS 3, as the residual excess between the cost incurred in total for the transaction and the net fair value of the assets and liabilities acquired constituting companies or business units.

If the cost incurred is instead lower than the fair value of the assets and liabilities acquired, the negative difference (badwill) is booked directly to the income statement.

The Bank does not hold intangible assets.

c) income measurement and recognition criteria

The cost of intangible assets with defined useful life is amortised on a straight-line basis over the related useful life. Assets with undefined useful life are not subject to systematic amortisation, but only periodic assessment of the appropriateness of the relative book value. Intangible assets deriving from software developed internally or acquired from third parties are amortized on a straight-line basis as from the completion and commissioning of the application on the basis of the related useful life. Intangible assets representing relations with customers, which can be recognised at the time of business combinations, are amortised at constant rates.

At each annual or interim reporting date, in the presence of evidence of impairment, steps are taken to estimate the recoverable value of the assets. The amount of the impairment loss, recorded in the income statement, is equal to the difference between the book value of the assets and the recoverable value.

Recorded goodwill is not amortised but subject to periodic checks on its book value, carried out annually or more frequently in the presence of signs of an impairment in value. To this end, the cash generating units to which the goodwill is to be allocated are identified. These units represent the minimum level at which goodwill is monitored for internal management purposes and cannot exceed the operating segment determined in accordance with the standard IFRS 8.

The amount of any impairment is determined on the basis of the difference between the initial recognition value of the goodwill and its recoverable value, if lower. This recoverable value equates to the fair value of the cash generating unit, net of any cost to sell, or the related value in use, represented by the current value of the estimated cash flows for the periods of operation of the cash generating unit, and deriving from its disposal at the end of its useful life, whichever amount is the higher. The consequent value adjustments are recognised in the income statement under item "190 Value adjustments on intangible assets". Periodic depreciation is recorded in the same item. As regards goodwill, recognition of any subsequent write-backs is not permitted.

d) derecognition criteria

Intangible assets are derecognised from the balance sheet at the time of disposal and if future economic benefits are not expected from the same.

8. Non-current assets and asset/liability groups held for sale

a) classification criteria

Classified within asset item “110. Non-current assets and disposal groups held for sale” and liability item “70. Liabilities associated with assets held for sale” are non-current assets/liabilities and asset/liability groups for which book value will presumably be recovered through sale instead of with continuing use.

To be classified in the aforesaid items, the assets or liabilities (or disposal group) must be immediately available for sale and active and concrete plans must be known of, such as to indicate disposal is highly likely within one year of the date they are classified as assets held for sale.

b) measurement and income recognition criteria

After initial recognition, the assets and groups of non-current assets held for sale, with the related liabilities, are measured at the lower between the book value and the fair value net of costs to sell, with the exception of some types of assets - attributable, for example, to all financial instruments falling within the scope of application of IFRS 9 - for which IFRS 5 states specifically that the measurement criteria of the accounting standard of reference must be applied.

At moment of classification of a non-current asset among non-current assets held for sale, any amortisation process is interrupted.

Valuation reserves related to non-current assets held for sale and, recognised as counter-entries to changes in value significant for this purpose, are shown in the statement of comprehensive income.

Income and expenses related to asset and liability groups held for sale, net of the tax effect, in the case they are associated with the discontinued operations, are recognised in the income statement under item “290. Gains (losses) on discontinued operations net of taxes”. Gains and losses attributable to individual assets held for sale are recognised in the most suitable income statement item.

d) derecognition criteria

Non-current assets and asset/liability groups held for sale are derecognised on disposal.

9. Current and deferred taxation

a) recognition criteria

The effects relating to current and deferred taxes calculated in observance of national tax legislation are recorded on an accruals basis, in line with the methods for recording the costs and revenues which have generated them in the financial statements, applying current tax rates.

Income taxes are recorded in the income statement, with the exception of those relating to items booked or credited directly to shareholders' equity.

The provision for income taxes is determined on the basis of a prudent forecast of the current, prepaid and deferred tax liability.

In particular current taxation includes the net balance between current liabilities for the year and the current tax assets with respect to the Tax Authorities represented by advances, credits deriving from previous tax returns and other tax credits for withholdings made. Current assets also include tax credits a rebate of which has been requested from the competent Tax Authorities. Tax assets transferred to secure own payables also remain recorded in this item.

Deferred tax assets and liabilities are determined on the basis of the timing differences – without time-limits – between the value assigned to an asset or a liability according to statutory criteria and the corresponding values adopted for tax purposes applying the so-called balance sheet liability method.

Deferred tax assets determined on the basis of the deductible temporary differences are recognised in the accounts to the extent to which there exists the probability of their recovery; this probability is assessed, through the performance of a probability test, on the basis of the capacity to generate with continuity positive taxable incomes for the company involved or, as a result of exercising the option for “tax consolidation”, for the set of companies included.

For a description of the specific methods with which the probability test is conducted please see Part B of the Notes to the present Financial Statements, paragraph 10.7 of Section 10 of the Assets.

The probability of recovery of deferred tax assets related to goodwill, other intangible assets and write-downs of receivables (so-called transformable DTAs), must be considered automatically fulfilled as a result of the legal provisions which contemplate their transformation into tax credit in the presence of losses for the period according to civil and/or tax legislation.

In particular, art. 2 - paragraphs 55 and following - of Italian Law Decree no. 225 of 29 December 2010 (as amended) states that:

- in the presence of a statutory loss for the period, prepaid taxes (IRES and IRAP) related to goodwill, other intangible assets and write-downs of receivables can be transformed into tax credit for a portion equal to the ratio between the statutory loss and accounting shareholders' equity gross of the loss itself. The transformation takes effect as of the date of approval, on the part of the shareholders' meeting, of the separate financial statements on which the loss is posted;
- in the presence of a tax loss for the period (that is, for IRAP purposes, of negative value of production), the deferred tax assets related to deductions referred to goodwill, other intangible assets and write-downs of receivables, which have contributed to formation of the aforesaid tax loss (that is of the negative value of production) are transformed into tax credit. The said transformation takes effect as of the date of the presentation of the tax return related to the financial year in which the loss is recorded.

As a result of the provisions contained in Italian Law Decree no. 83 of 27 June 2015, transformable DTAs ceased to increase starting from 2016. Specifically:

1. for deferred tax assets related to goodwill and other intangible assets newly recognised in the financial statements from 2016 onwards exclusion from the rules pursuant to art. 2 - paragraphs 55 and following - of Italian Law Decree 225/2010 was provided for;
2. for deferred tax assets related to write-downs of receivables, from 2016 onwards the accounting condition for the related recognition has ceased as these write-downs have become entirely deductible in the year they are accounted for. We can note that the budget law for 2019 (Italian Law no. 145 of 30 December 2018) made an exception to the full deductibility of write-downs on receivables with reference to those recognised at first time application of IFRS 9, exclusively following the adoption of the recognition model of provisions to cover expected losses (ECLs), providing for the deductibility (IRES and IRAP) of the same in constant instalments over 10 years. It was, however, expressly clarified that the related DTAs consequently recognised, although they are referred to write-downs on loans to customers, do not come within those transformable into tax credit pursuant to Italian Law Decree 225/2010. Also note that the instalment relative to 31 December 2019, following the 2020 Budget Law (Italian Law 160 of 27 December 2019) was deferred to 31 December 2028.

We can note, in addition, that the Bank exercised the irrevocable option pursuant to Italian Law Decree no. 59 of 3 May 2016 (as amended) to keep the right to transform into tax credit the DTAs related to write-downs and losses on receivables; consequently, the related annual fee to be paid with reference to each of the years starting from 2016 and subsequently is payable, if the conditions are met annually, up to 2030.

Deferred taxes on tax losses not used are recognised on the basis of the same criteria envisaged for the recognition of deferred taxes on deductible temporary differences: they are therefore recognised only to the extent to which their recovery is likely, on the basis of the ability to generate positive taxable incomes in the future. As the existence of unused tax losses can be a symptom of difficulty in achieving positive taxable incomes in the future, IAS 12 states that, in the presence of losses made in recent periods, suitable evidence must be provided to support the existence of such income in the future. In addition, we can note that the current Italian tax legislation allows unlimited carrying forward over time of IRES tax losses (Art. 84 paragraph 1 of the Consolidated Income Tax

Law); consequently, verification of the existence of future taxable earnings against which to use these losses is not subject to time limits.

As stated above, the Bank verifies the probability of the manifestation of future taxable income (probability test) through a risk-adjusted approach which involves the application of a discount rate to prospective cash flows. This factor discounts future income at increasing rates to reflect uncertainties. For more details on the assessments made by the Bank to verify the possibility of recognising deferred tax assets please see point 16. "Use of estimates and assumption in preparing the statutory financial statements", paragraph "Methods of determining deferred tax assets (probability test)", below.

Deferred tax assets and liabilities are calculated using the tax rates expected at the date of payment of the temporary differences, on the basis of the measures existing at the reporting date. In particular, for the purposes of recognising prepaid tax assets, it was taken into account that the 2020 Budget Law (Italian Law 160 of 27 December 2019) reintroduced the ACE (Aid for Economic Growth) subsidy, effective as of 2019, which had been previously abrogated by the 2019 Budget Law (Italian Law 145 of 30 December 2018). Any changes in the tax rates or fiscal legislation, issued or communicated after the reporting date and before the date of authorisation for publication, which have a significant effect on deferred tax assets and liabilities are treated as events that occurred after the reporting date that do not entail adjustment under the terms of IAS 10, with consequent disclosure in the notes to the statements.

Prepaid and deferred taxes are recognised at the capital level by offsetting at the level of the same tax.

b) classification and measurement criteria

The deferred assets and liabilities recognised are systematically measured to take into account both any changes made to the laws of tax rates and any different subjective situations of the Group companies. In relation to the Tax Consolidation between the Parent Company and the subsidiaries that have accepted its contracts were signed that regulate the offsetting flows in relation to transfers of tax profits and losses. These flows are determined applying the IRES rate in force to the tax losses of the companies involved. For companies that transfer tax losses, the offsetting flow, calculated as above, is paid by the consolidating to the consolidated company when, and in the amount of which, the same consolidated company transfers to the tax consolidation, in tax periods subsequent to that in which the loss was made, positive taxable income. The compensatory flows thus determined are accounted for as receivables and payables in relation to the Parent Company, classified in other assets and other liabilities, as a counter-entry of item "270 - Income taxes for the year on current operations".

c) income recognition criteria

If the deferred tax assets and liabilities refer to components that have affected the income statement the counter-entry is represented by income taxes. In cases where deferred tax assets and liabilities concern transactions which have directly affected shareholders' equity without influencing the income statement, for example measurements of financial instruments measured at fair value through other comprehensive income or cash flow hedging derivatives, the same are recorded as a counter-entry to shareholders' equity, affecting the specific reserves when envisaged.

10. Financial liabilities measured at amortised cost

a) classification criteria

Item "10. Financial liabilities measured at amortised cost" comprises the sub-items "a) payables to banks", "b) payables to customers" and "c) outstanding securities" and consist of the various forms of funding, both interbank and in relation to customers and deposits made through certificates of deposits and bonds in issue, net of any repurchases. Among outstanding securities are classified all securities not subject to "natural" hedging with derivatives, which are classified among liabilities measured at fair value.

Also included are payables recognised by the lessee in the context of any financial or operating leasing operations entered into, and repurchase agreements for funding and securities lent receiving a guarantee in cash that comes within the full availability of the lender. Lastly, the item includes operating payables connected with the provision of financial services as defined in the Consolidated Law on Banking and the Consolidated Law on Finance.

b) recognition criteria

Initial recognition of these financial liabilities occurs at the moment of receiving the amounts collected or of issue of the debt securities and is done on the basis of the fair value of the liabilities, which is normally equivalent to the amount collected or the issue price, increased by any additional costs/revenues directly attributable to the single funding operation or issue and not refunded by the creditor counterparty. Internal administrative costs are excluded.

Repurchase agreements with obligation to repurchase are recognised as funding transactions for the spot amount received.

With regard to structured instruments, if there are the requirements envisaged by the standard IFRS 9 for separate recognition of embedded derivatives, these latter are separated from the host contract and recognised at fair value as assets or liabilities held for trading. The host contract is instead recognised at amortised cost.

Leasing liabilities recognised relative to the lessee are measured as the current value of future fees yet to be paid for the duration of the lease.

The duration of the lease is determined by taking into account:

- periods covered by options to extend the lease, in the case exercising of the options is reasonably certain;
- periods covered by options to terminate the lease, in the case exercising of the option is reasonably certain.

c) income measurement and recognition criteria

After initial recognition, financial liabilities issued, net of any redemptions and/or repurchases, are measured at the amortised cost with the effective interest rate method. Short term liabilities, when the time factor is negligible, are excepted and remain recognised for the amount collected. Interest is charged to the income statement under item “20. Interest expense and similar charges”.

As regards leasing liabilities, after the date the contract takes effect, the book value:

- increases on the basis of interest expense accrued, recognised in the income statement under item “20. Interest expense and similar charges”;
- decreases to take into account the payment of fees due for the lease;
- is redetermined to take into account any new measurements (e.g. extension or reduction of the duration of the contract) or changes in the lease (e.g. renegotiation of the consideration of the lease) which occurred after the starting date; the impact of the redetermination is recorded as a counter-entry of the asset for the right of use.

We can note, in addition, that funding instruments that are the subject of an effective hedging relationship are measured on the basis of the rules laid down for hedging transactions.

d) derecognition criteria

Financial liabilities are derecognised when they have matured or been discharged. Derecognition also takes place when previously issued securities are repurchased. The difference between the book value of the liability and the amount paid to acquire it is recorded in the income statement under item “100. Gains (losses) on disposal or repurchase of: c) financial liabilities”. The re-placing of own securities on the market subsequent to their repurchase is considered a new issue with recognition at the new placement price, with no effect on the income statement.

11. Financial liabilities held for trading**a) classification criteria**

This item comprises:

- financial liabilities issued with the intention of repurchasing them in the near future;
- liabilities that are part of a portfolio of financial instruments managed jointly for which there is a proven strategy aimed at achieving profits in the near future;

- derivative contracts with a negative fair value not designated as hedging instruments, including those embedded in complex financial instruments that have been separated from liabilities measured at cost amortised cost and those connected to assets/liabilities designated at fair value through profit or loss.

Also included are liabilities that originate from technical overdrafts generated by securities trading activity.

b) recognition criteria

Financial liabilities are initially recognised on the settlement date for on-balance-sheet liabilities, while derivative contracts are recognised on the date they are signed.

At the moment of initial recognition financial liabilities held for trading are measured at their fair value, which generally corresponds to the amount collected, without considering the transaction costs or income directly attributable to the instrument itself, which are booked directly to the income statement.

c) measurement criteria

After initial recognition financial liabilities held for trading are carried at fair value, recording changes as offsetting entries in the income statement.

Please see section “A.4.3 Fair value hierarchy” in the present Part A, below, for a description of the criteria used to determine the fair value of financial instruments.

d) income recognition criteria

Gains and losses deriving from changes in the fair value of financial liabilities and/or from the sale of the same are recognised in the income statement item “80 - Net gains (losses) on trading activities”, including those related to derivative liabilities connected with the Fair Value Option.

e) derecognition criteria

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

12. Financial liabilities designated at fair value

This portfolio is not used by the bank.

13. Provisions for risks and charges

Provisions for risks and charges: commitments and guarantees given

The sub-item in question comprises provisions for credit risk covering commitments to disburse funds and guarantees given that come within the scope of application of the rules on impairment under the terms of IFRS 9, as is laid down for “*financial assets measured at amortised cost*” and for “*financial assets measured at fair value through other comprehensive income*”. For details of the impairment model please see what is explained in point 16 below “Use of estimates and assumptions in preparing the financial statements” – paragraph “Methods of determining the impairment of IFRS 9 financial instruments”.

In addition, the sub-item also includes provisions for risks and charges set aside to cover other types of commitments and guarantees given which, owing to their specific features, do not come within the scope of application of the impairment rules under the terms of IFRS 9.

Provisions for risks and charges: pensions and similar obligations

The sub-item “Provisions for risks and charges: b) pensions and similar obligations” includes the provisions recorded on the basis of IAS 19 “Employee benefits” for the purpose of making good the technical deficit of the supplementary defined-benefit pension funds. Pension plans are divided up into the two categories with defined benefits and defined contributions. While for defined contribution plans the liability of the company is established in advance, for defined benefit plans the liability is estimated and must take into account any insufficiency in contributions or in return on the assets in which these contributions have been invested. For defined benefit

pension plans, the determination of the actuarial values required by the application of the aforementioned standard is carried out by an independent actuary, using the Projected Unit Credit Method. The actuarial gains and losses, defined as the difference between the book value of the liability and the present value of the commitments at the end of the year, are recognised for the entire amount in the statement of comprehensive income, in the item “Valuation reserves”. For more details please see paragraph 15 “Other information” below, letter a) “Content of other significant accounting items” – paragraph “Provisions for severance indemnity and other employee benefits”.

Provisions for risks and charges: other provisions for risks and charges

The sub-item “– Provisions for risks and charges: c) other provisions for risks and charges” comprises the amounts set aside to cover the estimated outlays for legal or implicit obligations deriving from past events. These outlays may be of a contractual nature, such as allocations for the incentive system for personnel and for early retirement incentives, indemnities provided for in contractual clauses on the occurrence of certain events, or involving compensation and/or restitution, such as those to cover estimated losses on litigation, including le actions for revocation, estimated outgoings to settle customer complaints for securities broking activities, disputes concerning taxation. Also included, if present, are provisions established at the starting date of the leasing contracts, signed as the lessee, which require the execution of dismantling or restoration of the underlying assets at the end of the contract. These provisions are recognised as a counter-entry of the assets recognised for the value of the rights of use of the properties (under item “80 – Property, plant and equipment”).

Provisions for risks and charges consist of liabilities of an uncertain amount or maturity and are recognised in the financial statements if:

- there is a current (legal or implied) obligation as a result of a past event;
- it will probably be necessary to use resources able to produce economic benefits to meet the obligation;
- the amount of the probable future outgoing can be estimated reliably.

The amount recognised as provisions represents the best estimate of the financial outgoing necessary to fulfil the obligation existing at the reporting date and reflects the risks and uncertainties inherent in the facts and circumstances examined. If the time factor is significant, the provisions are discounted to the present using the current market rates. With the exception of provisions for risks linked to leasing contracts, provisioning and the effect of discounting are shown in the income statement under item “170. Net provisions for risks and charges”, as is the increase in the provisions as a result of the passing of time. Provisions set aside are re-examined at each reporting date and adjusted to reflect the best current estimate. When the use of resources, intended to produce economic benefits to fulfil the obligation, becomes improbable, or when the obligation is extinguished, the provisions are reversed.

In addition, each provision is used only to cover outgoings for which it was originally set aside.

No provision is made for liabilities which are merely potential and not probable, but disclosure is in any case provided in the Notes to the Financial Statements, unless the likelihood of using resources is remote or the phenomenon is not significant.

14. Foreign currency transactions

a) recognition criteria

Foreign currency transactions are recorded, at the moment of initial recognition, in the reporting currency applying to the amount in foreign currency the exchange rate in force on the transaction date.

b) income classification, measurement, derecognition and recognition criteria

At every reporting date, foreign currency items are measured as follows:

- cash items are converted at the exchange rate in force on the balance sheet date;
- non-cash items are carried at their historical cost converted at the exchange rate in force on the date of the transaction;
- non-cash items designated at fair value are converted at the exchange rate in force on the balance sheet date.

The exchange differences which derive from the settlement of monetary elements or from the conversion of monetary elements at rates other than for initial conversion, or conversion of the previous financial statements, are recorded in the income statement of the period in which they arise.

When a gain or a loss relating to a non-monetary element is recorded under shareholders' equity, the exchange difference relating to this element is also stated under equity. By contrast, when a gain or a loss is recognised in the income statement, the related exchange difference is also recorded in the income statement.

15. Other information

a) Content of other significant accounting items

The content of other significant accounting items is described below.

Other assets and other liabilities

In item 120 of Assets "Other assets" and 80 of the Liabilities "Other liabilities" the assets and liabilities not attributable to the other balance sheet items are recognised. These are referable mainly to:

- items in transit or being processed;
- receivables and payables connected with the supply of goods or non-financial services and accrued income and expenses other than those that are capitalised on the pertinent financial assets/liabilities, including those deriving from contracts with customers under the terms of IFRS 15;
- credit/debit positions deriving from the tax consolidation system;
- tax credit and debit items other than those recognised in item "100. Tax assets" and "60. Tax liabilities";
- capital gains/capital losses deriving from measurement of transactions in regular way securities not yet settled;
- improvements and incremental expenses paid on third party properties other than those recorded in item "80 Property plant, and equipment", as they are not identifiable and separable on their own.

The costs indicated under the last point are placed under item "120. "Other assets" in consideration of the fact that due to the lease agreement the user company has control over the assets and may draw future economic benefits from them. These costs are recognised in the income statement under item "200. Other operating income/charges" according to the shorter period between the one in which the improvements and incremental expenses can be used and the residual validity of the agreement, including the period of renewal, if there is evidence in this sense.

Severance indemnities and other employee benefits.

Severance indemnities for the personnel are classified, under the terms of IAS 19, as "post-employment benefits". Following the complementary pension reform pursuant to Italian Legislative Decree no. 252 of 5 December 2005, new rules were introduced for severance indemnities accrued starting from 1 January 2007, which are relevant for the related accounting treatment. In particular for companies with on average at least 50 employees during 2006, the portions of severance indemnities for personnel accrued starting from 1 January 2007 are classified in the accounts as a "defined contribution plan" both in the case of option by the employee for a complementary pension, and in the case of allocation to the Treasury Fund at the INPS; the expense, accounted for among personnel expenses, is limited to the contribution established by the rule provided for in the Italian Civil Code, without applying any actuarial methodology.

Otherwise, provisions for severance indemnities accrued as of 31 December 2006 continue to be classified in the accounts as a "defined benefit plan". In general, "post-employment plans" - which include, besides Provisions for severance indemnities, the Pension funds - are divided into two categories, "defined benefit" and "defined contribution", on the basis of the related characteristics.

In particular, for defined contribution plans the cost is represented by contributions accrued in the period, given that the company has only the obligation to pay the contributions fixed on a contractual basis to a fund and consequently does not have any legal or implicit obligation to pay, besides paying the contribution, further amounts if the fund does not have sufficient assets to pay all the benefits to the employees.

For defined benefit plans, the actuarial and investment risk, that is the risk of any insufficiency of contributions or of an insufficient return on the assets in which the contributions are invested, is borne by the company. The liability is determined by an independent actuary according to the actuarial “Projected Unit Credit” method. On the basis of the said method it is necessary to forecast future outgoings on the basis of demographic and financial assumptions, to be discounted to take into account the time that will pass before the effective payment and to be re-proportioned on the basis of the ratio between the years of service matured and the estimated theoretical seniority at the moment is disbursement of the benefit. For discounting purposes, the rate used is determined with reference to the market return of bonds of leading companies taking into account the average residual duration of the liability, weighted on the basis of the percentage of the amount paid and advanced, for each maturity, with respect to the total to be paid and advanced up to the final settlement of the entire obligation.

The actuarial value of the liability thus determined must then be adjusted by the fair value of any assets serving the plan (net liability/asset). The actuarial gains and losses that arise as a result of adjustments of the previous actuarial assumptions formulated, following the experience effectively noted or owing to changes in the said actuarial assumptions, entail a remeasurement of the net liability and are allocated as a counter-entry to a shareholders’ equity reserve (item “110. Valuation reserves”) and, therefore, represented in the Statement of Comprehensive Income. The change in the liability consequent to a modification or a reduction of a plan is recognised in the income statement as a gain or loss. More specifically, changes occur when a new plan is introduced, rather than when an existing plan is modified or withdrawn. There is instead a reduction in the presence of a significant negative change in the number of employees included in the plan, for example in the case of plans for the reduction of surplus personnel (access to the Solidarity Fund).

The “Projected Unit Credit” method, described above, is followed also for measuring the long-term benefits, such as “seniority bonuses” in favour of employees. Unlike what is described for “defined-benefit plans”, the actuarial gains and losses connected with the measurement of the long-term benefits are recognised immediately in the income statement.

Valuation reserves

The present item includes valuation reserves related to equity securities designated at fair value through other comprehensive income, to financial assets (other than equity securities) measured at fair value through other comprehensive income, to foreign investment hedging, to cash flow hedging, to exchange differences from translation, to “single assets” and asset groups held for sale, to the portion of valuation reserves of equity investments measured at shareholders’ equity, to actuarial gains/losses on defined benefit plans, to gains/losses connected with the change in own creditworthiness in relation to liabilities in fair value options.

Share capital and Treasury shares

Item “160. Share capital” includes the amount of shares outstanding net of the amount of any capital subscribed but not yet paid up at the reporting date. The item is shown gross of any treasury shares held by the Bank. These latter are recognised in their own item as a negative component of shareholders’ equity.

The original cost of repurchased treasury shares and gains and losses deriving from subsequent resale are recognised as changes in shareholders’ equity. Transaction costs relative to capital operations, for example share capital increases, are recognised as a reduction in shareholders’ equity, net of any associated tax benefits. Dividends on ordinary shares are recognised as a reduction to shareholders’ equity during the year in which the Shareholders’ Meeting resolved distribution of the same.

b) Other significant accounting treatments

Revenue from Contracts with Customers (IFRS 15)

Revenues are gross flows of economic benefits that have occurred during the year in the form of a fee for the obligation to transfer to customers a vast range of goods and services the come within the ordinary business.

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

First of all, the revenue from contracts with customers is recognised in the financial statements only if the contract from which it derives is identifiable, that is:

- the parties have approved the contract and have committed themselves to executing it;
- the rights and obligations of the parties are clearly identifiable in the contract;
- the terms related to payment for the goods and services transferred can be identified;
- the contract has commercial substance, in the sense that it impacts the entity's cash flows;
- collection of the consideration is considered likely in exchange for transfer of the goods and provision of the services. This measurement must consider only the customer's ability and intention to pay the amount of the consideration payable.

After the consideration of the contract has been allocated to the single obligations deriving from the same, the revenue is recognised in the income statement when the customer obtains control over the goods or services promised (that is when the related performance obligation can be considered fulfilled) and this may occur:

- in a certain instant in time (for example, when the entity fulfils the performance obligation, transferring to the customer the good or service promised – at a point in time);
- Along a period of time (for example, as the entity gradually fulfils the performance obligation transferring to the customer the good or service promised – over time).

For the purposes of determining the revenue to be recognised, the consideration is defined as the amount to which the entity expects to have the right in exchange for transfer of the goods and services and may include fixed amounts, variable amounts or both. In detail, the consideration of the contract may vary following reductions, discounts, refunds, incentives, performance bonuses or other similar elements. The variability of the consideration may also depend on the occurrence or non-occurrence of a future event (as in the case of a commission linked to performance targets).

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

- the expected value method, that is the weighted sum of the amounts in a range of possible considerations (for example, the company has a high number of contracts with similar characteristics);
- the most likely amount method, that is the most likely amount in a range of possible considerations (for example, the company receives a performance bonus or otherwise).

In the presence of variable considerations, the revenue is recognised in the income statement only if it is possible to estimate the revenue reliably and if it is highly likely that this consideration will not subsequently have to be reversed from the income statement, wholly or in a significant part. In the event of strong prevalence of factors of uncertainty linked to the nature of the consideration, the same will be recognised only at the moment in which this uncertainty is resolved. In any case, the estimated part of the transaction price must be updated at the end of each reporting period. In determining the price, the presence of financial components must be considered, if significant. In the case of commercial agreements that provide payment to the entity of variable non-cash considerations, linked to the achievement of specific targets spendable in the provision of services rendered by the commercial partner, the Bank recognises this revenue in the income statement of the period in which they accrue, for an amount not more than the fair value of the services effectively rendered by the partner.

If the entity receives from the customer a consideration which provides for repayment, to the customer itself, wholly or in part, of the revenue obtained, a provision for risks and charges is established against the forecast future refunds. This may occur, for example, when the customer has a right of withdrawal on the good or in the contract a so-called claw back clause is provided. This principle also applies to loyalty programs against which a refund liability is identified. The liability for future refunds is equal to the amount of the consideration received (or receivable) to which it is expected not to have a right (that is amounts not included in the transaction price). The liability for future refunds (and the corresponding change in the transaction price and, consequently, the liability deriving from the contract) must be updated to the date of closure of each reporting period to take into account the changes in circumstances.

Finally, incremental costs related to obtaining contracts are capitalised, when it is expected these will be recovered, as well as costs for fulfilment of the contract, when these costs can be directly attributed to the contract, can generate resources which can be used to fulfil future contractual services and be considered recoverable.

Assets recognised in this way are systematically amortised in line with the transfer of the asset or service to which the asset refers to the client, and therefore in line with recognition of the corresponding revenues.

In relation to the Bank's operations, the aforementioned particular cases were not recognised.

Revenues and costs related to financial instruments

With reference to income and expenses related to financial assets/liabilities we must specify that:

- a) interest is recognised *pro-rata temporis* on the basis of the contractual interest rate or of the effective interest rate in case of application of amortised cost; the negative income components accrued on financial assets are recognised under item "20. Interest and similar expense"; the positive economic components accrued on financial liabilities are recognised under item "10. Interest and similar income". The item interest income (or interest expense) also includes the spreads or margins, positive (or negative), accrued up to the reporting date, related to financial derivative contracts:
 - Hedging assets and liabilities that generate interest;
 - Classified in the Balance Sheet in the trading book, but operationally connected to financial assets and/or liabilities measured at fair value (fair value options);
 - connected operationally with assets and liabilities classified in the trading book and which provide for settlement of spreads or margins at several due dates;
- b) default interest is recorded in the income statement solely at the time it is effectively collected;
- c) dividends are recognised in the income statement at the moment in which their distribution is resolved and therefore the right to receive the related payment matures;
- d) fees for revenues from services are recognised, on the basis of the existence of contractual agreements, in the period in which the services themselves were provided. Fees considered in amortised cost for the purposes of determining the effective interest rate, are recognised among interest;
- e) gains and losses consequent to first recognition at fair value, determined by the difference between the transaction price and the fair value of the instrument, are recognised in 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 where the instrument is traded; otherwise, they are distributed over time, taking into account the duration and nature of the instrument;
- f) gains and losses deriving from the sale of financial instruments are recognised in the income statement at the moment of completion of the sale, with related transfer of the risks and benefits, on the basis of the difference between the consideration received and the book value of the instruments themselves.

Costs relative to constant services and decreasing payments

The IFRS accounting standards do not provide specific guidelines on the accounting treatment to be applied to recognise costs linked to service contracts, provided by a supplier in the form of an indeterminate number of actions, through a given period of time. In the presence of cases involving services rendered by suppliers through a single performance obligation relative to the disbursement of a specific number of units, for example given volumes of services, which remain constant throughout the entire duration of the contract and each individual performance obligation is satisfied over time with a decreasing amount of payments due from the client, the Group applies, analogously, the accounting treatment outlined in accounting standard IFRS 15 (see Basis for Conclusions 313-314).

The Bank, in the case of supply of services characterised by a constant volume over time of equal services with a profile of decreasing payments, assigns an average unit cost to the services received and, consequently, recognises the related costs on a straight line basis. This straight line mechanism for recognising costs makes it necessary to recognise a prepaid asset which, at every reporting date pursuant to IAS 36, is subject to valuation regarding the presence of impairment, taking into account analysis done for the purposes of contracts payable. In the case in which indications of impairment are identified, the recoverable value of the asset is determined, and impairment must be recognised in the financial statements when the recoverable value is less than the book value.

Share-based payments

These are payments to employees, as consideration of the work done, settled with equity instruments, that consist, for example, of assigning:

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

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

In consideration of the difficulties of directly estimating the fair value of the work services received as a counter-entry of the assignment of shares, it is possible to measure the value of the services received, indirectly, making reference to the fair value of the equity instruments, at date of their assignment. The fair value of the payments settled with the issue of shares is recognised, on the basis of the criterion of accrual of the service provided, in the income statement item “160. a) Personnel expenses” as a counter-entry to an increase in item “140. Reserves”. In particular, when the shares assigned are not immediately “usable” by the employee, but will be when the employee has completed a specific period of service, the company recognises the cost as consideration for the service rendered along the period of maturation of the said conditions (“vesting period”).

Amortised cost

The amortised cost of a financial asset or liability is the value at which it has been measured on initial recognition net of repayments of principal, increased or decreased by total amortisation calculated using the effective interest rate method, on the differences between the initial value and net of any permanent impairment.

The effective interest rate is the rate that makes the present value of a financial asset or liability equal to the contractual flow of the future payments in cash or received up to maturity or at the later date of recalculation of the price. For the calculation of the current value, the effective interest rate is applied to the flow of the future collections or payments estimated over the entire useful life of the financial asset or liability - or a shorter period in the presence of certain circumstances (for example the review of the market rates).

Subsequent to initial recognition, the amortised cost makes it possible to allocate revenues and costs decreasing or increasing the instruments over the entire estimated life of the same via the amortisation process. The determination of the amortised cost differs according to whether the financial assets/liabilities being measured are fixed or floating rate.

With regard to fixed-rate instruments, the future cash flows are quantified on the basis of the interest rate noted over the duration of the loan. For floating-rate financial assets/liabilities, whose variability is not known in advance (because, for example, it is linked to an index), the cash flows are determined on the basis of the last known rate. As of every rate review date, steps are taken to recalculate the repayment plan and the effective rate of return over the entire useful life of the instruments, in other words to maturity. The adjustment is recognised as a cost or as income in the income statement.

Measurement at amortised cost is carried out for financial assets measured at amortised cost and for those measured at fair value through other comprehensive income; and for 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 including, for instruments measured at amortised cost, the transaction costs and fees directly attributable.

Internal or external marginal costs and income attributable to the issue, acquisition or disposal of a financial instrument and not rechargeable to the customer are considered transaction costs. These fees, which must be directly ascribable to the individual financial asset or liability, affect the original effective return and render the effective interest rate associated with the transaction different from the contractual interest rate. Costs/income related indistinctly to several transactions and the components related to events that may occur during the life of the financial instrument, but which are not certain at the moment of the initial definition, such as fees for retrocession, for non-use, for early settlement, are excluded.

The costs that the Bank has to bear irrespective of the transaction (for example, administrative, stationery, communication costs), those which, although they are specifically attributable to the transaction, come within the normal loan management practice (for example, activities aimed at disbursement of the loan), ad fees for services received following performance of structured finance activity that would, in any case, be received irrespective of the subsequent financing of the operation (such as facility and arrangement fees) are also not considered.

With particular reference to receivables, commissions paid to distribution channel (agents, consultants, mediators) and fees paid for advice/assistance for the organisation and/or participation in syndicated loans are considered costs attributable to the financial instruments while revenue considered in the calculation of amortised cost are those of participation in syndicated operations and brokerage fees connected to commissions recognised by brokerage companies.

As regards securities not measured at fair value through profit or loss, fees for contracts with brokers operating on Italian equity markets, those disbursed to intermediaries operating on foreign equity and bond markets defined on the basis of fee tables are considered transaction costs.

For securities issued, fees for the placing of bond loans paid to third parties, the fees paid to stock exchanges and fees paid to independent auditors for the activity performed in relation to the single issue are considered in the amortised cost calculation, while fees paid to rating agencies, legal and consultancy/auditing expenses and expenses for the annual updating of prospectuses, costs for the use of indices and fees that originate during the life of the bond loan issued are not considered related to amortised cost.

With respect to the general approach the effective interest rate must be calculated differently for financial instruments measured at amortised cost or at fair value through other comprehensive income, purchased or originated, which at the moment of their first recognition are already credit impaired (so-called PCI or OCI).

The criterion of measurement at amortised cost does not apply for hedged financial assets/liabilities for which recognition of changes in fair value related to the risks hedged in the Income Statement is provided for. The financial instrument is however newly measured at amortised cost in the case of cessation of the hedging, the moment starting from which changes in fair value previously recognised are amortised, calculating a new effective interest rate which considers the value of the receivable adjusted by the fair value of the part hedged, up to expiry of the hedging originally provided for. In addition, as already noted in the paragraphs on financial assets and liabilities measured at amortised cost, measurement at amortised cost does not apply for financial assets/liabilities whose brief duration leads to believing negligible the economic effect of discounting for receivables without a defined maturity or until revoked.

Purchased and originated credit-impaired (POCI) assets

These are instruments for which the credit risk is very high and which, in the case of purchase, are purchased at a considerably discounted value with respect to the value of initial disbursement. For this reason, they are considered already credit-impaired at the moment 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 in item “40. *financial assets measured at amortised cost*”.

Among POCI assets there are two different kinds:

- impaired instruments or loan portfolios purchased on the market (Purchased Credit Impaired – “PCI”);
- loans disbursed by the Bank to customers distinguished by very high credit risk (Originated Credit Impaired – “OCI”).

Impaired financial assets purchased through business combinations under the terms of IFRS 3 come within the scope of application of IFRS 9 PCI assets.

We must specify that these financial assets are initially recognised in stage 3, without prejudice to the possibility of reclassifying them among performing receivables (stage 2), on which, therefore, an expected loss will continue to be recognised according to an impairment model based on lifetime ECLs, as illustrated below.

With reference to the criteria of initial recognition, measurement and derecognition please see what is illustrated in correspondence with the asset items in which they can be classified, subject to what is specified below, with reference to the methods of determining amortised cost and impairment.

In detail, amortised cost and, consequently, interest income are calculated considering a credit-adjusted effective interest rate or CEIR. As regards determination of the effective interest rate, the aforementioned credit adjustment consists of considering in the estimate of the future cash flows also the expected credit losses along the entire residual duration of the asset. For the purposes of calculating the CEIR the Bank uses the contractual cash flows net of the expected losses.

In addition, the assets in question involve a particular treatment also as regards the impairment process, because they are always subject to determination of an expected loss along the life of the financial instrument (lifetime ECL). After initial recognition, the gain or loss deriving from any change in the expected losses along the whole life of the loan with respect to the initial losses must therefore be recognised in the income statement. For these assets it is therefore not possible for the calculation of the expected losses to occur taking as a reference a time horizon of one year.

Renegotiations

In some cases, during the life of financial assets and in particular of loans, the original contractual conditions are subject to subsequent amendment with the agreement of the parties to the contract. When, during the life of an instrument, the contractual clauses are amended (both when the amendment is formalised through the signing of a new contract and through an amendment to an existing contract) it is necessary to check whether the original asset must continue to be recognised in the financial statements or whether, on the contrary, the original instrument must be subject to derecognition from the financial statements and a new financial instrument must be recognised.

In general, the changes to a financial asset lead to derecognition of the same and to recognition of a new asset when they are “substantial”. The assessment on the “substantiality” of the change is made considering only qualitative elements. In particular, renegotiations are considered substantial if they introduce specific objective elements that affect the characteristics and/or cash flows of the financial instrument (such as, by way of example, a change of the currency of denomination, introduction of indexing to equity or commodity parameters, introduction of the possibility of converting the receivable into equity/participatory financial instruments, the provision of “pay if you can” clauses that enable the debtor the maximum freedom to repay the loan in terms of times and amounts) in consideration of the significant impact expected on the original cash flows or that are made in relation to customers that do not present financial difficulties, with the objective of adjusting the onerousness of the contract to the current market conditions. In this latter case, note that if the Bank does not grant renegotiation of contractual conditions, the client has the possibility of obtaining financing through another intermediary with a consequent loss of the cash flows foreseen for the renegotiated contract for the Bank. In other terms, against a commercial renegotiation, it is held that there is no loss to recognise in the income statement for the Bank consequent to realignment to improved current market conditions for its clientèle. On the contrary, in the presence of renegotiations considered non-substantial the gross value is redetermined through calculation of the present value of the cash flows consequent to the renegotiation, on the basis of the original interest rate of the exposure existing before the renegotiation. The difference between this gross value and the gross book value prior to the change is recognised in the income statement under item “140. Gains (losses) on contractual changes without cancellations” (modification accounting). The case of non-substantial renegotiations includes modifications granted to counterparties with financial difficulties (granting of forbearance measures) attributable to the Bank’s attempt to maximise the recovery of the original exposure, the risks and benefits of which continue, however, to be held by the Bank. Modifications that introduce into the contract substantial objective elements capable in themselves of entailing the derecognition of the financial asset, as illustrated above, are an exception.

Contributions to deposit guarantee systems and resolution mechanisms

Italian Legislative Decrees 180 and 181 of 2015 transposed into Italian legislation Directive 2014/59/EU, the Banking Resolution and Recovery Directive (“BRRD”), which provides for the establishment of resolution funds. These funds are endowed, among other things, by:

- a) contributions paid by banks on an annual basis, aimed at reaching the target level of fund endowment set by the legislation;
- b) extraordinary contributions paid by banks if the ordinary contributions are insufficient to cover the interventions decided in the context of resolution.

Both types of contributions come within the scope of application of the interpretation IFRIC 21 “Levies”, because these contribution obligations derive from legislative provisions. On the basis of this interpretation a liability must be recognised on occurrence of the “obligating event” that creates the payment obligation. The counter-entry for this liability is represented by item “160. Administrative expenses b) other administrative expenses”, as the conditions are not fulfilled either for recognition of an intangible asset under the terms of the accounting standard IAS 38 “Intangible Assets”, or for recognition of an asset for advance payment.

The same treatment is reserved for the “*ex ante*” contributions paid to the Interbank Deposit Protection Fund in the context of Directive 2014/49/EU “Deposit Guarantee Schemes” (DGS), contributions that the Bank does not pay because it does not have a “contributive base”.

c) Other aspects

Classification criteria for financial assets

The classification of financial assets in the three categories provided for in the standard depends on two criteria, or drivers, of classification: the Business Model with which the financial instruments are managed and contractual characteristics of the cash flows of the financial assets (or SPPI Test).

The combined provisions of the aforementioned two drivers leads to the classification of the financial assets, according to what is highlighted below:

- financial assets measured at amortised cost: assets that pass the SPPI test and fall within the Held To Collect (HTC) business model;
- financial assets measured at fair value through other comprehensive income (FVOCI): assets that pass the SPPI test and fall within the Held To Collect and Sell (HTCS) business model;
- financial assets measured at fair value through profit or loss (FVTPL): this is a residual category, which includes financial instruments which are not classifiable in the previous categories on the basis of what has emerged from the business model test or from the test on the characteristics of the contractual flows (SPPI test not passed).

Business model

As regards the business model, IFRS 9 identifies three cases in relation to methods with which cash flows and sales of financial assets are managed.

- Held to Collect (HTC): this is a business model the objective of which is achieved through the collection of contractual cash flows of the financial assets included in the portfolios associated with it. Inclusion of a portfolio of financial assets in this business model does not necessarily entail the impossibility of selling the instruments even if it is necessary to consider the frequency, the value and the timing of sales in previous years, the reason for the sales and expectations with regard to future sales;
- Held to Collect and Sell (HTCS): this is a mixed business model, the objective of which is achieved through the collection of the contractual cash flows of the financial assets in the portfolio and (also) through sales activity which is an integral part of the strategy. Both activities (collection of contractual flows and sale) are indispensable for achievement of the objective of the business model. Therefore, sales are more frequent and significant compared to an HTC business model and are an integral part of the strategies pursued;
- Others/Trading: this is a residual category which includes both financial assets held for trading purposes and financial assets managed with a business model not attributable to the previous categories (Held to Collect and Held to Collect and Sell). In general, this classification applies to a portfolio of financial assets, the management and performance of which are assessed on the basis of its fair value.

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

The measurement is not made on the basis of scenarios which, based on reasonable forecasts of the entity, are not likely to occur, such as the so-called “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 this scenario, on the basis of reasonable forecasts of the entity, is not destined to occur.

The business model does not depend on the intentions that the management has with reference to a single financial instrument, but makes reference to the methods with which groups of financial assets are managed for the purposes of achieving a certain business objective.

In brief, the business model:

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

In carrying out the assessment of the business model all relevant factors available at the assessment date. The aforementioned evidence includes the strategy, the risks and their management, the remuneration policies, the reporting and the amount of the sale. In the analysis of the business model it is essential for the elements studies to show consistency with each other and in particular for them to be consistent with respect to the strategy pursued. The evidence of activities not in line with the strategy must be analysed and adequately justified.

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

More in detail, in the context of an HTC business model sales are permitted i) in the case of an increase in credit risk, ii) when made in proximity to the maturity and finally iii) when they are frequent but not significant in terms of value or infrequent also if significant in terms of value.

An illustration is provided below of the circumstances on the occurrence of which the Group considers it permissible to carry out transactions for the sale of the assets in question.

Increase in credit risk

The Group considers that there is an increase in credit risk when events occur such as to entail:

- the classification of the financial asset in stage 2, previously classified in stage 1;
- the classification of the financial asset in among impaired assets (that is in stage 3), previously classified in stage 1 or 2.

On the occurrence of such events sales are permissible, irrespective of any frequency or significance threshold; this occurs, for example, for sales of impaired loan exposures.

Proximity of the instrument to maturity

The Group considers that, irrespective of any frequency or significance threshold, sales are compatible with the HTC business model if the time interval before maturity is 10% of the original duration of the instrument, with an absolute limit of 12 months.

Frequency and significance lower than certain thresholds

- frequency is defined as the percentage ratio between the number of positions sold (ISIN or ratios) during the observation period and the total of positions in the portfolio present at the beginning of the observation period. Sales are infrequent if they are of a number less than 5% of the number of securities

- held in the portfolio at the beginning of the year (this amount is zero if the number of securities at the beginning of the year is less than 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 threshold of significance identified by the Group for individual sales is 5%.

The two thresholds must be considered separately; it follows that single sales made for an amount of more than 5% with respect to the initial amounts are not permissible, even if infrequent. In cases of observance at the same time of both thresholds of frequency and significance in terms of single sale, a further assessment in terms of aggregate amount of sales is provided for. In this case, the threshold of significance identified by the Group for the aggregate amount of sales is 10%.

These thresholds were established and applied only for the debt securities portfolio, because sales of portfolios of loans made by the Group are attributable to an increase in credit risk.

SPPI test

The other criterion to be used to determine whether a financial asset must be classified among financial instruments measured at amortised cost or at FVOCI – besides the analysis of the business model presented above - states that the related cash flows must consist exclusively of payment or repayment of principal and interest. To this end IFRS 9 states that a test, known in fact as “SPPI” (solely payments of principal and interest) must be carried out, for the purpose of checking that the remuneration of a certain financial instrument, debt securities and loans, is linked exclusively to payment of interest and to repayment of principal.

A debt instrument that does not pass the SPPI test must always be measured at FVTPL and classified in the sub-item “*other financial assets obligatorily measured at fair value*”.

For the 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 the moment of its initial recognition;
- interest is the consideration for the time value of money, for the credit risk associated with the principal in a certain period of time, for other risks and costs associated with the basic risks of a loan operation 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 amount in a certain period of time. Each time the contractual terms introduce other elements, it is no longer possible to consider that asset as a generator exclusively of cash flows in terms of principal and interest. This could happen, for example, when the cash flows come from so-called non-recourse financial assets. The cash flows of the aforesaid financial assets may not consist of payment solely of interest and repayment of principal, because the remuneration is linked to specific business activities. On this point the holder of the asset is obliged to assess, through the so-called look-through approach, whether its own instruments pass or fail the SPPI test. For example, when the entity holds non-recourse financial assets, the cash flows of which depend on the performance of a financial element of the issuer (for example net income), then the possibility of measurement at amortised cost or FVOCI must be excluded.

In addition, when the contractual cash flows depend on characteristics such as changes in equity or commodity prices, the related financial instruments cannot pass the SPPI test, given that they introduce an exposure to risk or volatility not related to the basic lending arrangements.

IFRS 9 specifies that all financial instruments that undergo the so-called “financial leverage effect”, cannot be considered generators of flows of principal and interest, because leverage has the power to increase the volatility of the cash flows. This case includes swaps, options, forwards and all derivative contracts.

IFRS 9 defines two cases in which the time value of money can be considered modified, that is when the relationship between the passing of time and the interest rate is considered imperfect. A case occurs when the interest rate of the asset is redetermined periodically, but the frequency of this redetermination the frequency of the payment does not correspond to the nature of the interest rate. This occurs for example in the case of monthly payments of floating interest, and at the beginning of each month the interest rate is determined as the Euribor at 6 month: the monthly interest rate is determined with reference to interest calculated on a half-yearly basis, and

therefore for a different time period. In these cases, the accounting standard introduces the need to make a comparison between the cash flows deriving from the entity's own financial asset and those deriving from a financial asset considered identical for credit risk and duration, but for which the monthly interest is calculated on the basis of the monthly Euribor. The other case of non-perfect correspondence between the passing of time and the time value of money occurs when the interest rate of the asset is redetermined periodically on the basis of an average of particular short- or medium/long-term interest rates. This happens, for example, when a financial asset provides for payment of interest every three months, based on the average of the three-month Euribor interest rate in the quarter prior to that to which the interest refers.

Therefore, in these cases, the entity must analyse whether, despite the change in the time value of money, the financial asset generates only cash flows in terms of principal and interest. The objective of this analysis is to check how different the non-discounted contractual cash flows would be if there were not the change in the time value of money (the so-called benchmark cash flow test).

The presence of contractual clauses that can modify the periodicity or the amount of the contractual cash flows must be considered to assess whether these flows meet the requirements to be considered SPPI compliant (for example prepayment options, possibility of deferring the contractually expected cash flows, instruments with embedded derivatives, subordinated options, etcetera).

However, as provided for in IFRS 9, a characteristic of the contractual cash flows does not affect the classification of the financial asset if it can only have a *de minimis* effect on the contractual cash flows of the financial assets (in each financial year and cumulatively). In the same way, if a characteristic of the cash flows is not realistic (not genuine), or if it affects the contractual cash flows of the instrument only on the occurrence of an extremely rare event, very unusual and very improbable, it does not affect the classification of the financial assets.

In the case of instruments subordinated to another instrument (e.g. guaranteed debt securities), the related cash flows are connected to the nominal value of the principal or interest of the main instrument. The holder of the instrument has the power to exercise the right of pre-emption also in the case of bankruptcy of the debtor. These instruments come within those that do not pass the SPPI test.

As regards contractually-linked instruments, reference is made to instruments with which an entity gives a certain priority to payment of the 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 certain tranche, must have in order to be considered a generator of cash flows represented exclusively by payment of interest and repayment of principal are the following:

- The underlying assets must contain one or more financial assets which produce cash flows made up solely of payment of interest and repayment of principal. In addition, the presence of supporting financial instruments, such as derivatives, is permitted only if they have the function of reducing the volatility of the related cash flows;
- The exposure to credit risk related to certain tranche must be equal to or less than the exposure to the risk attributable to the underlying financial instruments.

For the purposes of performing the SPPI test, for operations in debt securities the Bank avails itself of the services provided by an info-provider. Only if the securities are not managed by the info-provider, the test is carried out manually through the use of a proprietary tool based on a methodology developed internally (decision-making trees). To perform the SPPI test in the context of the loan granting processes a proprietary tool based on a methodology developed internally (decision-making trees) was developed. In particular, given the significant different characteristics, a differentiated management is envisaged for products attributable to a contractual standard (typically retail loan portfolio) and tailor-made financing (typically corporate loan portfolio). For standard products, the SPPI test is performed on structuring the contractual standard, through the "Product Approval" process and the result of the test is extended to all the single relationships attributable to the same product in the catalogue. Instead for tailor-made products, SPPI test is performed for each new credit line/relationship submitted to the decision-making body through the use of the proprietary tool. The decision-making trees - included in the proprietary tool - were prepared internally (for both debt securities and loans) and capture the possible non-SPPI-compliant characteristics.

Application of the accounting policies to operations completed or events that have occurred during the year considered significant for the purposes of the financial and economic situation

Proportional partial demerger of MPS Capital Services Banca per le Imprese S.p.A. in favour of Banca Monte dei Paschi di Siena S.p.A. in the context of the operation entitled “Project Hydra”

In the second half of the year the operation entitled “Project Hydra” was completed; this - for what relates strictly to MPS Capital Services Banca per le Imprese S.p.A. - consisted of a proportional partial demerger of a compendium comprising certain assets and liabilities by MPSCS in favour of the full parent company Banca MPS (“MPSCS Demerger”).

The MPSCS Compendium was included in the compendium transferred in turn by Banca MPS to AMCO – Asset Management Company S.p.A., a company wholly controlled by the Ministry of the Economy and Finance, in virtue of a non-proportional partial demerger (“Banca MPS Demerger”).

The operation in question must be seen in the context of an overall de-risking project provided for in the 2017-2021 restructuring plan of the MPS Group, aimed at capital strengthening through the deconsolidation of an important portfolio of the group’s impaired receivables, in observance of the commitments assumed by Banca MPS in relation to the Directorate General for Competition of the European Commission.

The valuation of the compendium transferred on the effective date of the Demerger, 26 November 2020 for the “MPSCS Demerger” and 1 December 2020 for the “Banca MPS Demerger”, was made applying the principle of continuity of values, that is with reference to the accounting values at which these assets and liabilities, at the aforesaid date, were recognised in the accounts of the Demerged Company. In particular, the Bank derecognised from its accounts the elements of the assets and liabilities included in the demerger compendium transferred to Banca MPS, with consequent reduction of its shareholders’ equity. Up to the effective date of the demerger the assets included in the compendium were measured with criteria in line with the accounting policies of the MPS Group.

The compendium involved in the “MPSCS Demerger” at the effective date was represented by:

Assets:

- impaired loans classified as bad for a net book value of € 347.4 million;
- impaired loans classified as probable defaults for a net book value of € 286.3 million;
- performing loans of € 2.4 million;
- bonds and equity securities for a book value of € 10.1 million;
- derivative contracts for a book value of € 0.3 million;
- deferred tax assets for a book value of € 14.3 million.

Liabilities and shareholders’ equity:

- liabilities deriving from intragroup deposits for a book value of € 615.9 million;
- Shareholders’ equity for an amount of € 114.2 million, divided between share capital of € 152.4 million and negative reserves of € 38.2 million.

The difference, of € 69.2 million, was settled in cash from MPSCS to Banca MPS.

16. Use of estimates and assumptions in preparing the financial statements

The accounting estimates required to apply the accounting standards may have significant effects on the amounts recorded in the balance sheet and in the income statement, as well as on information about contingent assets and liabilities reported in the financial statements. Processing those estimates requires using the information available and making subjective evaluations. For their very nature, the estimates and assumptions used may vary from year to year and, as such, it cannot be excluded that in future years the current values posted on the financial statements may differ, even significantly, as the subjective assessments used alter. These estimates and evaluations are therefore difficult to make and inevitably bring some uncertainty, even in stable macroeconomic conditions.

The main cases for which the use of subjective evaluation by the Company Management is required are:

- a) the use of the going concern assumption;
- b) quantification of losses for impairment of receivables and, in general, of the other financial assets;
- c) measurement of the congruence of the value of property, plant and equipment, including value of use for assets acquired through leasing;

- d) use of measurement models to recognise the fair value of financial instruments not quoted on active markets;
- e) the estimate and assumptions on the recoverability of deferred tax assets;
- f) the estimate of the liabilities deriving from the defined-benefit company pension funds;
- g) quantification of provisions for risks and charges of a legal and fiscal nature.

For some of the cases listed above it is possible to identify the main factors that are the subject of estimates by the Bank and that therefore contribute to determine the book value of assets and liabilities.

In brief, we can note that:

- a) the use of the going concern assumption is based on the estimate of the data related to the prospective evolution of the equity position and the liquidity position over an horizon of 12 months, which therefore ends on 31 December 2021;
- b) for allocation to the three credit risk stages provided for in IFRS 9 of loans and debt securities classified among “*financial assets at amortised cost*” and “*financial assets at fair value through other comprehensive income*” and the calculation of the related expected losses, the main estimates regard:
 - determination of the parameters of significant increase in credit risk, based essentially on models for measuring probabilities of default (PDs) on origination of the financial assets and at the reporting date;
 - the inclusion of forward-looking factors, also of a macroeconomic type, for determination of PD, EAD and LGD;
 - for determination of the estimates of future cash flows deriving from impaired receivables, certain elements are taken into consideration: the expected recovery times, the estimated realisable value of any guarantees, the costs that it is believed will be borne for recovery of the loan exposure and, finally, the probability of sale for positions for which there is a disposal plan;
- c) for the determination of the fair value of financial instruments not quoted on active markets, if it is necessary to use parameters not observable on the market, the main estimates regard, on the one hand, the development of future cash flows (or also income flows, in the case of equity securities), possibly dependent on future events, on the other, the level of certain parameters in input not quoted on active markets;
- d) for the quantification of pension funds and for similar obligations the present value of obligations is subject to estimates, taking into account the flows, opportunely discounted, deriving from the historical and statistical analyses and analyses of the demographic curve;
- e) for quantification of provisions for risks and charges, the amount of outlays necessary for fulfilment of the obligations is subject to estimates, if possible, taking into account the effective probability of having to use resources;
- f) for determination of the items related to deferred taxes the probability of an effective future payment of taxes (taxable temporary differences) is estimated together with the degree of reasonable certainty – if any – of future taxable amounts at the moment in which the tax deductibility will become manifest (deductible temporary differences).

For point a) please see what is presented in “Section 4 – Other information”; for points b) and f) please see the respective paragraphs below “Methods of determining the impairment of IFRS 9 instruments” and “Methods of determining deferred tax assets (probability test)” as regards point c), please see what is outlined in paragraph A.4.3 “Fair value hierarchy”, in the Notes to the Financial Statements. In the context of the single sections of the notes to the balance sheet and income statement where the contents of the individual accounting items are detailed, the actual technical and conceptual solutions adopted by the Bank are then analysed and discussed in depth. In particular, as regards point f) please also see section 10 of the assets of the Notes to the Financial Statements “Tax assets and tax liabilities”, for the cases pursuant to points d) and e) please see section 10.5 of the liabilities of the Notes to the Financial Statements “Defined-benefit company pension funds” and section 5. Operational Risks of part E of the Notes to the Financial Statements.

As illustrated above, the estimates developed for the purposes of preparing the present financial statements were affected by the significant uncertainty on the negative effects deriving, directly and indirectly, from the health crisis in progress. The diffusion of the COVID-19 pandemic and its implications for public health, economic activity and trade may, in fact, push significantly downwards the growth of the Italian and global economy. In the face of

the health emergency and economic crisis extraordinary public finance measures were activated by the single States and international bodies, including the European Commission. In Italy an ever-increasing availability of vaccines and adequate treatments together with the fiscal support measures taken will contain the damage and, already starting from the second quarter of 2021, will enable a rebound of growth. The recovery is expected to continue with a certain intensity in the next two years, but the pre-COVID-19 levels of activity are likely to be regained only in the medium-long term. There remains the risk that, after the phase of exceptional support of the economic policies, growth will not be sufficiently sustained as to enable management of the public (and private) debts which in the meantime have increased notably.

In this context it therefore seems particularly complex to forecast fully the effects of the pandemic; this entails high complexity and uncertainty of the estimates made on the basis of the best information available at the date of preparing the financial statements, the basic assumptions and estimates of which could be necessarily revised and updated over the next few months also significantly, following the evolution of events not under our control. In the paragraph below “Risks, uncertainties and impacts of the COVID-19 epidemic” an examination is provided of the main risks and uncertainties to which the Group is exposed as a result of COVID-19 and of how the Group, and the Bank, have taken these into account for the purposes of preparing these financial statements.

Methods of determining the impairment of IFRS 9 financial instruments

At each reporting date, under the terms of IFRS 9, financial assets other than those measured at fair value through profit or loss are subjected to an impairment test, with the aim of estimating the expected impairment losses due to credit risk (so-called ECLs - expected credit losses). In particular, the perimeter to be subjected to impairment tests comprises:

- “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 which are not measured at fair value through profit or loss; and
- trade receivables or assets deriving from contracts that result from transactions falling within the scope of application of IFRS 15.

According to the Expected Credit Losses calculation model, introduced by IFRS 9, the losses must be recorded not only making reference to the objective evidence of impairment already manifest at the measurement date, but also on the basis of the expectation of future impairment losses that have not yet occurred. This concept represents in fact an innovation with respect to that of incurred loss on which the previous impairment model was based. In particular, the ECL model involves the aforementioned instruments being classified in three distinct “stages”, according to their absolute or relative credit quality with respect to initial disbursement, to which correspond different criteria for measuring the expected losses. In detail:

- stage 1: this comprises performing exposures which have not suffered a significant change in credit risk with respect to the initial recognition. The value adjustments correspond to the expected losses associated with the occurrence of default in the 12 months following the reporting date;
- stage 2: this comprises performing exposures whose creditworthiness is affected by a significant change in credit risk, but for which the losses are not yet observable. The adjustments are calculated considering the loss along all the residual lifetime of the instrument;
- stage 3: this comprises all impaired receivables, that is non-performing exposures which present objective evidence of impairment and which must be written down using the concept of lifetime expected loss.⁽¹⁾

An exception to the above is represented by financial assets considered as impaired right from their acquisition or origin (so-called “POCI – Purchased or Originated Credit Impaired”), for the treatment of which please see what has already been illustrated in the previous paragraph on this subject and assets measured based on the provisions of the “Simplified Method”, the discussion of which is found in the subsequent paragraph.

⁽¹⁾ The assessment is statistical for positions with a balance of less than € 1 million and analytical, carried out by the managers, for positions above this threshold.

For the MPS Group and, within it, for the Bank, the perimeter of exposures classified in stage 3 corresponds to that of impaired exposures, identified on the basis of the definitions established by the supervisory regulations (Bank of Italy Circular no. 272 “Accounts Matrix”) and referred to in Bank of Italy Circular no. 262 “Banking Financial Statements: Formats and Rules for Compilation”, because they are considered consistent with the accounting rules provided for in the IAS/IFRS accounting standards, in terms of objective evidence of impairment. On the basis of the aforementioned circulars, the perimeter of impaired exposures corresponds to the aggregate “Non-Performing Exposures”, defined by Regulation (EU) 2015/227 which endorsed the EBA ITS “Implementing Technical Standards (ITS) on Supervisory Reporting on Forbearance and Non- Performing Exposures” (EBA/ITS/2013/03/rev1 24/7/2014).

In detail, the aforementioned circulars identify the following categories of impaired assets:

- Bad loans: the set of on- and off-balance sheet exposures in relation to a customer in a state of insolvency (even if not legally ascertained) or in substantially equivalent situations, irrespective of any loss forecasts formulated by the Bank;
- Probable defaults (or “unlikely to pay”): these represent on- and off-balance-sheet exposures, for which the conditions are not fulfilled for classification of the debtors among bad loans and for which it is considered unlikely that, without recourse to actions such as enforcement of the guarantees, the debtors will comply fully (in principal and/or interest) with their loan obligations. This assessment is made irrespective of the presence of any amounts (or instalments) past-due and unpaid. Classification among probable defaults is not necessarily linked to the explicit presence of anomalies, such as non-payment, but is linked to the existence of elements indicating a situation of risk of non-fulfilment by the debtor (for example, a crisis of the industrial sector in which the debtor operates);
- Impaired past-due and/or over-the-limit exposures: on-balance-sheet exposures, other than those classified among bad debts or probable defaults, which, at the reporting date, present a past-due and/or over-the-limit position for more than 90 days, according to the significance thresholds provided for in the aforementioned regulations. For the MPS Group and the Bank, impaired past-due and/or over-the-limit exposures are determined making reference to the position of the individual debtor.

In addition, the Bank of Italy regulations, in line with the EBA standards, introduced the definition of “Forborne Exposures”. These in particular are exposures the benefit from measures of forbearance, which consist of concessions in relation to debtors, in terms of modification and/or refinancing of a pre-existing loan, exclusively owing to, or to prevent, a condition of financial difficulty that could have negative effects on their ability to fulfil the contractual commitments originally assumed and which would not have been granted to other debtors with analogous risk profiles not in financial difficulty. These concession must be identified at the level of the single credit line and may regard exposures of debtors classified both in performing status and in non-performing (impaired) status. For exposures with forbearance measures classified among probable defaults, return among performing exposures can occur only after at least one year has passed since the moment of the concession (so-called “cure period”) and all the other conditions provided for in paragraph 157 of the EBA ITS have been met. In any case, renegotiated exposures must not be considered forborne when the debtor is not in a situation of financial difficulty (renegotiations carried out for commercial reasons).

For further details on the classification and measurement of the moratoria in accordance with the EBA guidelines and of the analogous initiatives introduced autonomously by the banks in the context of the COVID-19 pandemic, please see what is illustrated in the paragraphs “Classification as forborne of loans involved in moratorium actions” and “Classification as performing/non performing of loans involved in moratorium actions” contained in Part A.1, section 2, “Significant accounting policies in preparing the financial statements in the context of the COVID-19 pandemic” of the present financial statements. We can note finally that, starting from 1 January 2021 the Bank, in line with the Group policies, adopted the new definition of default, deriving from the implementation of the “RTS on the materiality threshold for credit obligations past due under Article 178 of the CRR (Delegated Regulation EU 2018/171)” and of the related “EBA Guidelines on the application of the definition of default under Article 178 of the CRR”. The new regulations, although they confirm the bases of default in the concepts of delay in payment and probable default of the debtor, introduce a number of significant changes related to materiality thresholds, offsetting rules and criteria for returning to performing. For further details please see what is presented in Part E – Section 3 - Impaired loan exposures.

Loss of value of performing financial assets

For performing financial assets, that is for assets not considered impaired it is necessary to assess, at the level of the single relationship, the presence of a significant deterioration of credit risk, by comparing the credit risk associated with the financial instrument at the moment of measurement and that at the initial moment of disbursement or acquisition. This comparison is made assuming as a reference both quantitative and qualitative criteria. The consequences of this check, from the point of view of classification (or, more properly, of staging) and measurement, are the following:

- if these indicators exist, the financial asset goes into stage 2. The assessment, in this case, in keeping with the provisions of the international accounting standards and even in the absence of a manifest loss of value, provides for the recognition of value adjustments equal to the expected losses along the entire residual life of the financial instrument. These adjustments are revised at each subsequent reporting date both to check periodically the congruity with respect to the estimate of loss constantly updated, and to take into account – if the indicators of a “significantly increased” credit risk cease – the changed forecast horizon for calculating the expected loss;
- if these indicators do not exist, the financial asset goes into stage 1. The assessment, in this case, in keeping with the provisions of the international accounting standards and even in the absence of manifest loss of value, provides for the recognition of expected losses, for the specific the financial instrument, during the next twelve months. These adjustments are revised at each subsequent reporting date both to check periodically the congruity with respect to the estimate of loss constantly updated, and to take into account – if indicators of a “significantly increased” credit risk arise – the changed forecast horizon for calculating the expected loss.

As regards the assessment of financial assets and, in particular, the identification of the existence of a “significant increase” in credit risk (a necessary and sufficient condition for classification of the asset being assessed in stage 2), the elements which - under the terms of the standard and its operational declination carried out by the Bank, in line with the policies adopted by the MPS Group - constitute the principal determinants to be taken into consideration are the following:

- relative quantitative criteria, based on statistical observations, considered expression of a significant increase in credit risk that has occurred over time;
- absolute qualitative criteria, represented by the identification of trigger events or by exceeding absolute thresholds in the context of the credit monitoring process. They include:
 - all exposures affected by forbearance measures that present this attribute still active, irrespective of the regularity or otherwise of the probation period in progress;
 - exposures classified in the High Risk operating portfolio ⁽¹⁾;
 - customers belonging to the “Selective Management” cluster of post COVID-19 lending strategies: these are businesses operating in sector with high impact of COVID-19 and with profiles of prospective weakness;
- backstop indicators, that is credit “delinquency” factors, the manifestation of which leads to presume that a significant increase in credit risk has occurred, unless there is contrary evidence. As an assumption, the MPS Group believes that the credit risk of the exposure must be considered significantly increased in the presence of an amount past due/over the limit for a period of more than 30 days, without affecting application of the thresholds of significance provided for in the supervisory regulations.

With particular reference to the relative quantitative criterion applicable to loan exposures in relation to customers, the MPS Group decided to assume as reference the change between the lifetime cumulative forward-looking probability of default (PD) recognised at the origination of the contractual relationship and the probability of default recognised at the measurement date. The development of the model entailed the identification of specific internal thresholds of change between the PD recognised at the origination of the contractual relationship and the PD recognised at the measurement date differentiated by counterparty, initial rating class and vintage. Exceeding

⁽¹⁾ On the basis of the internal policies, the macro-factors that determine assignment of the operating category “high risk” are the internal rating class (below the threshold of D1) or the “switching on” of default detection parameters of the early warning system classified as highly significant or binding; these parameters involve areas of enquiry related to prejudice, performance, central credit register, financial statements and the state of difficulty in concessions (forbearance).

the aforesaid thresholds constitutes an expression of a significant increase in credit risk and the single credit line is consequently transferred from stage 1 to stage 2. The comparison is based on uniform residual durations⁽¹⁾ and on uniform PD models, for example if the definition of default changes over time, the lifetime cumulative forward-looking PD at origination is redetermined to take into account this new definition of default. The cumulative PDs involved in the comparison are based on the same model used for ECL purposes (e.g.: definition of PD PIT (Point in Time), macroeconomic scenarios, expected life/contractual life). In order to obtain an unequivocal classification result, a cumulative PD is used, which results from the weighted average of the cumulative PDs calculated for the single prospective scenarios using as weights the probabilities of the scenarios. The significance threshold is determined, measuring historically, using quantile regression analysis by cluster as level of ratio, between lifetime cumulative forward-looking PD at the reporting date and that at the origination date, which can be considered predictive of transfer to NPE⁽²⁾. The threshold is determined so as to minimise the so-called false positives and false negatives and maximise the true positives and true negatives.

As regards debt securities that do not have an investment grade rating the relative quantitative criterion is based on the change in lifetime cumulative forward-looking PD between reporting date and origination date greater than a given threshold. For corporate issuers the multi-annual PD curve is the corporate one estimated entirely by the Bank; for government issues the multi-annual PD curve is the one prepared on the basis of the Moody's matrix of defaults at 1 year of government securities. The cumulative PDs involved in the comparison are based on the same model used for ECL purposes e.g.: definition of PD PIT (Point in Time) and macroeconomic scenarios. In order to obtain an unequivocal classification result, a cumulative PD is used, which results from the weighted average of the cumulative PDs calculated for the single prospective scenarios using as weights the probabilities of the scenarios. Exposures are classified in stage 2 if the ratio between lifetime cumulative forward-looking PD at the reporting date compared to that at the origination date exceeds a given significance threshold equal, for both corporate securities and government ones, to that used for corporate exposures in the form of loans.

Debt securities which at the reporting date have an investment grade rating, mainly attributable to government securities, are classified in stage 1 because for this case, and only for it, the MPS Group availed itself of the "Low Credit Risk Exemption". This exemption consists of the practical expedient of not carrying out the test of significant impairment of credit risk, in the case of exposures for which credit risk is deemed low and is applied to securities which, as of the measurement date, have an investment grade rating in full compliance with that established under accounting standard IFRS 9. In addition, considering the presence of several purchase transactions involving the same fungible security (ISIN), it became necessary to identify a methodology for identifying the tranches sold in order to determine the residual quantities with which to associate the credit quality at the date of initial recognition to be compared with that at the measurement date. In this regard it was considered suitable to use the FIFO (First In – First Out) methodology because it enables more transparent management of the portfolio, also from the operational point of view (front office), permitting, at the same time, continual updating of the assessment of creditworthiness on the basis of the new purchases.

In general, the criterion for transfer between stages is symmetrical. In particular, an improvement of the credit risk such as to remove the conditions that have led to the significant increase in the same entails the re-attribution of the financial instrument from stage 2 to stage 1. In this case the entity redetermines the value adjustment on a time horizon of twelve months instead of as previously recognised over the lifetime, recognising, consequently, in the income statement a write-back.

Once the allocation of the exposures to the different credit risk stages has been defined, the expected losses (ECLs) are determined, at the level of single transaction or security tranche, starting from the IRB/Operating models, based on the parameters of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD), on which specific adaptations are carried out, so as to guarantee their compliance with the specific prescriptions of IFRS 9, given the different requirements and purposes of the accounting regulations with respect to the prudential regulations.

For PD, LGD and EAD

⁽¹⁾ Therefore, the assessment at 31/12/T of the significant increase in credit risk of a thirty-year loan disbursed on 31/12/T-5 is made comparing the lifetime cumulative forward-looking PDs on the residual life of 25 years.

⁽²⁾ Transfer to NPE is measured on multiyear horizons.

PD (Probability of Default): probability of migrating from the performing status to that of impaired receivable over a time horizon of one year. In the models consistent with the supervisory provisions, the PD factor is typically quantified through the rating. In the MPS Group the PD values derive from the internal rating models, if available, supplemented by external assessments or by average of segment/portfolio data.

LGD (Loss Given Default): percentage loss in the event of default. In the models consistent with the supervisory provisions this is quantified through the historical experience of discounted recoveries on files classified as non-performing loans;

EAD (Exposure At Default) or credit equivalent: amount of the exposure at the moment of default.

As already noted above, to be able to observe the provisions of IFRS 9 it became necessary to take specific actions to adjust the above factor, among which we can note in particular:

- adoption of a Point in Time (PIT) PD against the Through the Cycle (TTC) PD used for Basel purposes;
- removal from LGD of a number of additional components, namely indirect costs (non-recurring costs) and from the component linked to the adverse economic cycle (so-called “down turn”); and to reflect the most current recovery rates (PIT), the expectations on the future (forward-looking) trends and the inclusion of any recovery fees in the case of recovery entrusted to third parties;
- use of multi-period PDs and, if necessary, LGDs, in order to determine the expected loss per for the entire residual life of the financial instrument (stages 2 and 3);
- use, in the context of the process of discounting expected future cash flows, of the effective interest rate of the single operation, unlike what is provided for in the regulatory models, in which the single cash flows are discounted using discounting rates determined in accordance with the prudential regulations.

In relation to the multi-period EAD, in line with the provisions of IFRS 9, the MPS Group makes reference to plans at amortised cost, irrespective of the related measurement methods (amortised cost or fair value through other comprehensive income). For commitments to disburse funds and guarantees given (off-balance-sheet exposures), the EAD is, instead, assumed to be equal to the nominal value weighted for a specific credit conversion factor (CCF).

Standard IFRS 9 establishes that at every reporting date an entity must measure the impairment of an asset based on expected credit loss, considering all information which is available, reasonable and consistent, without incurring excessive cost or effort. One of the most significant changes with respect to IAS 39 involves the use of not only historic information, recalibrated to incorporate the effects of current conditions, but the additional use of future forecasts with a degree of accuracy which depends on the availability, detail and depth of the information itself. The forward looking approach established under IFRS 9 to determine expected loss therefore represents a central aspect of the measurement model.

That being established, the MPS Group uses the forward looking approach to estimate expected losses, in both 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 positions and for non-performing positions measured statistically; Credit Conversion Factor (CCF), used to estimate Exposure at Default (EAD) for performing positions;
- Cure/Danger rate: used for probable defaults other than restructured positions and for positions measured statistically as they fall below a certain threshold;
- Haircut of the property guarantee, used, when applicable, for the analytical measurement of bad loans and probable defaults other than restructured ones.

Given that expected loss is estimated as the weighted average of a range of possible results, the above cited parameters are determined on the basis of historic evidence and corrected to contain at least 3 economic scenarios which cover a time horizon of at least 3 years: Baseline, Worst and Best.

The forecasts of the (forward-looking) macroeconomic indicators, provided by an external consultant of leading standing and reprocessed internally by the Parent Company’s Research Unit, are quantified on the basis of three

possible future scenarios, which consider the economic variables considered relevant (Italian GDP, interest rates, unemployment rate, price of commercial and residential properties, inflation, stock indices), with a future time horizon of three years to which are assigned the respective probabilities of occurrence, determined internally by the Bank. In more detail, alongside the “baseline” scenario considered most probable, that is the forecast macroeconomic scenario on the basis of which the MPS Group develops its projections in relation to economic/financial and risk data along a short- and medium-term time horizon, a better (decidedly favourable) and worse (unfavourable) alternative scenario was prepared.

The sensitivity of statistical parameters to macroeconomic variables is estimated. More specifically, below are the associations between statistical parameters/macroeconomic variables:

- PD: Italy GDP, unemployment rate, interest rates, inflation, price of commercial and residential real estate and stock indices;
- LGD/EAD: Italy GDP, price of commercial and residential real estate;
- cure/danger rates: Italy GDP;
- haircut: price of commercial and residential real estate.

For statistical parameters (e.g.: PD) for which a linear relationship with a macroeconomic variable does not exist, the measurement of the parameter is not calculated on the basis of the weighted average of the macroeconomic variables and using the respective probabilities as weights, but instead on the basis of certain distinct measurements of the parameter. In these cases, the weighted average is obtained at the level of the expected loss.

Lastly, for the estimate of the lifetime expected losses, the time horizon of reference is represented by the contractual maturity date; for instruments without maturity, the estimate of expected losses makes reference to a time horizon estimated through a behavioural model for product on demand and made equal to one year with respect to the reporting date in the other cases.

For further details on the model for determining the expected losses in the context of the COVID-19 pandemic, please see what is illustrated in the paragraphs “Updating of the macroeconomic scenarios”, and “Assessment of the Significant Increase in Credit Risk (SICR) for IFRS 9 purposes” contained in Part A.1, section 2, “Significant accounting policies in preparing the financial statements in the context of the COVID-19 pandemic” of these Notes to the Statements. For an examination on the risks, uncertainties and impacts of the pandemic please see the paragraph below “Risks, uncertainties and impacts of the COVID-19 epidemic: quantification of losses for impairment of receivables”.

Loss of value of non-performing financial assets

As illustrated above, for impaired financial assets, with which is associated a probability of default of 100%, the amount of write-downs for expected losses related to each receivable is equal to the difference between the book value of the same at the moment of measurement (amortised cost) and the present value of the expected future cash flows, this latter calculated using the original effective interest rate (or a proxy of it if unavailable). The cash flows are estimated on the basis of the forecasts of expected recovery along the entire lifetime of the asset, taking into account the estimated realisable value net of any guarantees and any costs associated with obtaining or selling the guarantee. To that end, in the case in which the Bank makes use of a third party for impaired loan collection activities, the commission paid to the outsourcer for activities closely linked to the collection are considered when estimating impairment losses. These costs are considered both for impaired and non-impaired exposures, if for the latter it is probable that in the case of a transfer to the bad loan category collection activities would be assigned to third parties.

The fees paid to the outsourcer are considered in the LGD estimates used for the statistical assessments of all the administrative statuses, in the bad loan recovery plans and in the analytical assessments of the probable defaults.

In order to estimate the future cash flows and the related collection times, the receivables in question of a significant unitary amount are the subject of an analytical measurement process. For some uniform categories of impaired receivables of an insignificant unitary amount, the measurement processes involve loss forecasts based on flat rate/statistical calculation methods, to be attributed in an analytical manner to each position. The perimeter of the exposure subject to a process of flat-rate/statistical measurement, that is on the basis of statistical grids of

operational LGD, differentiated on the basis of the segment and of the “vintage” in the state of risk and opportunely supplemented to take into account the forward-looking information, is represented:

- by the bad loans and probable defaults with exposures less than or equal to an established significance threshold of € 1 million;
- by the set of “past-due” impaired exposures irrespective of the significance threshold of the exposure. These are in particular loans which present continual over-the-limit situations or delayed payments, identified automatically using the Bank’s IT procedures, according to the aforementioned rules of the Supervisory Body.

The analytical-statistical measurement, performed for bad loans and probable defaults of an amount of less than € 1 million and for all past due and/or over-the-limit loans, presents specific features according to the type of exposure involved.

With reference to bad loans, the analytical-statistical measurement is based on the bad loan LGD grids, where the LGD model is characterised mainly by the differentiation of the loss rates according to, as well as the type of customer, the “vintage” in the state of risk. The grids are also differentiated for the other significant axes of analysis in the estimates of the model (e.g. technical type, type of guarantee, geographical area, exposure band, etc.). The recovery time grids are structured mainly by regulatory segment and by further significant axes of analysis in the estimates of the model (e.g. recovery procedures, exposure band, technical type).

With reference to probable defaults and to impaired past-due exposures, the measurement is performed by applying the statistical LGD grids estimated specifically for the positions classified in these administrative statuses, in keeping with the LGD grids estimated for bad loans. The LGD for probable defaults and impaired past-due exposures is obtained through recalibration of the bad-loan LGD using the danger rate module. The danger rate is a multiplicative corrective factor aimed at recalibrating the bad-loan LGD with the available information on other default events, so as to determine an LGD representing all possible default events and their evolution.

The analytical-specific measurement for bad loans and probable defaults of more than € 1 million is a measurement made by the managers of the single positions based on a quali-quantitative analysis of the economic, financial and equity situation of the debtor, the riskiness of the lending relationship, the objectives and strategies for reducing the impaired loans provided for in the “NPL Plan” and any mitigating factors (guarantees), and takes into account the financial effect of the time estimated for the recovery.

In particular, for bad loans a series of elements assume significance; these are present differently depending on the characteristics of the positions and must be assessed with the maximum accuracy and prudence, and among them we can mention merely by way of example:

- nature of the loan, privileged or unsecured;
- net financial position of the obligated parties/third parties that have provided real guarantees;
- complexity of the dispute in being or potential and/or of the underlying legal questions;
- exposure of the obligated parties in relation to the banking system and other creditors;
- latest available financial statements;
- legal status of the obligated parties and pending arrangement and/or individual procedures.

For the purposes of determining the estimated realisable value of loans guaranteed by property assets, to take into account both the historical series of recoveries and forward-looking considerations in keeping with IFRS 9, an approach focused on the valuation of the property assets is applied with reference to the expected average auction price and the related lowering of the price observed, determining average haircuts differentiated by type of property guarantee (residential and non-residential).

With reference to probable defaults, in addition, the measurement is based on the quali-quantitative analysis of the economic, financial and equity situation of the debtor and on precise verification of the risk situation. In the case of probable defaults guaranteed by properties, the haircut is applied not to the entire market value of the guarantee (as happens in the case of bad loans) but only to the part pertinent to the portion of loan exposure that it is believed will become bad; that is the cure rate of the related exposures is taken into consideration.

Determining the impairment loss presupposes the measurement of the future cash flows that it is believed the debtor will be able to produce and that will be destined also to service the financial debt. This estimate must be made on the basis of two alternative approaches:

- scenario of the business continuing (so-called “Going Concern Approach”): the operating cash flows of the debtor (or of the effective guarantor) continue to be produced, and are used to repay the financial debts contracted, on the basis of the repayment schedules provided for. The going concern assumption does not exclude any realisation of guarantees, but only to the extent to which this may happen without prejudice to the debtor’s ability to generate future cash flows. The “going concern” method is applied also to cases in which recoverability of the exposure is based on any sale of assets by the debtor or on extraordinary operations;
- scenario of the business closing down (so-called “Gone Concern Approach”): applicable in cases in which it is believed that the debtor’s cash flows are destined to cease. This is a scenario whose application could possibly regard positions for which classification as bad is provided for. In this context, assuming that actions of the shareholders and/or extraordinary debt rescheduling operations in contexts of a turnaround are not reasonably feasible, recovery of the receivable is based substantially on the value of the guarantees that back the receivable and, subordinately, on the realisable value of the capital asset, taking into account the insolvency assets and any reasons for pre-emption.

Moving on to analyse the alternative recovery scenarios, we can note that the Group, in relation to the objectives of reducing the existing stock of non-performing loans, included in the business plans, and to the commitments made to the Supervisory Bodies, with specific reference to the NPL Strategy, considers the sale of certain portfolios as the strategy that can, in certain conditions, maximise the recovery of the cash flows, also in consideration of the recovery times.

In particular, the ECB, with the “NPL Guidance” published in March 2017, required banks with a proportion of impaired loans higher than the average of European Banks to define a strategy aimed at achieving a gradual reduction of the same. In particular, in October 2017 the Group, when it prepared the 2018-2021 Restructuring Plan, approved by the European Commission, identified among the priorities a significant de-risking to be achieved through the sale of portfolios of bad loans and probable defaults.

Consequently, the estimate of the expected losses of transferable exposures is variable according to, not only the forecast of flows recoverable through the internal management activity (workout), but also the forecast of flows recoverable through possible sale of the same on the market (so-called “multi-scenario” approach). In particular, two different estimates of the cash flows which the Bank expects to receive are associated with the exposures in question:

- the first determined assuming as a reference the scenario of recovery from the debtor on the basis of the internal activity, according to the ordinary measurement guidelines followed by the Group illustrated above (so-called hold scenario);
- the second calculated assuming as a reference the scenario of recovery through sale of the receivable to third parties (so-called sale scenario).

To each of the two scenarios is assigned a probability of occurrence which is higher for clusters more subject to sale procedures on the basis of historical evidence and/or expectations (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 the recoverable cash flows in the two scenarios (hold and sale).

The selling values and the probability of sale therefore represent the two key elements for the definition of the expected loss. To this end the MPS Group carried out an analysis of the historical series of sales (past events) on the same portfolios and certain considerations on the future sale strategies.

On the basis of these considerations, the accounting model of impairment of only impaired loans for the Group provides for differentiated application for:

- receivables subject to the ordinary recovery process: application of the existing accounting policies, revised to take into account the changes introduced by IFRS 9, including in particular the forward-looking commission component;

- receivables that come within the sale programme: measurement carried out with ordinary policy plus any add-on in order to adjust the portfolios to the estimated sale value.

To determine the add-on the Group considers the following elements:

- selection of portfolios presumably subject to disposal: the perimeter includes positions with a certain attraction for the market, as a consequence both of the fact that other banks have already carried out sale operations and that expressions of interest have already been received; and additional positions consequent to assessments of expedience carried out by the Bank and Parent Company's competent bodies (e.g. presence of expanded bad loan positions or a high danger rate);
- probability of sale: probability of sale is guided by the amount of the target disposal level included in the NPL Strategy;
- selling prices: the selling prices used are derived from massive transactions on analogous portfolios and single names carried out by the Group or from transactions carried out on the market over the last few years.

Impairment calculated with the simplified method

Quantification of expected losses based on the forecasts of the simplified method established under IFRS 9 is done on the basis of lifetime ECL and hence does not require the presence of a significant increase in credit risk with respect to that existing at the time the asset was initially recognised. The MPS Group adopts this method for trade receivables or assets deriving from contracts without any significant financial components, or for cases in which the adoption of the simplified approach is obligatory under IFRS 9. To that end, the Group did not select to use this method for cases in which application is voluntary.

Method of determining impairment losses of other non-financial assets

Property, plant and equipment and intangible assets with defined useful life are subjected to impairment testing if there is an indication that the book value of the asset can no longer be recovered. The recoverable value is determined with reference to the fair value of the property, plant and equipment or intangible asset net of disposal costs or to the value in use if it can be determined and if it exceeds fair value.

In particular, relative to real estate, the recoverable value is determined on the basis of appraisals or valuations using indices. The impairment is recognised only if the fair value net of the selling costs or the value in use is lower than the book value.

Similar to owned real estate, the value in use of assets acquired through leasing is also subject to the impairment test, when the requirements are met. The test is carried out if the following events or situations occur: full/partial abandonment, under use or non-use of the leased asset. Additionally, it is necessary to refer to indicators coming from internal sources such as signs of obsolescence and/or physical deterioration of the asset, remodelling plans and closures of branches, as well as external sources, including increase in interest rates or other market return rates for investments which could lead to a significant decrease in the recoverable value of the asset.

Methods of determining deferred tax assets (probability test)

The Bank verifies the possibility of recognising deferred tax assets on the basis of a probability test, as reported below.

Forecast plans approved by the Board of Directors of the Bank are used. Obviously these are consistent with the Group's forecast plans. Given that forecast plans cover a limited time frame, results after the plan horizon are assumed to be equal to the that of the last year of the plan and increased by a growth factor g , used to determine the terminal value of companies.

In order to reflect uncertainties associated with the manifestation of future taxable income able to allow the recovery of deferred tax assets, a discount factor based on observable market data is used, consistent with the investment risk metrics implemented at Banca MPS (the Bank's parent company).

Application of the aforesaid discount factor, equal at 31 December 2020 to 9%, is a way to reflect the uncertainties associated with the realisation of future income. In any case, it is held that for the purposes of the test, the horizon considered for taxable income deemed of probable realisation cannot exceed 20 years.

In developing the probability test, when applicable the national tax consolidation agreements which the Bank adheres to are taken into account.

For an analysis on the risks, uncertainties and impacts of the COVID-19 pandemic please see the paragraph below “The estimate and assumptions on the recoverability of deferred tax assets”.

Risks, uncertainties and impacts of the COVID-19 epidemic

The quantification of losses for impairment of loans

The health emergency caused by the pandemic still in progress conditioned, starting from the last week of February 2020, both the performance of the markets and commercial operations, these latter penalised by the increasingly severe containment measures imposed, which led to the suspension of many production activities in Italy and around the world. These economic disturbances are reflected in the modelling of the forward-looking economic scenarios, used for the purposes both of defining the SICR and of quantifying the expected loss under IFRS 9. To this end as well as updating the macroeconomic variables, such as GDP and unemployment rates, it was necessary to consider the impact of COVID-19 on specific economic sectors. The estimate of the impacts that the combination of factors such as GDP, interest rates, supporting measures of the government and unemployment rates with specific sectoral factors can have on the solvency of customers is very challenging and requires great use of judgements, considering also that the historical data in the current context are not of much help.

The supervisory authorities (ESMA, EBA and ECB) and the standard setters (IASB), starting from March 2020, provided indications on the application of IFRS 9 and in particular on the use of forward-looking information in the context of the pandemic. Precisely on this aspect we can note a general call for caution in the use of economic scenarios and in the methods of transferring prospective information in the recognition of the staging and of the lifetime expected loss.

Macroeconomic scenarios

The Group's accounting policies, adopted by the Bank, provide for updating of the macroeconomic scenarios for the purposes of determining the expected loss on loans at least once a year, on the occasion of the annual financial statements, and every time the latest available “basic” scenario shows, with respect to that already in use, a net cumulative difference in GDP over the horizon of 3 years greater than or equal to, in absolute terms, 0.5%.

During 2020 the scenarios that had been used for the purposes of estimates for preparing the 2019 Financial Statements had several updates aimed at aligning the forecast information as well as possible with the changed economic context affected by the COVID-19 pandemic crisis. We can remind you that at 30 September 2020, the scenarios remained unchanged with respect to those used in the first half of 2020, aligned with the indications provided by the ECB and the Bank of Italy at that date, also in consideration of the substantial uniformity (net of marginal changes) of the forecast scenarios of June and September published by the ECB.

In November of the previous year the Parent Company approved a set of forecast macroeconomic scenarios for the period 2020-2025 developed internally, assuming as a reference also the forecasts formulated by external providers. These scenarios, used in the context of the ordinary annual process of updating the 2021-2025 multi-annual projections of the Parent Company and the Group, the preparation of the Group's strategic plan and the calculation of the value adjustments of performing and non-performing loans as of 31 December 2020, take into account a worsening of the overall macroeconomic situation caused by the new spread of the COVID-19 pandemic and the counter-measures introduced to limit the effects.

In detail, the baseline scenario of reference confirms the high economic, not only social, cost of the health crisis associated with the COVID-19 pandemic with a serious recession in the global economy in 2020 to be followed by a recovery which, at least in the short term will remain uneven, uncertain and subject to downside risks. Decisive in relaunching growth will be the economic policies of support, among which a decisive role will be played by the ECB emergency security purchase plan (PEPP), strengthened and with its expiry prolonged and, above all, the unprecedented emergency package (including the Next Generation EU of € 750 billion) put into play by Europe to finance the Union countries grappling with the emergencies caused by the pandemic. These exceptional actions are accompanied by the stimulation policies of the single National Governments. In particular, the updated baseline scenario is characterised, compared to the previous one used for the accounting closures of 30 June and 30

September 2020, by a worsening trend in GDP for the year 2020 (-10.0%), but an improving one in the medium term (2021: +5.3%, 2022: +2.7%, 2023: +1.8%) thanks to the boost of the aforementioned funds made available in the European context.

In Italy an ever-increasing availability of vaccines and adequate treatments together with the fiscal support measures taken will contain the damage and, already starting from the second quarter of 2021, will enable a rebound of growth. The recovery is expected to continue with a certain intensity in the next two years, but the pre-COVID levels of activity are likely to be regained only in the medium-long term. The path of recovery will depend inevitably on the correct use of the resources made available by the European countries through debt-sharing instruments, the fruition of which presents however critical issues such as: observance of the presentation times of the projects, the generation of effective added value by these projects, the efficiency of the bureaucratic structures and of national businesses in implementing the projects. There remains the risk that, after the phase of exceptional support of the economic policies, growth will not be sufficiently sustained as to enable management of the public (and private) debts which in the meantime have increased notably.

The more severe alternative scenario outlines a complicated containment of the epidemic in the winter months and the introduction of more stringent lockdowns, although limited in time, both in different areas of the world and in our country, with sharp impacts on the recovery of the economy. Italy will experience a more marked contraction of growth up to next spring with reflections on the pace of the rebound which will be seen in the rest of the year; the recovery of the pre-COVID-19 levels of activity will thus be postponed compared to the basic forecast. In a context of increased uncertainty, households will maintain a high propensity to save and businesses will further postpone investment decisions. The slowness of the recovery will make the heritage of higher public debt more weighty translating into a widening of the spreads on Italian debt securities.

In the improved alternative scenario the hotspots are kept effectively under control in the advanced and emerging countries. In Italy, the recovery of economic activity will not stop in the winter months. In 2021 growth will continue at a good rate enabling the country to return to the pre-COVID-19 level much earlier than in the basic forecast. The agreement on the Next Generation EU will be put in place rapidly already from the summer: the boost to growth will be significant, involving higher investments and health service spending. Together with the loans provided by the Union, there will be a containment of the financial burden of the Italian debt which will facilitate a slow descent from the peaks of 2020, with positive effects on the spread. However, owing to its structural limits and high public debt, Italy will continue to grow slightly more slowly than the other European countries.

The table below shows, by way of example, the update of the basic scenario made by the Group during 2020 on the GDP indicator with related comparison with the basic scenario published by the Bank of Italy in June and December 2020; it also shows a comparison between the adverse scenarios published again in December by the Bank of Italy and the adverse scenario used by the Group for the year-end accounting measurements.

	GMPS 4Q2019 baseline	GMPS 1Q2020 baseline	GMPS 2Q2020 baseline	Bankit Jun 2020	GMPS 4Q2020 baseline	Bankit Dec 2020	GMPS 4Q2020 severe but plausible	Bankit internat. situation Dec 2020	Bankit prolonged pandemic Dec 2020	Bankit financial factors Dec 2020
2020	0.6%	-6.5%	-8.0%	-9.2%	-10.0%	-9.0%	-10.1%	-9.1%	-9.1%	-9.0%
2021	0.7%	3.3%	3.9%	4.8%	5.3%	3.5%	4.0%	2.6%	1.9%	2.6%
2022	0.9%	1.2%	2.0%	2.5%	2.7%	3.8%	2.9%	3.1%	2.8%	3.1%
2023	0.8%	0.8%	1.2%	n.a.	1.8%	2.3%	1.8%	2.0%	3.9%	2.4%
AVG 20-22	0.7%	-0.7%	-0.7%	-0.6%	-0.7%	-0.6%	-1.1%	-1.1%	-1.5%	-1.1%
Σ 20-22	2.2%	-0.2%	-2.1%	-1.9%	-2.0%	-1.7%	-3.2%	-3.4%	-4.4%	-3.3%
AVG 21-23	0.8%	1.8%	2.4%	n.a.	3.3%	3.2%	2.9%	2.6%	2.9%	2.7%
Σ 21-23	2.4%	5.3%	7.1%	n.a.	9.8%	9.6%	8.6%	7.7%	8.6%	8.1%

We can observe that the basic scenario base used by the Group, during 2020, was always in line with, if not more conservative than, the forecasts provided by the Bank of Italy (in terms of both three-year average and cumulative impact on the three years). As regards the alternative scenarios (again in terms of three-year average and cumulative impact on the three years), the Group's scenario is totally aligned to the two "international situation" and "financial factors" scenarios on the 20-22 horizon and to the "prolonged pandemic" scenario on the 21-23 horizon, also published by the Bank of Italy this past 11 December in the context of the forecasting exercise coordinated by the Eurosystem.

SICR and ECL calculation

If, as mentioned, the serious situation caused by the pandemic would portend an unprecedented economic crisis, on the contrary it is strongly countered by the budget policy measures in direct support of demand, included for Italy in particular in the "Treat Italy" and "Relaunch" decree laws. Measures such as the moratorium on credit and the public guarantees on new loans were in fact essential in avoiding the manifestation of possible further negative effects, preventing liquidity crises of businesses.

These measures, adopted massively for the first time in recent history, are not incorporated into the internal models. In the light of the particular situation in being, on the one hand a number of implementations were carried out on the existing models, with a view to making them more consistent with the specific current situation making use of the larger amount of information now available, as well as improving the sensitivity to the change in macroeconomic conditions, on the other one-off treatments were introduced to include with greater granularity the impacts of the current scenario on the micro-sectors and to take into account for measurement purposes the aforementioned phenomena of state guarantees and moratoria, as also suggested by Regulator and standard setters. What is significant, above all, from a prudential point of view, is the maintenance for the whole of 2020 in the assessment of the forward-looking PDs of the use of the Jan 20-Dec 22 (recessive) scenario, without therefore considering the time shift of the historical series, which would instead have entailed for the 21-23 period the use of an expansive scenario. This choice is attributable to the fact that the recessive effects of 2020 are not yet observed during this year but will be observed during 2021, at the end of the various moratoria granted to both corporate and retail customers.

In addition, a number of *ad hoc* corrections, not incorporated in the models were made, on the basis of bottom-up analyses that take into account the sensitivity of the scenario of the prospective financial statements of counterparties belonging to the different micro-sectors. These corrections determined significant increases both in the staging and in the calculation of the ECL for certain sectors in the segment of tourism services, hospitality and restaurants, textiles, footwear and clothing.

In particular, as regards performing corporate loans, "corrections" to the expected default rates at one year were used to factor in the same forecast score adopted in the context of the lending strategies (Cerved score as specified below), in line with what had already been done at 30 June 2020. In more detail, the Group made use of the forecast

scenario contributed by Cerved, which presents a contraction in GDP for the year 2020 of 9.67%⁽¹⁾ and which, with respect to the macroeconomic scenarios usually adopted and to the “satellite” model in use for the estimate of the multi-period PD curves, (which envisages for the corporate segment a distinction into 5 macro-branches: agriculture, trade, construction, industry and services) made it possible to differentiate the effects of the COVID-19 pandemic by sector of economic activity and geographical location. The forward-looking shock applied to the multi-period PD curves was determined in terms of a change in the probabilities of default on 30 sectors of economic activity, on the basis of changes (weighted for the related exposures of the counterparties) observed between the Cerved forecasts *pre* and *post* COVID-19. This approach made it possible to identify the lending relationships of corporate counterparties for which the pandemic determined a significant increase in credit risk, with consequent redetermination of the staging and calculation of the lifetime ECL.

At the same time portfolio analyses were carried out with the aim of checking the impacts of the pandemic on the risk profile of the portfolio on the different customer segments; the results of the new segmentation were factored into the revision of the lending strategies in order to orient the action in a consistent and appropriate way on the single clusters. In particular, in relation to businesses, to capture the asymmetric impacts of the crisis a more granular segmentation was used for the different sectors of economic activity through the use of scenario and detailed forecast information on more than 200 segments contributed by the provider Cerved. On the basis of this information, for each micro-sector the turnover reduction estimates and the recovery assumptions for 2021 were used; for each company finally a “prospective” rating was estimated with the objective of factoring in its capacity of reactivity/resilience to the crisis. To the cluster of businesses with higher risk the “selective management” ⁽²⁾ strategy was assigned; belonging to the said cluster represents an indicator of significant increase in the credit risk, with consequent classification in stage 2 of the risk classes.

Inclusion of the state guarantees

Finally, in relation to the treatment of state guarantees, we can note that the same, in keeping with the indications of the Authorities, did not impact the calculation of the SICR, because the latter is not connected to the guarantees, but to the creditworthiness which remains the specific one of the counterparty. Instead the estimate of the ECL did have an effect, through the use of an LGD parameter that took into account the mitigations attributable to the State, introduced and expended with the “Treat Italy” and “Liquidity” Decrees. This approach derives from the assessment conducted on the characteristics of the guarantees that make it possible to consider the same as an integral part of the contract under the terms of IFRS 9.

As of 31 December 2020, the set of assessment approaches described above entailed:

- the recognition of additional adjustments of € 39.5 million, of which approximately € 25.7 million for the performing and approximately € 13.8 million for the non-performing portfolio;
- an increase in stage 2 of approximately € 389 million.

Rights of use in the context of leasing contracts

In line with the ESMA Recommendations, the negative impact of the COVID-19 pandemic was considered as a trigger event for the purposes of impairment of assets under the terms of IAS 36. With specific reference to the assets consisting of the right of use, the impairment test was therefore performed in accordance with the Group policy, which provides for the performance of the test when there is an indication that the book value of the asset can no longer be recovered and in any case in preparing the annual financial statements. The activities carried out regarded:

- a check on the trend of the rates used for discounting rents;
- a check on the presence of unused properties;

⁽¹⁾ This scenario supplemented the one developed in house by the Group only for the year 2020 and only for corporate counterparties in the context of the three-year horizon of reference.

⁽²⁾ This is a new post COVID-19 lending strategy which provides for the need to carry out a bottom-up action in order to understand in detail the current and prospective situation and also to be able to identify the best supporting measures to overcome the period of difficulty generated by the pandemic.

- a comparison between the contractual rent paid by the Bank and the average rent per sq m for similar properties in the same area.

The result of the above checks at 31 December 2020 did not entail the recognition of any impact for the Bank.

The estimate and assumptions on the recoverability of deferred tax assets

At 31 December 2020 the Bank accounted for revaluations of DTAs for approximately € 12 million consequent to the adoption, for the purposes of the probability test, of the forecasting plans and the discount factor updated to take into account the different macroeconomic scenario that has become clear as a consequence of the COVID-19 pandemic.

The aforesaid amount includes also the portion of DTAs that arose potentially in the period which was not recognisable on the basis of the assessment of the probability test.

We must specify that as of 31 December 2020, the discount factor used to reflect the uncertainty connected to the achievement of future incomes, capable of enabling the recovery of the deferred tax assets, is 9% (the rate used at 31 December 2019 for the purposes of the probability test of the Financial Statements at that date was 8%). For more information, please see paragraph 10.7 "Other Information" in part B of the present Notes to the Financial Statements.

Contractual changes deriving from COVID-19 - Contractual changes and derecognition

Contractual changes and forbearance

The social and economic emergency determined by the COVID-19 pandemic led the Italian Government to launch a series of measures to sustain and support customers. The Group identified the following lines of action:

- suspension of instalments and/or extension of due dates on instalment operations, both in application of the legislative rules with suspension of instalments up to 30 September 2020 ⁽¹⁾, and through the ABI moratorium instrument that permits suspension up to 12 months extendible up to 24 months for businesses belonging to specific sectors or production chains with greater difficulties in recovering;
- extension of the due dates of existing advances;
- new medium/long-term financing products for borrowers' working capital needs.

The first two of the above measures entail, when granted, a change in the original contractual conditions and are classifiable, under the terms of the Group' accounting policies ⁽²⁾, as non-substantial contractual changes subject to so-called "modification accounting" which involves recognition in the income statement of the difference between the book value and the present value of the modified cash flows discounted at the original interest rate. We must specify that the operating method with which the Group and, in its context, the Bank granted the COVID-19 suspensions provides for the application of interest charged on the entire residual debt. This arrangement implies a substantial actuarial neutrality, as provided for besides in the Government's illustrative report on the Treat Italy Decree and in the EBA statement of 2 April 2020.

In this regard we can note that the Bank, in the emergency context due to the pandemic crisis characterised by a high number of requests, to deal as quickly as possible with the applications received authorised for the extensions pursuant to the "Treat Italy" Law Decree a simplified decision-making process that involves, for accepted requests, a block in advance on the instalments while awaiting the completion of the contractual forms.

As of 31 December 2020 a total of 1,077 requests had been received for a residual debt of approximately € 1,213 million, of which 912 granted for € 1,069.8 million. With respect to this last aggregate (extensions granted) approximately 80% of the amount granted has been completed (with finalisation of the contractual forms and adjustment of the repayment schedules in the services of reference) for a residual debt of approximately € 855

⁽¹⁾ On this point we can remind you that article 65 of Italian Law Decree no. 104 of August 2020 provided for the extension of the *ex lege* moratoria in favour of SMEs initially introduced by Italian Law Decree no.18 "Treat Italy" of March 2020, extending up to 31 January 2021 (31 March 2021 for tourism) the right to make use of the extraordinary support measures initially provided for up to 30 September 2020. The 2021 Budget Law provided for a further extension up to 30 June 2021.

⁽²⁾ For more details on the derecognition/modification accounting please see point 15. Other information – b) Other significant accounting treatments – Renegotiations in the present Section of the Notes to the Financial Statements.

million. For a quantitative examination of the moratoria granted by the Bank at 31 December 2020 please see the table “A.1.7a Loans subject to Covid-19 support measures: gross and net amounts” contained in “Part E — Information on risks and related hedging policies” of the present Notes to the Financial Statements.

As of 31 December 2020, item 140 of the income statement “Gain/loss from contractual changes without cancellations” includes a loss referable to COVID-19 suspensions completed for approximately € 1.6 million.

Classification criteria applied to moratoria (forborne, default)

Given the exceptional nature of the context associated with the COVID-19 pandemic and the guidelines of the Supervisory Authorities, aimed at using the existing margins of flexibility in the accounting and prudential regulations, starting from the past March 2020 decisions were taken from time to time on changing the accounting classification, as a partial exception to the classification criteria represented previously, namely:

- the *ex lege* and system suspensions and concessions (remodulations/reschedulings) carried out for COVID-19 purposes by 30 September 2020, including any related extensions resolved by 1 December 2020, - attributable to the so-called “general payment moratoria” pursuant to the EBA guidelines of April 2020 as amended from time to time - were not identified as forborne exposures and consequently did not entail automatic classification in stage 2;
- the suspensions and concessions on the Bank’s initiative and the general payment moratoria granted in the period 1 October - 1 December 2020 were the subject of specific assessment and considered forborne, with consequent transfer to stage 2, in all cases in which the financial difficulty and/or the type of support granted were not attributable exclusively to the COVID-19 pandemic and/or were not commensurate to dealing with its effects. At the end of 2020 an *ex post* analysis was carried out on the suspensions and concessions on the Bank’s initiative in order to check the following risk drivers at the reference date of February 2020 on each counterparty:
 - NPE status;
 - rating lower than C;
 - amounts over the limit for more than 20 days;
 - presence of bad loans in the system.

The active presence of at least one of these drivers led to assignment of the attribute forborne to the exposure;

- counterparties that were beneficiaries of moratoria starting from December 2020, following the introduction by the EBA of the time limit of 9 months to make use of the conditions permitted for “general payment moratoria”, were subjected to assessment of the financial difficulty in all cases in which the concessions provide for a duration of the suspension of more than 9 months (also accumulating any pre-existing suspensions);
- agreement to a moratorium was not considered an automatic trigger of probable default; in particular, in the period in which the suspension was valid the counting of the past-due days was interrupted, entailing as a consequence an extension of the ninety-day period, as an automatic trigger for transfer among impaired exposures. In this regard we can note that, in April 2020 the triggers of automatic classification as in default in the presence of a past-due amount on forbearance measures already active, were deactivated in order to avoid automatic transfers to impaired loans, and de-classed to highly-significant non-binding classification parameters to be able in any case to trace and monitor the phenomenon and consequently manage the risk profile of the customers. The automatisms were reactivated in January 2021 following the new EBA guidelines issued in December 2020; in the last eight months of 2020 counterparties on which the aforesaid parameters were active were monitored by the High Risk unit and the most critical ones were classified according to the ordinary process;

Finally, as already mentioned above, with the redefinition of the lending strategies as a result of the pandemic, starting from July 2020, the business portfolio was segmented according to the sectoral impacts and the evolution estimated on the rating of the single counterparty and, subsequently the portfolio related to households applying for COVID-19 moratoria was also processed by external scoring instruments to check for the presence of critical signs not noticeable in the internal information sources. On the basis of the analyses

conducted, customers belonging to the most risky clusters were classified in the “high risk” management chain and therefore in stage 2. In addition, during the fourth quarter of 2020, structured processes of analysis of the most risky businesses were launched with the aim of proceeding, in the necessary cases, to classification in default even in the absence of evident delays in payments.

- . For more details on the identification and classification of forbearance measures and on the assessment of probable default please see what is described in Part E- Information on risks and related hedging policies, Section 1 “Credit risk, of the present Notes to the Financial Statements.

Disclosure on public disbursements pursuant to art. 1, paragraph 125 of Italian Law no. 124 of 4 August 2017 (“Annual Law for the Market and Competition”)

We can note that, at the reporting date of the present financial statements, in the National State Aid Register, in the section Transparency: “Individual Aid Amounts”, there are no contributions received by the Bank for 2020. For more details, please see the following link:

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

A.3 - Disclosure on transfers between financial asset portfolios

Tables on transfers between portfolios of financial assets are not provided, in that in this financial year and in previous years, the Bank did not carry out any reclassifications consequent to a change in the business model.

A.4 - Fair value disclosure**Qualitative information**

Below is the disclosure regarding the measurement techniques and input used for measurements relative to assets and liabilities measured at fair value in the balance sheet on a recurring and non-recurring basis (the latter are essentially discontinued operations pursuant to IFRS 5).

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

Items	Fair value 31 12 2020								Types	Measurement technique	Input used
	Financial assets held for trading	Financial assets designated at fair value	Other financial assets obligatorily measured at fair value	Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Financial liabilities held for trading	Hedging derivatives				
Debt securities	857,567	#RIF	9,682	17,989	X	-	X	Bonds	Discounted Cash Flow	Rate curve, CDS Curve, Yield, Inflation Curve	
								Structured Bonds	Discounted Cash Flow	Rate curve, CDS curve, Yield, Inflation curve + parameters necessary to value the optional component	
								Bonds	Market price	Market price	
Equity securities	22	X	-	-	X	X	X	Equity investments	Net Assets Adjusted	Carrying Amount Assets/Liabilities	
									Discounted cash flow	Share prices, sector beta, risk free rate	
								Shares/Equity investments	Market price	Market prices, recent transactions, appraisals, operator reports	
UCITS Units	-	X	-	X	X	X	X	Provisions/P E	Market price	Market prices, recent transactions, appraisals, operator reports	
Financing/ Debts	-	-	-	-	X	-	X		Accrual	Interest rates on transactions	
								IR/Asset/Currency Swaps	Discounted Cash Flow	Rate curve, CDS curve, yield, inflation curve, exchange rates, rate correlation	
								Equity swaps	Discounted Cash Flow	Share prices, rate curve, exchange rates	
								Forex Singlename Plain	Option Pricing Model	Rate curve, exchange rates, Forex volatility	
								Forex Singlename Exotic	Option Pricing Model	Rate curve, exchange rates, Forex volatility (surface)	
								Equity Singlename Plain	Option Pricing Model	Rate curve, Share prices, Exchange rates, Equity Volatility	
Financial derivatives	3,243,136	X	X	X	-	1,784,925	4,220	Equity Singlename Exotic	Option Pricing Model	Rate curve, Share prices, Exchange rates, Equity Volatility (surface), Model Parameters	
								Equity Multiname Plain	Option Pricing Model	Rate curve, share prices, exchange rates, equity volatility, Quanto correlations, equity/equity correlations	
								Equity Multiname Exotic	Option Pricing Model	Rate curve, Share prices, Exchange rates, Equity Volatility (surface), Model Parameters, Quanto Correlations, Equity/Equity Correlations	
								Plain Rate	Option Pricing Model	Rate curve, inflation curve, bond prices, exchange rates, rate volatility, rate correlations	
								Foreign currency transactions	Market price	Market price, Swap Point	
Credit derivatives	275	X	X	X	-	128,873	-	Default swaps	Discounted Cash Flow	CDS curve, rates curve	
Total assets	4,101,000	-	9,682	17,989	-	X	X				
Total liabilities	X	X	X	X	X	1,913,798	4,220				

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

Items	Fair value 31 12 2020						Types	Measurement technique	non-observable input	Range (weighted average)
	Financial assets held for trading	Financial assets designated at fair value	Other financial assets obligatorily measured at fair value	Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Hedging derivatives				
Debt securities	-	-	31,482	-	X	X	Junior Tranche NPL Securitisation	Discounted Cash Flow	Discount rate	18.0%
							Notes	Discounted Cash Flow	Discount rate	10.4%
Equity securities	-	X	780	78	X	X	Equity investments	Cost/Shareholders' Equity	Fair value asset	0-0.8 €/mln
UCITS Units	-	X	36,184	X	X	X	Alternative Investment Fund	Discounted Cash Flow	Discount rate	10.4%
Loans	-	-	6,026	-	-	-	Loans	Discounted Cash Flow	NPE Spread	4.11% - 4.42%
							Loans	Discounted Cash Flow	LGD	3.65% - 18.06%
							Loans	Discounted Cash Flow	PD	0.3% - 45%
							Loans	Discounted Cash Flow	PE Spread	0.02% - 0.58%
Total assets	-	-	74,472	78	-	X				
Total liabilities	X	X	X	X	X	-				

A.4.2 Measurement processes and sensitivity

In the category "Debt securities" of "Financial assets obligatorily measured at fair value", the position related to the junior tranche of the Siena NPL securitisation, of approximately € 6 million at nominal value, was measured using the Discounted Cash Flow method, discounting future cash flows according to the expected recoveries. It is estimated that the expected fluctuation of the discounting rate (+100bp) may have an impact on the value of the Notes of approximately € -0.22 million.

The same category includes, for a fair value of approximately € 30 million, the Notes deriving from the "Norma Spv" securitisation, also measured with the Discounted Cash Flow method; the non-observable parameter of the security and the total return, the change in which for each percentage point generates a corresponding change in value which can be estimated in a range between € 26.28 and 34.13 million.

Equity securities measured at fair value amounted to approximately € 0.9 million, of which € 0.1 million through other comprehensive income and € 0.8 million obligatorily measured at fair value. These are, in both cases, securities measured at cost/equity and representing all equity investments at fair value for which it was not possible to define measurement according to a market-based model.

UCITS units, for a total fair value of approximately € 36 million, derives for a large part from operations to dispose of non-performing loans, measured on the basis of the present distribution value of the funds.

The change in the discounting rate (+/-1%) and in the flows of expected distributions (+/-10%) generates a estimated change in value in the range between € 36.9 and 47.5 million.

The category "Loans" includes receivables (€ 6.1 million) measured obligatorily at fair value because they did not pass the so-called SPPI test that is the related contractual flows do not involve solely repayment of principal and payment of interest on the principal to be repaid, both in virtue of clauses originally provided for in the contract and following subsequent amendments. The fair value is measured using the Discounted Cash Flow approach applied differently according to whether these are performing or non-performing loans: in the first case the contractual flows are discounted with a Risk-Adjusted curve that incorporates the risks related to the cost of credit, the cost of funding and the cost of capital; in the second case the recoverable value is discounted applying a spread in order to include the risks related to any sale on the market. The unobservable parameters are Probability of Default (PD), Loss Given Default (LGD) and the distinct spread for performing and non-performing assets. A change in these parameters, respectively of 10% - 5% -1% -1%, would determine an impact on the fair value of approximately € -0.4 million.

A.4.3 Fair value hierarchy

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

The classification of financial instruments in three different levels reflects the reliability of the inputs used to make the measurements, preferring the use of parameters observable on the market that reflect the assumptions that the market participants would use in the pricing of the same asset/liability. The objective of the hierarchy is also to increase the consistency and comparability of fair value measurements.

The methods of classifying financial instruments in the three levels of the fair value hierarchy are indicated below.

Level 1 (effective market quotes)

In this level, the inputs consist of prices quoted on active markets for instruments identical to those being measured.

IFRS 13 defines as active a market in which the transactions occur with adequate frequency and volumes to provide price information on a continual basis. A market is active with reference to a specific financial instrument when:

- the prices quoted are promptly and regularly available in a stock exchange list or through an operator, a broker, a specialised firm or through quoting services, authorised agencies or regulatory authorities;
- the prices quoted represent actual market transactions that regularly take place in normal trades.

If the quoted prices meet these requirements, they represent the best estimate of fair value and their use is mandatory in measuring the financial instrument.

From the definition of active market contained in IFRS 13 it can be seen that the concept of active market is specific to the single financial instrument being measured and not of the listing market; consequently the circumstance that a financial instrument is quoted on a regulated market is not in itself a sufficient condition for this instrument to be defined as quoted on an active market; conversely, it may happen that financial instruments not traded on regulated market present a volume and a frequency of trades adequate for determining the classification in level 1 of the fair value hierarchy.

Level 2 (comparable approach)

This level includes instruments which, for the purposes of measurement, prices quoted on active markets for similar assets or liabilities are used, or prices calculated using measurement techniques where all the significant input is based on parameters that can be observed on the market, directly or indirectly. An input is observable when it reflects the same assumptions used by market participants, based on market data provided by sources that are independent of the appraiser.

Level 2 inputs are the following:

- a) prices quoted on active markets for similar assets or liabilities;
- b) prices quoted for the instrument being analysed or for similar instruments on non-active markets, that is to say markets in which:
 - there are few transactions;
 - the prices are not current or vary substantially over time and between the different market makers;
 - the information made public is not exhaustive.
- c) observable market inputs other than quoted prices (e.g. interest rates or yield curves observable on different buckets, volatility, credit curves, etc.);
- d) inputs that derive mainly from observable market data whose relationship is supported by parameters such as correlation.

Level 3 (mark-to-model approach)

This level, instead, is used when there are prices calculated using valuation techniques where at least one significant input is based on non-observable parameters.

All financial instruments not quoted on an active market are classified in level 3 when

- although observable data are available, significant adjustments on the same based on non-observable data become necessary;
- the estimate is based on internal assumptions about the future cash flows and the adjustment for the risk of the discount curve.

To determine the methods of classifying assets in fair value Level 1, the Bank, in line with the policies of the Parent Company, used the presence of regulated markets for some categories financial instruments. In any case, classification in an active market requires the meeting of given requirements established ad hoc for each type of financial instrument. In particular equity securities and bonds (with the exception of plain vanilla government securities issued in hard currency and government securities from the G10 and Spain, for which it was held that the significance test was not necessary to carry out for the prices given the breadth and depth of the markets on which they are listed) are subject to periodic tests in order to verify the presence of various elements such as the bid-ask spread, the presence of numerous price contributors, the absence of listings that remain unchanged over time which demonstrate sufficient liquidity to make it possible to classify them in Level 1. Specifically, listed derivatives, exchange rates and UCITS units (limited to SICAVs and mutual investment funds) are considered as level 1.

All other financial instruments (OTC derivatives, Hedge Funds, Private Equity Funds, equity investment structures valued at fair value) and the same instruments that do not pass the liquidity and price significance tests are inserted in Level 2, as a rule.

If certain instruments have peculiarities that make it possible to measure them only with the assistance of measurement models that make use of unobservable market data input and/or entity specific assumptions, they are classified in Level 3.

The measurement method defined for an instrument is adopted and then kept over time, modified only following significant changes in market conditions or the subjective conditions of the issuer of the financial instrument. The Group's policy is that any movement of a given financial instrument between Levels 1 and 2 must be motivated by changed conditions, either improving or worsening, of the liquidity or price significance which determine whether or not the periodic tests are passed. Movement to and from Level 3, on the other hand, may depend on changes in the observability of the unknown parameters, as well as the adoption of different measurement techniques (models, replicas, etc.). It must be stressed that, in relation to item 20 c) "Financial assets obligatorily measured at fair value" and 30 "Financial assets measured at fair value through other comprehensive income", the amounts shown among Level 3 equity securities are to equity interests that are included in this fair value level when they are measured at adjusted cost, irrespective of measurements based on market parameters.

Quantitative 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 levels

Financial asset / liabilities measured at fair value	31 12 2020				31 12 2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
1. Financial assets measured at fair value through profit or loss	4,622,785	4,110,682	74,472	8,807,939	6,280,338	4,213,444	84,773	10,578,555
a) Financial assets held for trading	4,622,785	4,101,000	-	8,723,785	6,280,338	4,203,876	-	10,484,214
b) Financial assets designated at fair value	-	-	-	-	-	-	-	-
c) other financial assets obligatorily measured at fair value	-	9,682	74,472	84,154	-	9,568	84,773	94,341
2. Financial assets measured at fair value through other comprehensive income	106,316	17,989	78	124,383	95,687	9,727	458	105,872
3. Hedging derivatives	-	-	-	-	-	-	-	-
Total assets	4,729,101	4,128,671	74,550	8,932,322	6,376,025	4,223,171	85,231	10,684,427
1. Financial liabilities held for trading	4,545,499	1,913,797	-	6,459,296	2,435,928	1,828,286	-	4,264,214
2. Financial liabilities designated at fair value	-	-	-	-	-	-	-	-
3. Hedging derivatives	-	4,220	-	4,220	-	-	-	-
Total liabilities	4,545,499	1,918,017	-	6,463,516	2,435,928	1,828,286	-	4,264,214

During the year there was a worsening of the fair value level (from level 1 to level 2) in the portfolio of debt securities classified among “*financial assets held for trading*”; the change, of approximately € 88 million, regarded substantially bonds that recorded a worsening of the liquidity conditions (measured in terms of bid-ask of the quoted price) such as to require reclassification in application of the Group policy on measurement of financial instruments. Conversely, the improvement of the liquidity conditions enabled the reclassification from level 2 to level 1 of approximately € 24 million of debt securities classified under the same accounting item.

In keeping with the accounting standard IFRS 13, the Bank calculates the value adjustment of OTC derivatives, using measurement models on the basis of risk-free rates, to take account of the creditworthiness of the individual counterparties. This corrective, known as Credit Value Adjustment (CVA), is estimated for all positions in OTC derivatives with non-collateralised commercial and institutional counterparties and with counterparties with which Collateral Support Annex (CSA) contracts outside of market standards have been signed.

The method is based on calculating the operating expected loss associated with the rating of the counterparty and estimated on the duration of the position. The exposure includes the component of future credit variation represented by the add-ons. In calculating the CVA “market consistent” probability measures are used in order to incorporate the expectations of the market deriving from quotations of credit default swaps (CDSs), together with historical information available internally.

The value of the CVA at 31/12/2020 totalled approximately € 9.5 million (€ 10.7 million at 31/12/2019), with an effect on the income statement of the year of approximately € 1 million, due essentially to a decrease in positions subject to correction and marginally to an improvement in the composition of the portfolio in lending terms. In a specular manner and on the same perimeter the Bank calculates the adjustment of the value of OTC derivatives to take account of its own creditworthiness, that is Debit Value Adjustment (DVA). At the end of the year the value of the DVA totalled approximately € 0.6 million (€ 1.8 million at 31/12/2019), with a negative effect on the income statement of € 1.2 million, essentially due to the improvement in the Group's credit rating.

A.4.5.2 Yearly changes in assets measured at fair value on a recurring basis (level 3)

31 12 2020					
	Financial assets measured at fair value through profit or loss				Financial assets measured at fair value through other comprehensive income
	Total	Of which: a) financial assets held for trading	Of which: b) financial assets designated at fair value	Of which: c) other financial assets obligatorily measured at fair value	
1. Opening balances	84,773	-	-	84,773	458
2. Increases	76,940	-	-	76,940	8
2.1 Purchases	1,464	-	-	1,464	-
2.2 Profits booked to	7,349	-	-	7,349	8
2.2.1 Income statement	7,349	-	-	7,349	-
- of which capital gains	3,114	-	-	3,114	-
2.2.2 Shareholders' equity	- X	X	X	-	-
2.3 Transfers from other levels	-	-	-	-	-
2.4 Other increases	68,127	-	-	68,127	-
3. Decreases	73,309	-	-	73,309	388
3.1 Sales	49,654	-	-	49,654	8
3.2 Redemptions	16,729	-	-	16,729	-
3.3 Losses booked to	6,926	-	-	6,926	380
3.3.1 Income statement	6,926	-	-	6,926	90
- of which capital losses	6,075	-	-	6,075	90
3.3.2 Shareholders' equity	- X	X	X	-	290
3.4 Transfers to other levels	-	-	-	-	-
3.5 Other decreases	-	-	-	-	-
3.5.1 Extraordinary finance operations	-	-	-	-	-
	88,404	-	-	88,404	78

A.4.5.3 Changes in liabilities measured at fair value on a recurring basis (level 3)

This schedule is not completed as for the year in progress the Bank has no liabilities measured at fair value on a recurring basis in level 3 of the fair value hierarchy.

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 levels

Financial assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis	31 12 2020					31 12 2019				
	Carrying amount	Level 1	Level 2	Level 3	Total fair value	Carrying amount	Level 1	Level 2	Level 3	Total fair value
1. Financial assets measured at amortised cost	18,089,415	-	12,289,207	6,135,209	18,424,416	16,877,686	-	11,378,944	5,931,172	17,310,116
2. Property, plant and equipment held for investment purposes	10,213	-	-	11,682	11,682	490	-	-	855	855
3. Non-current assets and disposal groups held for sale	470	-	-	-	-	27,099	-	-	-	-
Total assets	18,100,098	-	12,289,207	6,146,891	18,436,098	16,905,276	-	11,378,944	5,932,027	17,310,971
1. Financial liabilities measured at amortised cost	19,922,931	-	19,859,261	-	19,859,261	22,650,748	-	22,549,460	-	22,549,460
2. Liabilities associated with assets held for sale	-	-	-	-	-	-	-	-	-	-
Total liabilities	19,922,931	-	19,859,261	-	19,859,261	22,650,748	-	22,549,460	-	22,549,460

In the context of financial assets and liabilities measured at amortised cost all receivables from customers, other than debt securities, are considered of level 3, because the fair value was determined on the basis of non-observable parameters, mainly attributable to estimates of expected losses determined on the basis of indicators not observable on the market.

Amounts due from banks, other than debt securities, impaired loans and amounts due to banks/clientèle, are considered level 2. In particular, for liabilities at amortised cost other than securities in issue, the book value was used as the expression of fair value, as allowed under accounting standard IFRS 7. For all the aforementioned portfolios, the rules followed for classification within hierarchy levels, as well as the techniques and parameters used in the fair value estimate, to be indicated in the financial statements solely for disclosure purposes, require significant elements based on judgement. Therefore, it cannot be excluded that a different assessment of these parameters or the use of alternative measurement techniques would give rise to significantly different fair value amounts, also according to the different purposes of determining the same.

Property, plant and equipment held for investment purposes also fall within the context of assets not measured at fair value. The fair value used for disclosure purposes is classified in relation to level 3 of the hierarchy, as it is determined on the basis of appraisals or assessment based on indices. For assets held for sale, as they are subject to measurement at cost, please see the specific disclosure found under Section 11 “Non-current assets and disposal groups held for sale and associated liabilities”, contained in Part B of these Notes to the Financial Statements.

A.5 Disclosure on the so-called “day one profit/loss”

The fair value of financial instruments, in situations of non-active market, is determined using an evaluation technique, as indicated in IAS 39, paragraphs AG74-AG79. The same standard also prescribes that the best proof of the fair value of an instrument is represented at the time of the initial recognition by the price of the transaction (i.e. the fair value of the consideration paid or received), unless the conditions per IAS 39, Paragraph AG 76 are fulfilled.

The potential consequence, accentuated in determined market situations and for particularly complex and illiquid products, is the manifestation of a difference between the fair value of the financial asset or liability at initial recognition and the amount that would have been determined at the same date using the chosen evaluation technique. The difference, income/expense, must be recognised on first measurement after initial recognition. This phenomenon is known as day one profit/loss.

This concept does not include the profits deriving from the characteristic intermediation of the investment banks if arbitrage between different markets and products, in the presence of contained, book entry risk positions, leads to the formation of a trading margin aimed at remunerating the intermediary for the service rendered and for the assumption of financial and credit risks.

During the year, there were no cases to be reported and handled according to the above criteria.

Part B – Notes to the Balance Sheet

ASSETS

Section 1 – Cash and cash equivalents – Item 10

1.1 Cash and cash equivalents: breakdown

	Total 31 12 2020	Total 31 12 2019
a) Cash	-	-
b) Unrestricted deposits with Central Banks	-	-
Total	-	-

Cash on hand at 31 December 2020 amounted to € 249.62 (€ 53.93 at 31 December 2019).

Section 2 – Financial assets measured at fair value through profit or loss – Item 20

2.1 Financial assets held for trading: breakdown by type

Items/Balances	Totale 31 12 2020				Totale 31 12 2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
A. Cash assets								
1. Debt securities	4,460,050	857,567	-	5,317,617	6,111,269	992,101	-	7,103,370
1.1 Structured securities	17,808	182,590	-	200,398	14,164	166,698	-	180,862
1.2 Other debt securities	4,442,242	674,977	-	5,117,219	6,097,105	825,403	-	6,922,508
2. Equity securities	40,217	22	-	40,239	34,948	22	-	34,970
3. UCITS Units	50,612	-	-	50,612	92,789	-	-	92,789
4. Loans	-	-	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-	-	-
Total (A)	4,550,879	857,589	-	5,408,468	6,239,006	992,123	-	7,231,129
B. Derivative instruments								
1. Financial derivatives:	71,906	3,243,136	-	3,315,042	41,333	3,209,077	-	3,250,410
1.1 for trading	71,906	3,243,136	-	3,315,042	41,333	3,209,077	-	3,250,410
1.2 associated with the fair value option	-	-	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-	-	-
2. Credit derivatives:	-	275	-	275	-	2,676	-	2,676
2.1 for trading	-	275	-	275	-	2,676	-	2,676
2.2 associated with the fair value option	-	-	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-	-	-
Total (B)	71,906	3,243,411	-	3,315,317	41,333	3,211,753	-	3,253,086
Total (A+B)	4,622,785	4,101,000	-	8,723,785	6,280,339	4,203,876	-	10,484,215

Note: the sub-item “Debt securities - 1.2 Other debt securities” includes securities associated with securitisation transactions, senior for € 248,754 thousand (€ 224,252 thousand at 31 December 2019), mezzanine for € 102,231 thousand (€ 125,841 thousand at 31 December 2019) and junior for € 13,553 thousand (€ 46,685 thousand at 31 dicembre 2019). In application of IAS 32, paragraph 42, level 1 derivatives quoted on regulated markets were offset for € 71,906 thousand (€ 41,333 thousand at 31 December 2019) as well as level 2 OTC financial and hedging derivatives settled through the Central Counterparty London Clearing House (LCH) for € 3,490,734 thousand (€ 2,504,329 at 31 December 2019) and level 2 credit derivatives settled at the Central Counterparty ICE Clear Europe (ICE) for € 2,984 thousand (5,494 at 31/12/2019). Starting from 2020 the Bank added to the Clearing of level 2 OTC financial derivatives with LCH, operations in the same segment with the Central Counterparty la Eurex Clearing (EUX); the fair values offset under the terms of IAS 32 para. 42 amounted at 31 December 2020 to € 432 thousand. The Bank has “indirect” access to Clearing of OTC derivatives through the Clearing Members.

2.1.a Detail of debt instruments: structured instruments

Structured debt securities	Total 31 12 2020	Total 31 12 2019
Index Linked	113,457	109,764
Reverse convertible	-	-
Convertible	-	216
Credit linked notes	4,604	2,485
Equity Linked	-	-
Step-up, Step-down	-	-
Dual Currency	-	-
Drop Lock	-	-
Target redemption note	-	-
Cap Floater	46,504	40,161
Reverse Floater	15,063	8,446
Corridor	-	-
Commodity	-	-
Fund Linked	20,770	19,790
Inflation linked	-	-
Others	-	-
Total	200,398	180,862

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

Items/Balances	Total 31 12 2020	Total 31 12 2019
A. Cash assets		
1. Debt securities	5,317,617	7,103,370
a) Central Banks	-	-
b) Public administrations	4,289,158	5,742,086
c) Banks	478,087	755,573
d) Other financial companies	485,387	535,128
of which: insurance companies	14,272	4,888
e) Non-financial companies	64,985	70,583
2. Equity securities	40,239	34,970
a) Banks	5,709	503
b) Other financial companies	11,698	10,125
of which: insurance companies	9,314	8,965
c) Non-financial companies	22,832	24,342
d) Other issuers	-	-
3. UCITS Units	50,613	92,789
4. Loans	-	-
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total (A)	5,408,469	7,231,129
B. Derivative instruments		
a) Central Counterparties	-	-
b) Other	3,315,317	3,253,086
Total (B)	3,315,317	3,253,086
Total (A+B)	8,723,786	10,484,215

Note: the breakdown by debtor/issuer was done in compliance with the classification criteria for sectors and economic business groups established by the Bank of Italy.

2.2.a Units in collective investment undertakings (UCITS) Breakdown by main categories

Categories/Balances	Total	Total
	31 12 2020	31 12 2019
Stock	-	-
Bonds	152	154
Balanced	-	-
Hedge Funds	-	-
Private equity	-	-
Real estate	-	-
Exchanged Traded Funds (ETFs)	50,460	87,526
Other	-	5,109
Total	50,612	92,789

2.3 Financial assets designated at fair value: breakdown by type

2.4 Financial assets designated at fair value: breakdown by debtor/issuer

Tables 2.3 and 2.4 were not prepared because, both for the year in progress and the comparison year, there were no financial assets designated at fair value.

2.5 Other financial assets obligatorily measured at fair value: breakdown by type

Items/Balances	Totale 31 12 2020				Totale 31 12 2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
1. Debt securities	-	9,682	31,482	41,164	-	9,568	4,781	14,349
1.1 Structured securities	-	-	-	-	-	-	-	-
1.2 Other debt securities	-	9,682	31,482	41,164	-	9,568	4,781	14,349
2. Equity securities	-	-	780	780	-	-	1,285	1,285
3. UCITS units	-	-	36,184	36,184	-	-	23,003	23,003
4. Loans	-	-	6,026	6,026	-	-	55,704	55,704
4.1 Repurchase agreements	-	-	-	-	-	-	-	-
4.2 Other	-	-	6,026	6,026	-	-	55,704	55,704
Total	-	9,682	74,472	84,154	-	9,568	84,773	94,341

Note: the line "Other debt securities" includes the mezzanine (level 2) and junior (level 3) securities deriving from the "Siena NPL" securitisation.

2.6 Other financial assets obligatorily measured at fair value: breakdown by debtor/issuer

Items/Balances	Total 31 12 2020	Total 31 12 2019
1. Equity securities	779	1,285
of which: banks	-	-
of which: other financial companies	779	779
of which: non-financial companies	-	506
2. Debt securities	41,164	14,349
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	41,164	14,349
of which: insurance companies	-	-
e) Non-financial companies	-	-
3. UCITS units	36,184	23,003
4. Loans	6,027	55,704
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	117	2,681
of which: insurance companies	-	-
e) Non-financial companies	4,499	50,625
f) Households	1,411	2,398
Total	84,154	94,341

2.6.a Equity securities issued by parties classified as non-performing or in probable default status

Categories/Balances	Total 31 12 2020	Total 31 12 2019
Equity securities issued by parties classified as bad		
Gross exposure	207	207
Cumulative write-downs	207	207
Write-downs during the period	-	-
Equity securities issued by parties classified as in probable default		
Gross exposure	-	10,925
Cumulative write-downs	-	10,787
Write-downs during the period	-	626
Total	-	138

Note: the equity securities issued by subjects in probable default status in the portfolio at 31 December 2019 were sold during financial year 2020 in the context of the “Hydra” operation (cf. specific paragraph in Part A.2, point 15, letter c) of these Notes to the Statements).

2.6.b. Other financial assets obligatorily measured at fair value: details of UCITS units

Categories/Balances	Total	Total
	31 12 2020	31 12 2019
Hedge Funds	-	-
Private Equity	-	-
Real estate	2,719	3,080
NPE receivables	33,464	19,923
Total	36,183	23,003

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 by type

Items/Balances	Totale 31 12 2020				Totale 31 12 2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
1. Debt securities	90,912	17,989	-	108,901	75,040	9,727	-	84,767
1.1 Structured securities	-	-	-	-	-	-	-	-
1.2 Other debt securities	90,912	17,989	-	108,901	75,040	9,727	-	84,767
2. Equity securities	15,404	-	78	15,482	20,647	-	458	21,105
3. Loans	-	-	-	-	-	-	-	-
Total	106,316	17,989	78	124,383	95,687	9,727	458	105,872

Note: line 1.2 “Other debt securities” includes at level 1 debt securities with banking counterparties and supranational entities, while at level 2 senior securities deriving from third-party securitisations are classified. Line “2. Equity securities” includes the fair value of the shares of the Parent Company held in the portfolio. At the reporting date of these financial statements there were no equity securities deriving for the recovery of impaired financial assets.

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

Items/Balances	Total 31 12 2020	Total 31 12 2019
1. Debt securities	108,901	84,767
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	83,703	64,061
d) Other financial companies	17,989	9,958
of which: insurance companies	-	-
e) Non-financial companies	7,209	10,748
2. Equity securities	15,482	21,105
a) Banks	15,404	20,647
b) Other issuers:	78	458
- other financial companies	-	-
of which: insurance companies	-	-
- non-financial companies	78	458
- other	-	-
3. Loans	-	-
Total	124,383	105,872

3.2.a Equity securities issued by parties classified as non-performing or in probable default status

Categories/Balances	Total 31 12 2020	Total 31 12 2019
Equity securities issued by parties classified as bad		
Gross exposure	-	-
Cumulative write-downs	-	-
<i>of which: write-downs during the period</i>	-	-
Equity securities issued by parties classified as in probable default		
Gross exposure	-	42,077
Cumulative write-downs	-	42,077
<i>of which: write-downs during the period</i>	-	-
Total net exposure	-	-

Note: at 31 December 2019 the Bank held in its portfolio the “Fenice Holding” security, sold during financial year 2020.

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

	Gross value				Total value adjustments			Total partial write-offs (*)
	First stage		Second stage	Third stage	First stage	Second stage	Third stage	
		of which instruments with low credit risk						
Debt securities	109,239	77,136	-	-	338	-	-	-
Loans	-	-	-	-	-	-	-	-
Totale 31 12 2020	109,239	77,136	-	-	338	-	-	-
Totale 31 12 2019	83,974	72,978	-	4,041	35	-	3,212	-
of which: purchased or originated credit-impaired financial assets	X	X	-	-	X	-	-	-

3.3.a. Loans measured at fair value through other comprehensive income subject to Covid-19 support measures: gross value and total value adjustments

The table contains nothing because for the year in progress there were no loans of this type.

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

4.1 Financial assets measured at amortised cost: breakdown by type of receivables from banks

Type of transaction /Balances	Totale 31 12 2020							
	Carrying amount				Fair value			
	First and second stage	Third stage	of which: purchased or originated credit-impaired	Total	L1	L2	L3	Total
A. Due from Central Banks	-	-	-	-	-	-	-	-
1. Fixed-term deposits	-	-	-	-	X	X	X	-
2. Compulsory reserve	-	-	-	-	X	X	X	-
3. Repurchase agreements	-	-	-	-	X	X	X	-
4. Other	-	-	-	-	X	X	X	-
B. Due from banks	3,235,254	-	-	3,235,254	-	3,235,134	-	3,235,134
1. Loans	3,235,254	-	-	3,235,254	-	3,235,134	-	3,235,134
1.1 Current accounts and demand deposits	282,061	-	-	282,061	X	X	X	-
1.2 Fixed-term deposits	1,234,572	-	-	1,234,572	X	X	X	-
1.3 Other loans	1,718,621	-	-	1,718,621	X	X	X	-
- Reverse repurchase agreements	1,209,684	-	-	1,209,684	X	X	X	-
- Financing for leases	-	-	-	-	X	X	X	-
- Other	508,937	-	-	508,937	X	X	X	-
2. Debt securities	-	-	-	-	-	-	-	-
2.1 Structured securities	-	-	-	-	-	-	-	-
2.2 Other debt securities	-	-	-	-	-	-	-	-
Total	3,235,254	-	-	3,235,254	-	3,235,134	-	3,235,134

Type of transaction / Balances	Totale 31 12 2019							
	Carrying amount				Fair value			
	First and second stage	Third stage	of which: purchased or originated credit-impaired	Total	L1	L2	L3	Total
A. Due from Central Banks	-	-	-	-	-	-	-	-
1. Fixed-term deposits	-	-	-	-	X	X	X	-
2. Compulsory reserve	-	-	-	-	X	X	X	-
3. Repurchase agreements	-	-	-	-	X	X	X	-
4. Other	-	-	-	-	X	X	X	-
B. Due from banks	6,265,354	-	-	6,265,354	-	6,415,406	-	6,415,406
1. Loans	6,265,354	-	-	6,265,354	-	6,415,406	-	6,415,406
1.1 Current accounts and demand deposits	1,937,156	-	-	1,937,156	X	X	X	-
1.2 Fixed-term deposits	1,232,989	-	-	1,232,989	X	X	X	-
1.3 Other loans	3,095,208	-	-	3,095,208	X	X	X	-
- Reverse repurchase agreements	2,678,532	-	-	2,678,532	X	X	X	-
- Financing for leases	-	-	-	-	X	X	X	-
- Other	416,677	-	-	416,677	X	X	X	-
2. Debt securities	-	-	-	-	-	-	-	-
2.1 Structured securities	-	-	-	-	-	-	-	-
2.2 Other debt securities	-	-	-	-	-	-	-	-
Total	6,265,354	-	-	6,265,354	-	6,415,406	-	6,415,406

4.2 Financial assets measured at amortised cost: breakdown by type of receivables from customers

Type of transaction Balances	31 12 2020							
	Carrying amount				Fair value			
	First and second stage	Third stage	of which: purchased or originated credit- impaired	Total	L1	L2	L3	Total
Loans	14,298,031	117,008	-	14,415,039	-	8,615,520	6,135,209	14,750,729
1.1. Current accounts	2	-	-	2	X	X	X	X
1.2. Reverse repurchase agreements	8,617,117	-	-	8,617,117	X	X	X	X
1.3. Loans	4,405,885	116,980	-	4,522,865	X	X	X	X
1.4. Credit cards, personal loans and loans secured over wages and salaries	2,347	4	-	2,351	X	X	X	X
1.5. Financing for leases	-	-	-	-	X	X	X	X
1.6. Factoring	-	-	-	-	X	X	X	X
1.7. Other loans	1,272,680	24	-	1,272,704	X	X	X	X
<i>of which: operating loans</i>	11,246	21	-	11,267	X	X	X	X
Debt securities	439,123	-	-	439,123	-	438,553	-	438,553
1.1. Structured securities	-	-	-	-	-	-	-	-
1.2. Other debt securities	439,123	-	-	439,123	-	438,553	-	438,553
Total	14,737,154	117,008	-	14,854,162	-	9,054,073	6,135,209	15,189,282

Note the considerable contraction of mortgage loans classified in the third stage compared to 31 December 2019 is a consequence of the sales of non-performing loans coming within the scope of the “Hydra” operation (cf. specific paragraph in Part A.2, point 15, letter c) of these Notes to the Statements).

Item 2.2 “Other debt securities” includes the Senior notes deriving from the “Siena NPL” securitisation and the bond issued by the Project Company Brebemi S.p.A.

“Loans to customers” include, for insignificant amounts, loans disbursed with funds made available by the State and by other public bodies, with assumption of partial or total risk by the Bank. These funds are managed in the context of the agreements signed by the MPS Group with Cassa Depositi e Prestiti (hereinafter CDP), in direct cooperation with the ABI. In particular the Bank and the Group signed up to the agreements structured by the ABI and CDP in support of businesses. These operations are aimed at facilitating the disbursement of credit, depending on the cases, to small and medium-sized enterprises and/or to medium-sized enterprises substantially to ensure the financial coverage of expenses related to investments and/or linked to needs to increase the working capital and for the purchase or leasing of instrumental assets. Loans disbursed to SMEs by the Bank - with duration of more than 12 months - and the related contractual conditions - released from CDP funding - are the subject of autonomous negotiation between the parties involved. The loans to the final beneficiaries are obligatorily transferred in guarantee to CDP. The funding received from CDP is intermediated by the Parent Company.

Type of transaction Balances	31 12 2019							
	Carrying amount				Fair value			
	First and second stage	Third stage	of which: purchased or originated credit- impaired	Total	L1	L2	L3	Total
Loans	9,268,137	824,149	728	10,092,286	-	4,438,359	5,931,172	10,369,531
1.1. Current accounts	1	-	-	1	X	X	X	-
1.2. Reverse repurchase agreements	4,434,020	-	-	4,434,020	X	X	X	-
1.3. Loans	4,246,519	823,323	728	5,069,842	X	X	X	-
1.4. Credit cards, personal loans and loans secured over wages and salaries	2,572	-	-	2,572	X	X	X	-
1.5. Financing for leases	-	-	-	-	X	X	X	-
1.6. Factoring	-	-	-	-	X	X	X	-
1.7. Other loans	585,025	826	-	585,851	X	X	X	-
<i>of which: operating loans</i>	5,218	80	-	5,298	X	X	X	-
Debt securities	520,046	-	-	520,046		525,179		525,179
1.1. Structured securities	-	-	-	-	-	-	-	-
1.2. Other debt securities	520,046	-	-	520,046	-	525,179	-	525,179
Total	9,788,183	824,149	728	10,612,332	-	4,963,538	5,931,172	10,894,710

4.3 Financial assets measured at amortised cost: breakdown by debtors/issuers of loans to customers

Type of transaction Balances	Totale 31 12 2020			
	First and second stage	Third stage	Of which: purchased or originated credit- impaired assets	
1. Debt securities	439,123	-	-	439,123
a) Public administrations	-	-	-	-
b) Other financial companies	398,738	-	-	398,738
of which: insurance companies	-	-	-	-
c) Non-financial companies	40,385	-	-	40,385
2. Loans to:	14,298,031	117,008	-	14,415,039
a) Public administrations	19,377	-	-	19,377
b) Other financial companies	9,283,225	1,332	-	9,284,557
of which: insurance companies	-	-	-	-
c) Non-financial companies	4,803,116	105,715	-	4,908,831
d) Households	192,313	9,961	-	202,274
Total	14,737,154	117,008	-	14,854,162

Type of transaction Balances	Totale 31 12 2019			
	First and second stage	Third stage	Of which: purchased or originated credit- impaired assets	
1. Debt securities	520,046	-	-	520,046
a) Public administrations	-	-	-	-
b) Other financial companies	483,577	-	-	483,577
of which: insurance companies	-	-	-	-
c) Non-financial companies	36,469	-	-	36,469
2. Loans to:	9,268,137	824,149	728	10,092,286
a) Public administrations	27,782	-	-	27,782
b) Other financial companies	5,084,741	20,100	654	5,104,841
of which: insurance companies	-	-	-	-
c) Non-financial companies	3,953,542	661,714	75	4,615,256
d) Households	202,072	142,335	-	344,407
Total	9,788,183	824,149	728	10,612,332

4.4 Financial assets measured at amortised cost: gross value and total value adjustments

Type of transaction Balances	Gross value				Total value adjustments			Total partial write-offs
	First stage		Second stage	Third stage	First stage	Second stage	Third stage	
		of which instruments with low credit risk						
Debt securities	441,782	441,782	-	-	2,660	-	-	-
Loans	15,938,510	-	1,666,261	190,963	8,996	62,491	73,955	5,115
31 12 2020	16,380,292	441,782	1,666,261	190,963	11,656	62,491	73,955	5,115
of which: purchased or originated credit-impaired financial assets	X	X	-	-	X	-	-	-
31 12 2019	14,407,269	520,337	1,695,055	1,492,108	5,605	43,182	667,959	88,664

4.4.a. Loans measured at amortised cost subject to Covid-19 support measures: gross value and total value adjustments

	Gross value				Total value adjustments			Total partial write-offs
	First stage		Second stage	Third stage	First stage	Second stage	Third stage	
		of which instruments with low credit risk						
1. Forborne loans compliant with the GLs	290,588	-	258,163	379	1,397	12,934	42	-
2. Loans subject to other forbearance measures	47,829	-	68,595	24,049	134	1,923	7,189	-
3. New loans	99,771	-	32,500	-	25	53	-	-
Total 31 12 2020	438,188	-	359,258	24,428	1,556	14,910	7,231	

Note: as provided for in the Bank of Italy communication of 15 December 2020 the total partial write-offs column contains no amounts.

Section 5 - Hedging derivatives – Item 50

There were no transactions for this accounting item.

Section 6 - Value adjustments to financial assets subject to macro-hedging - Item 60

There were no transactions for this accounting item.

Section 7 - Equity investments - Item 70**7.1 Equity investments: information on investment relationships**

With a resolution of the General Manager of 16 November 2020, the sale proposal put forward by Feidos S.p.A. For the equity investment in Terme di Chianciano S.p.A. was accepted; consequently, the equity investment, with a book value of € 1.02, was reclassified to the item "Non-current assets and disposal groups held for sale". The equity investment in Interporto Toscano A.Vespucci S.p.A. was instead sold during the year as part of the "Hydra" operation (cf. specific paragraph in Part A.2, point 15, letter c) of these Notes to the Statements).

7.2 Significant equity investments: carrying amount, fair value and dividends received

Nothing to report.

7.2.a Details of equity securities issued by parties classified as non-performing or in probable default status

Nothing to report.

7.3 Significant equity investments: accounting information

Nothing to report.

7.4 Non-significant equity investments: accounting information

Nothing to report.

7.5 Equity investments: annual changes

Nothing to report.

7.6 Commitments relating to equity investments in subsidiaries under joint control

At the reporting date, there were no equity investments in joint ventures.

7.7 Commitments relating to equity investments in companies under significant influence

At the reporting date, there were no commitments relating to equity investments in companies under significant influence.

7.8 Significant restrictions

There are no significant restrictions to report.

7.9 Other information

Nothing to report.

Section 8 - Property, plant and equipment - Item 80

8.1 Property, plant and equipment for use in business: breakdown of assets measured at cost

Assets / Balances	Total	
	31 12 2020	31 12 2019
1. Company owned	178	181
a) land	6	6
b) buildings	7	8
c) furniture	3	6
d) electronic systems	5	5
e) other	157	156
2. Rights of use acquired with leasing	18,520	19,793
a) land	-	-
b) buildings	18,481	19,754
c) furniture	-	-
d) electronic systems	-	-
e) other	39	39
Total	18,698	19,974
<i>of which: obtained through enforcement of guarantees received</i>	-	-

8.2 - Property, plant and equipment held for investment purposes: breakdown of assets measured at cost

Assets / Balances	Totale 31 12 2020						Totale 31 12 2019				
	Carrying amount	Fair Value				Carrying amount	Fair Value				Total
		Level 1	Level 2	Level 3	Total		Level 1	Level 2	Level 3	Total	
1. Company owned	10,212	-	-	11,682	11,682	490	-	-	855	855	
a) land	8,584	-	-	7,388	7,388	340	-	-	620	620	
b) buildings	1,628	-	-	4,294	4,294	150	-	-	235	235	
2. Rights of use acquired with leasing	-	-	-	-	-	-	-	-	-	-	
Total	10,212	-	-	11,682	11,682	490	-	-	855	855	
<i>of which: obtained through enforcement of guarantees received</i>	-	-	-	-	-	-	-	-	-	-	

Note: the increase in owned assets is attributable to fixed assets which were classified as assets held for sale at 31 December 2019.

8.3 Property, plant and equipment used for business: breakdown of revalued assets

Assets / Balances	Totale 31 12 2020				Totale 31 12 2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
1. Company owned	-	-	14	14	-	-	14	14
a) land	-	-	6	6	-	-	6	6
b) buildings	-	-	8	8	-	-	8	8
c) furniture	-	-	-	-	-	-	-	-
d) electronic systems	-	-	-	-	-	-	-	-
e) other	-	-	-	-	-	-	-	-
2. Rights of use acquired with leasing	-	-	-	-	-	-	-	-
a) land	-	-	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-	-	-
c) furniture	-	-	-	-	-	-	-	-
d) electronic systems	-	-	-	-	-	-	-	-
e) other	-	-	-	-	-	-	-	-
Total	-	-	14	14	-	-	14	14

8.4 Property, plant and equipment held for investment purposes: breakdown of assets carried at fair value

Nothing to report.

8.5 - Inventories of property, plant and equipment governed by IAS 2

Assets / Balances	Total	
	31 12 2020	31 12 2019
1. Inventories of property, plant and equipment obtained through enforcement of guarantees received	750	750
a) land	-	-
b) buildings	750	750
c) furniture	-	-
d) electronic systems	-	-
e) other	-	-
2. Other inventories of property, plant and equipment	-	-
Total	750	750
<i>of which: measured at fair value net of costs to sell</i>	-	-

8.6 - Property, plant and equipment used for business: annual changes

	Land	Buildings	Furniture	Electronic equipment	Other	Total 31 12 2020
A- Opening balances - gross	6	21,541	1,173	452	315	23,487
A.1 Total net value reductions	-	1,779	1,167	447	120	3,513
A.2 Net opening balances	6	19,762	6	5	195	19,974
B. Increases	-	717	-	1	41	759
B.1. Purchases	-	620	-	1	41	662
- Business combinations	-	-	-	-	-	-
B.2 Capitalised improvement costs	-	-	-	-	-	-
B.3 Write-backs	-	-	-	-	-	-
B.4 Positive fair value changes booked to:	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Exchange gains	-	-	-	-	-	-
B.6 Transfer from investment property	-	-	X	X	X	-
B.7 Other changes	-	97	-	-	-	97
C. Decreases	-	1,991	2	1	41	2,035
C.1 Sales	-	-	-	-	-	-
C.2 Depreciation	-	1,758	2	1	41	1,802
C.3 Write-downs for impairment booked to:	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.4 Negative fair value changes booked to:	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.5 Exchange losses	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) property, plant and equipment held for investment purposes	-	-	X	X	X	-
b) Non-current assets and disposal groups held for sale	-	-	-	-	-	-
C.7 Other changes	-	233	-	-	-	233
D. Net closing balances	6	18,488	4	5	195	18,698
D.1 Total net value reductions	-	3,537	1,049	330	162	5,078
D.2 Gross closing balances	6	22,025	1,053	335	357	23,776
E. Measured at cost	7	18,510	3	5	195	18,720

8.6.a – Property, plant and equipment used for business – rights of use acquired in leasing: annual changes

	Land	Buildings	Furniture	Electronic equipment	Other	Total 31 12 2020
A- Opening balances - gross	-	21,507	-	-	127	21,634
A.1 Total net value reductions	-	1,753	-	-	87	1,840
A.2 Net opening balances	-	19,754	-	-	40	19,794
B. Increases	-	717	-	-	41	758
B.1. Purchases	-	620	-	-	41	661
B.2 Capitalised improvement costs	-	-	-	-	-	-
B.3 Write-backs	-	-	-	-	-	-
B.4 Positive fair value changes booked to:	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Exchange gains	-	-	-	-	-	-
B.6 Transfer from investment property	-	-	X	X	X	-
B.7 Other changes	-	97	-	-	-	97
C. Decreases	-	1,990	-	-	41	2,031
C.1 Sales	-	-	-	-	-	-
C.2 Depreciation	-	1,757	-	-	41	1,798
C.3 Write-downs for impairment booked to:	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.4 Negative fair value changes booked to:	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.5 Exchange losses	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) property, plant and equipment held for investment purposes	-	-	X	X	X	-
b) Non-current assets and disposal groups held for sale	-	-	-	-	-	-
C.7 Other changes	-	233	-	-	-	233
D. Net closing balances	-	18,481	-	-	40	18,521
D.1 Total net value reductions	-	3,510	-	-	129	3,639
D.2 Gross closing balances	-	21,991	-	-	169	22,160
E. Measured at cost	-	-	-	-	-	-

8.7 - Property, plant and equipment held for investment purposes: annual changes

	31 12 2020		
	Land	Buildings	Total
A. Opening balances	340	150	490
B. Increases	8,565	1,804	10,369
B.1. Purchases	-	-	-
B.2 Capitalised improvement costs	-	-	-
B.3 Positive fair value changes	-	-	-
B.4 Write-backs	-	-	-
B.5 Exchange gains	-	-	-
B.6 Transfers from properties used for business	-	-	-
B.7 Other changes	8,565	1,804	10,369
C. Decreases	320	326	646
C.1 Sales	-	-	-
C.2 Depreciation	-	176	176
C.3 Negative fair value changes	-	-	-
C.4 Write-downs for impairment	-	-	-
C.5 Exchange gains	-	-	-
C.6 Transfers to	320	150	470
a) properties used for business	-	-	-
b) Non-current assets and disposal groups held for sale	320	150	470
C.7 Other changes	-	-	-
D. Closing balances	8,585	1,628	10,213
D.1 Total net value reductions	735	7,237	7,972
D.2 Gross closing balances	9,320	8,865	18,185
E. Fair value measurement	7,388	4,294	11,682

8.8 - Inventories of property, plant and equipment governed by IAS 2: annual changes

	Inventories of property, plant and equipment obtained through enforcement of guarantees received					Other inventories of property, plant and equipment	Total
	Land	Buildings	Furniture	Electronic equipment	Other		
A. Opening balances	-	750	-	-	-	-	750
B. Increases	-	-	-	-	-	-	-
C. Decreases	-	-	-	-	-	-	-
D. Closing balances	-	750	-	-	-	-	750

8.9 - Commitments for the purchase of property, plant and equipment

As of the reporting date, there were no commitments undertaken to purchase property, plant and equipment.

8.10 – Property, plant and equipment: useful life

Main categories of Property, plant and equipment	%
Buildings	3.03%
Furniture	12.50%
Electronic and ordinary office machines	20.00%
Electronic data processing equipment	25.00%
Vehicles	25.00%
Telephones	20.00%

Note: the table shows the percentages used to make the depreciation with reference to the main categories of property, plant and equipment. Land and works of art are not depreciated because they are items with an indefinite useful life. We must specify that, for rights of use acquired in leasing, the depreciation occurs on the basis of the term of the lease.

Section 9 - Intangible assets - Item 90

There were no transactions for this accounting item.

Section 10 – Tax assets and liabilities – Asset Item 100 and Liability Item 60**Current taxes**

Current taxes include the estimated payable for current liabilities or liabilities referring to transactions from previous years. Current tax assets and liabilities are shown in their net balance in the respective balance sheet items following the offset carried out at the level of the said tax.

Current tax assets amounted to € 296,254 thousand and include for € 280,155 thousand the tax credit under Italian Law 214/11, for € 20,185 thousand the IRAP credit and for € 243 thousand tax credits awaiting rebate. These receivables are offset with payables of the same type for € 4,329 thousand.

As a result of the adhesion to the national tax consolidation system under the terms of Art. 117 ff. of the Consolidated Act on Income Tax as a consolidated company, the Bank determines, in the presence of a taxable profit, the tax charges for which it is liable and the corresponding IRES taxable income is transferred to the Parent Company BMPS, which, as the consolidating company, after consolidating the taxable amounts coming under the scope of consolidation, pays any tax due to the tax authorities.

In 2020, the IRES tax accruing for tax consolidation amounted to € 7,374 thousand, while taxable income related to the IRES surcharge was entirely offset with the ACE subsidy and previous losses. Consequently, no current taxes are recognised. The results of the probability test (see below) determined a revaluation of € 9,033 thousand of the receivable from the parent which, net of the IRES tax accruing to the year came out at € 122,671 thousand.

During 2020 the Bank availed itself of the possibility granted by art. 55 of Italian Law Decree no. 18 of 17 March 2020, (“Treat Italy Decree”) which enables the transformation into tax credit of the value of deferred tax assets (DTAs) attributable to tax losses and the the ACE benefit, which can both be carried forward to subsequent years; availing itself of this measure, the Bank transformed into tax credit an amount of € 804 thousand of tax assets related to the IRES surcharge (more than € 5,513 thousand booked as receivable from the parent).

As regards IRAP, the allocation for the period amounted to € 2,250 thousand. As a result of the tax credit in question, no payment will be made in June 2021. With respect to IRES, the net debit and credit positions are posted among “Other assets”.

Deferred tax assets and liabilities

Deferred taxation is measured with the “balance sheet liability method” specified in IAS 12 in accordance with the specifications prescribed by the Bank of Italy. This method takes account of the tax effect connected with temporary differences between the carrying value of assets and liabilities and their fiscal value, which lead to taxable or deductible amounts in future periods. For these purposes, “taxable temporary differences” are those which in future periods will determine taxable amounts and “deductible temporary differences” are those which in future periods will determine deductible amounts.

Deferred tax assets and liabilities are calculated applying the tax rates established by the provisions of current laws to the taxable temporary differences in relation to which there is the probability that the taxes will actually have to be paid and to the deductible temporary differences for which there exists reasonable certainty of recovery.

The probability test made necessary a revaluation of deferred tax assets related to the IRES surcharge for € 3,131 thousand.

Deferred tax assets and liabilities are shown as the net balance of the respective balance sheet item, subsequent to offsetting at the same tax level and for each financial year, taking into account when payment is expected to fall due. Consequently, at 31 December 2020 deferred tax liabilities were completely offset with deferred tax assets.

10.1 Deferred tax assets: breakdown

Items/Balances	IRES as counter-entry in IS	IRES as counter-entry in SE	IRAP as counter-entry in IS	IRAP as counter-entry in SE	31 12 2020	31 12 2019
Receivables	28,594	-	5,727	-	34,321	42,285
Receivables (Law 214/2011)	71,658	-	10,766	-	82,424	90,415
Other financial instruments	94	-	-	-	94	2,691
Goodwill (Law 214/2011)	-	-	-	-	-	-
Multi-annual charges	-	-	-	-	-	-
Property, plant and equipment	322	-	65	-	387	386
Intangible fixed assets	-	-	-	-	-	-
Intangible fixed assets (Law 214/2011)	-	-	-	-	-	-
Entertainment expenses	-	-	-	-	-	-
Personnel-related costs	72	516	-	-	588	552
ACE surpluses	1,727	-	-	-	1,727	1,463
Tax losses	23,183	-	-	-	23,183	24,004
Tax losses (Italian Law 214/2011)	-	-	-	-	-	-
Reserves for valuation of financial instruments	-	198	-	-	198	199
Other	11,978	-	-	-	11,978	4,944
Deferred tax assets - gross	137,628	714	16,558	-	154,900	166,939
Offsetting against deferred tax liabilities	(179)	(713)	(29)	-	(921)	(2,785)
Deferred tax assets - net	137,449	1	16,529	-	153,979	164,154

Deferred tax assets, gross of offsetting against deferred tax liabilities, essentially derive from costs deductible in different periods from the one in which they were recorded in the financial statements and they refer to IRES for € 137,449 thousand and to IRAP for € 16,529 thousand.

The recognition of deferred tax assets was made after verifying the existence of future taxable income (through the so-called probability test). The write-downs or - as was the case in financial year 2020 - the write-backs of previous write-downs made on the basis of the probability test, are accounted for overall as a counter-entry of the income statement item taxes; in the tables of the present section, however, the non-recognisable portion of DTAs is attributed with a proportional criterion also to the DTAs originally recognised as a counter-item of shareholders' equity. For more information on the subject please see paragraph 10.7 "Other information" below.

The amounts shown in the IRES columns include, in addition to deferred tax assets relative to the main tax (at the 24% rate), those relative to additional IRES (3.5% rate) introduced by the Law of 28 December 2015, no. 208, paragraphs 65-66.

The reduction in the balance of the item that occurred in the year was due, in large part, to the transfer to the Parent Company of deferred tax assets associated with receivables included in the scope of the "Hydra" proportional partial demerger (cf. specific paragraph in Part A.2, point 15, letter c) of these Notes to the Statements), under the terms of art. 173 para.4 of the Consolidated Income Tax Law.

The Deferred tax assets are described in detail below:

- The line "Receivables" includes, for € 34,321 thousand, the deferred tax assets which were recognisable in relation to nine tenths of the value adjustments to amounts due from customers accounted for at first time adoption of IFRS 9, the deduction of which was provided for in ten constant instalments (from 2018 to 2027) under art. 1, paragraphs 1067-1069, of Italian Law no. 145 of 30/12/2018 (2019 Budget Law). We can note that the instalment deductible for 2019 was postponed to 2028 by art. 1, paragraph 713 of Italian Law 160 of 27 December 2019 (2020 Budget Law);
- the aggregate "Receivables (Law 214/2011)" contains the deferred tax assets related to value adjustments on loans exceeding the deductible portion accounted for in the tax period prior to 2015: their deductibility is provided for in the time period 2024-2027;
- the item "ACE surplus" represents the residual amount of the subsidy, which will be recovered in future years. With the 2020 Budget Law (art. 1, paragraph 287, of Italian Law no. 160/2019), effective as of financial year 2019 the ACE subsidy was re-introduced; this had been eliminated with Italian Law no. 145 of 30/12/2018 (2019 Budget Law);
- tax assets for "tax losses" of € 23,183 thousand, net of the revaluation carried out with the probability test and of the use of the same in order to reduce to zero the taxable income of financial year 2020, refer to financial years 2016 and 2017 and will be recovered if there is taxable income in future years;
- The item "others" refers to provisions for risks and charges against deductible costs expected in future years.

10.2 Deferred tax liabilities: breakdown

Items/Balances	IRES as counter-entry in IS	IRES as counter-entry in SE	IRAP as counter-entry in IS	IRAP as counter-entry in SE	Total 31 12 2020	Total 31 12 2019
Capital gains to be split into instalments	-	-	-	-	-	-
Goodwill	-	-	-	-	-	-
Property, plant and equipment and intangible assets	52	-	10	-	62	62
Financial instruments	127	713	19	-	859	2,723
Personnel-related costs	-	-	-	-	-	-
Reserves for valuation of financial instruments	-	-	-	-	-	-
Other	-	-	-	-	-	-
Deferred tax liabilities - gross	179	713	29	-	921	2,785
Offsetting against deferred tax assets	(179)	(713)	(29)	-	(921)	(2,785)
Net deferred tax liabilities	-	-	-	-	-	-

Deferred tax liabilities refer to IRES for € 892 thousand and to IRAP for € 29 thousand and are entirely recognised as a counter-entry of the income statement for € 208 thousand and in shareholders' equity for € 713 thousand (in 2019, as a counter-entry in the income statement € 2,502 thousand and in shareholders' equity for € 283 thousand). The main taxable temporary differences which caused deferred taxes to be recognised are related to the sub-item "Financial instruments", in particular to the valuation of OCI securities in shareholders' equity and to the sub-item "Property, plant and equipment and intangible assets" as a result of a higher civil-law value with respect to the fiscal value of the same.

The amounts shown in the IRES columns include, in addition to deferred tax assets relative to the main tax (at the 24% rate), those relative to the IRES surcharge (3.5% rate) introduced by Italian Law no. 208 of 28 December 2015, paragraphs 65-66.

10.3 Change in deferred tax assets (as counter-entry to the income statement)

	Total 31 12 2020	Total 31 12 2019
1. Opening balance	166,270	177,856
2. Increases	17,416	15,533
2.1 Prepaid taxes recorded in the year	17,416	15,533
a) relating to prior years	-	-
b) due to changes in accounting policies	-	-
c) write-backs	3,131	5,188
d) other	14,285	10,345
2.2 New taxes or increase in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	29,500	27,119
3.1 Prepaid taxes cancelled during the year	14,329	22,163
a) reversals	14,329	22,163
b) written down as now considered unrecoverable	-	-
c) change in accounting policies	-	-
d) other	-	-
3.2 Reductions in tax rates	-	-
3.3 Other decreases	15,171	4,956
a) transformation into tax credit as per law 214/2011	-	-
b) other	15,171	4,956
4. Closing balance	154,186	166,270

Among the main “deferred tax assets recognised during the year”, note those generated by application of the ACE subsidy (€ 4,584 thousand) and those deriving from taxed allocations made to the provision for risks and charges (€ 9,540 thousand) and for endorsement loans (€ 487 thousand). The item “write-backs” includes the results of the already cited probability test.

“Deferred tax assets cancelled during the year”, in the item “reversals”, refers to:

- the use of the 2019 IRES surcharge taxable base (€ 1,297 thousand);
- use of ACE tax assets to reduce the IRES taxable base (€ 4,072 thousand);
- amortisation of the portion for the year of value adjustments on loans to customers accounted for on first-time adoption of IFRS 9 (a total of € 4,255 thousand);
- decrease in deferred tax assets on receivables obligatorily measured at fair value (€ 1,960 thousand);
- allocations to provisions for risks and charges (€ 2,048 thousand);
- write-downs on guarantees and commitments (€ 525 thousand).

The item “other decreases” (€ 15,171 thousand) includes the deferred tax assets related to the receivables sold with the *Hydra* operation (€ 14,361 thousand) and the transformation of tax assets related to the IRES surcharge into tax credits in application of the rule introduced with art. 55 of Italian Law Decree 18/2020 (€ 804 thousand).

10.3bis– Changes in deferred tax assets pursuant to Italian Law 214/2011 (as a counter-entry to the income statement)

Items/Balances	Total	
	31 12 2020	31 12 2019
1. Opening balance	90,415	90,415
2. Increases	-	-
3. Decreases	7,991	-
3.1 Reversals	-	-
3.2 Transformation into tax credit	-	-
a) deriving from losses of the period	-	-
b) deriving from tax losses	-	-
3.3 Other decreases	7,991	-
a) outgoing mergers/demergers	7,991	-
4. Closing balance	82,424	90,415

Note: these are deferred tax assets potentially transformable into tax credits, on the occurrence of a loss in the period and/or a tax loss on the basis of the provisions of Italian Law 214/2011. During the year, following the Hydra operation, the deferred tax assets associated with the receivables disposed of were transferred.

10.4 Change in deferred tax liabilities (as counter-entry to the income statement)

The table shows all deferred tax liabilities to be absorbed in subsequent years as counter-entries to the income statement.

	31 12 2020	31 12 2019
1. Opening balance	2,502	65
2. Increases	111	2,441
2.1 Deferred tax liabilities recorded in the year	111	2,441
a) relating to prior years	-	-
b) due to changes in accounting policies	-	19
c) other	111	2,422
2.2 New taxes or increase in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	2,405	4
3.1 Deferred tax liabilities cancelled during the year	2,399	4
a) reversals	2,399	4
b) due to changes in accounting policies	-	-
c) other	-	-
3.2 Reductions in tax rates	-	-
3.3 Other decreases	6	-
4. Closing balance	208	2,502

10.5 Change in deferred tax assets (as counter-entry to shareholders' equity)

Deferred tax assets as a counter-entry in shareholders' equity refer to the measurement of debt securities in OCI and to the discounting reserve for the defined-benefit pension fund and to provisions for severance indemnities.

	Total 31 12 2020	Total 31 12 2019
1. Opening balance	669	1,064
2. Increases	1,734	268
2.1 Prepaid taxes recorded in the year	1,734	268
a) relating to prior years	-	1
b) due to changes in accounting criteria	-	-
c) other	1,734	267
2.2 New taxes or increase in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	1,689	663
3.1 Prepaid taxes cancelled during the year	1,689	663
a) reversals	1,689	663
b) written down as now considered unrecoverable	-	-
c) due to changes in accounting criteria	-	-
d) other	-	-
3.2 Reductions in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	714	669

10.6 Change in deferred tax liabilities (as counter-entry to shareholders' equity)

	31 12 2020	31 12 2019
1. Opening balance	283	-
2. Increases	430	386
2.1 Deferred tax liabilities recorded in the year	430	386
a) relating to prior years	-	-
b) due to changes in accounting criteria	-	-
c) other	430	386
2.2 New taxes or increase in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	-	103
3.1 Deferred tax liabilities cancelled during the year	-	103
a) reversals	-	103
b) due to changes in accounting criteria	-	-
c) other	-	-
3.2 Reductions in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	713	283

10.7 Other information

In accordance with the rules provided for in the accounting standard IAS 12 and with the 2019 ESMA communication, the Bank recognised deferred tax assets (DTAs), after verifying the existence of future taxable incomes capable of reabsorbing the same (the so-called probability test).

This test took into account the different rules provided for in the Italian tax legislation that have an impact on the measurement in question, in particular:

- art. 2, paragraphs 55-59, of Italian Law Decree 29/12/2010 n. 225 (converted, with amendments, by Law 10 of 26/2/2011) which requires financial intermediaries, in the case of a statutory loss and/or tax loss, to transform DTAs (IRES and IRAP) into tax credits, in relation to goodwill, other intangible fixed assets and write-downs on loans;
- art. 84 paragraph 1 of the Consolidated Income Tax Law, which permits IRES tax losses to be carried forward with no time limits;
- art. 1, paragraph 4, of Italian Law Decree no. 201 of 06/12/2011 (converted, with amendments, into Italian Law no. 214 of 22/12/2011) which states that the unused AEG surplus can be carried forward with no time limits, or, alternatively, converted into tax credit to be used to offset the IRAP payable in 5 annual instalments;
- paragraphs from 61 to 66, article 1, of the Stability Law for 2016 (Italian Law No. 208 of 28 December 2015) which, effective as of financial year 2017, cut the IRES rate from 27.5% to 24% and introduced at the same time an IRES surcharge, of 3.5%, for lending and financial institutions.

From a methodological point of view, the probability test was carried out in this manner following the steps specified below and also considering the revision of internal multi-year estimates (2020-2024) of economic and equity values, carried out to take into account the evolution of the macroeconomic scenario that emerged following the pandemic, described below.

The DTAs related to write-downs on loans (so called “qualified” DTAs) were excluded from the total amount of the DTAs for which the existence of future sufficient taxable income must be verified. This because the cited article 2, paragraphs 55-59 of Italian Law Decree 225/2010 made certain the recovery of this type of DTA, for both IRES and IRAP purposes, irrespective of the presence of future taxable income.

In fact, the law states that, if the taxable income of the financial year in which the rebate of the qualified DTAs is not sufficient for their re-absorption, the consequent tax loss will be transformable into tax credit which can alternatively be: i) used to offset, with no time limits, the various levies ordinarily payable by the Bank, or ii) requested as a rebate or iii) transferred to third parties. In addition, qualified DTAs can be transformed into tax credit, in advance with respect to the natural maturity, in the event of a civil-law loss for the period, voluntary liquidation or being made subject to bankruptcy proceedings.

In other words, for qualified DTAs the probability test must be understood as automatically passed; this is confirmed also by the joint Bank of Italy, CONSOB and ISVAP document No. 5 of 15/05/2012 “Accounting treatment of deferred tax assets deriving from Italian Law 214/2011”.

For DTAs other than qualified ones the year in which they are expected to be rebated was identified (or estimated when not certain).

The estimate of taxable incomes of future years was made on the basis of the forecast evolution of the Bank’s income statements in the context of the Group’s Multi-Annual Projections for financial years 2020 – 2024, approved by the Parent Company’s Board of Directors on 6 August 2020. In fact, although the Group has a 2021-2025 Strategic Plan approved by the Board of Directors on 17 December 2020, this cannot be considered definitive because it is subject to the approval of the competent authorities.

The projections used represent the best estimate available today and reflect the change in the macroeconomic and banking scenario of reference and the related impacts associated with the COVID-19 pandemic which made necessary an update of the 2020 outlook and a complete revision of the Group’s economic and financial projections for financial year 2020 and for the following ones up to 2024.

To estimate taxable income in the years after 2024, growth of 1.5% is assumed for every year starting from 2025 with respect to the economic result envisaged for the immediately preceding year.

In order to reflect the level of uncertainty that characterises the effective fulfilment of the long-term forecasts a discount factor was applied to the prospective economic results (the so-called Risk-adjusted profits approach) of 9%, an increase compared to the rate of 8%, used for the purposes of the probability test for the 2019 Financial Statements. This factor is calculated taking into account observable market parameters. In more detail, the adjustment of taxable incomes is obtained discounting the forecasts for each year by a factor of 9%, applied according to the formula of compound capitalisation, starting from 2021 on a maximum time horizon of 20 years. This formula makes it possible therefore to adjust the future forecasts according to a growing abatement factor based on the time horizon of the estimate of taxable flows.

The taxable incomes were forecast:

- 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.

The figures prepared in this way had the following impacts on the Bank’s accounts:

- revaluation of € 9,033 thousand on the receivable due from the consolidator for previous tax losses;
- revaluation of deferred tax assets related to the IRES surcharge for € 3,131 thousand;

The positive effects mentioned above were limited by two non-recurring negative factors that prevented the achievement of a higher economic impact:

1. The revision of the multi-year internal estimates (2020-2024) of economic and equity values, carried out to take into account the effect of the pandemic;

2. the increase in the discount rate of one percentage point applied to the prospective results in the probability test used by the MPS Group.

Please note that the lower positive effects consequent to the two non-recurring factors described above were recognised from the second quarter of 2020. The table below shows the effect that the factors described above had on the taxes item of the income statement at 31 December 2020, with respect to the measurement of the DTAs that would have been determined in the absence of the same:

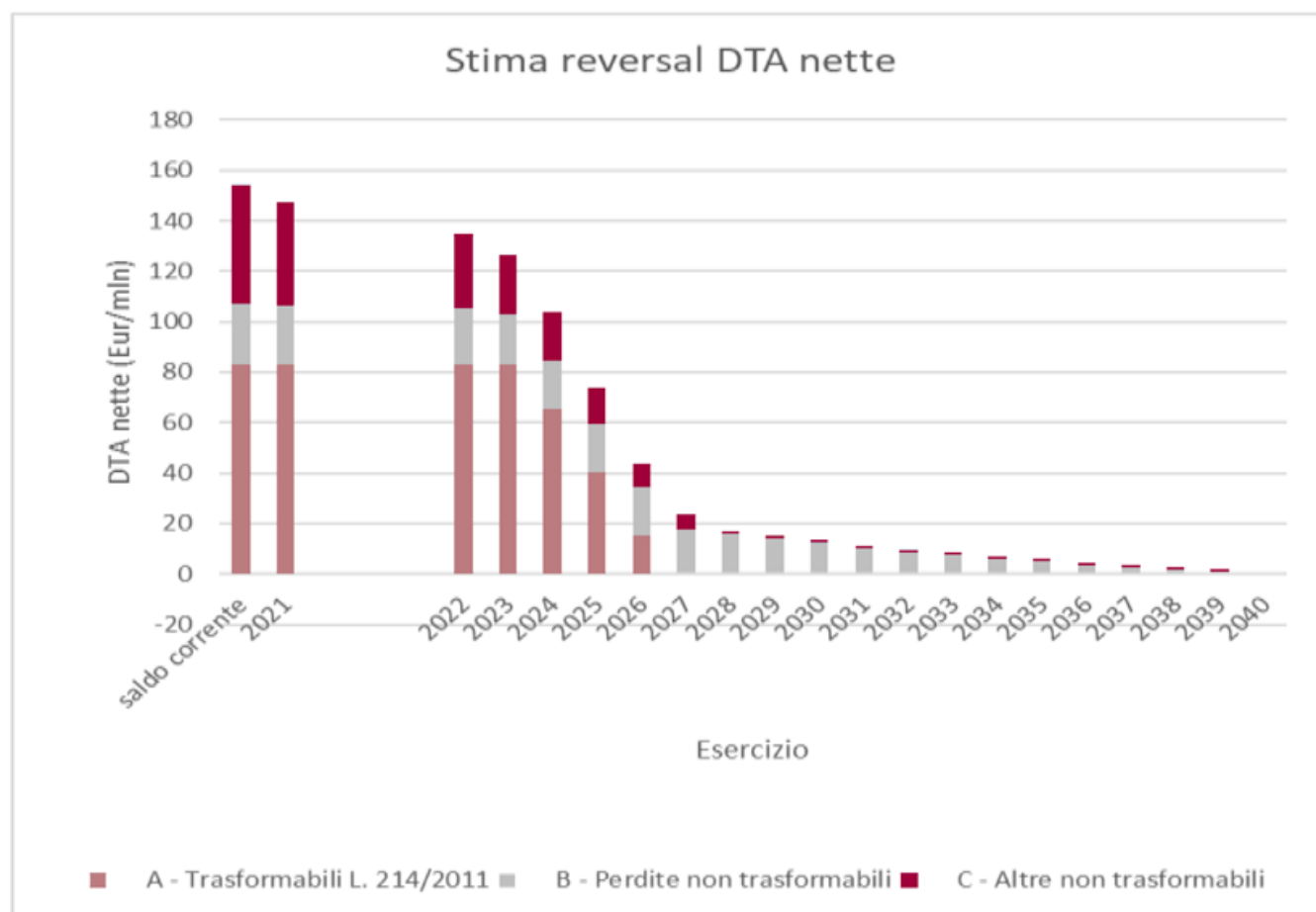
	Measurement of DTAs, tax losses and ACE	Measurement of DTAs, other, non- transformable	Total measurement of DTAs	measurement of receivable from tax consolidation
Measurement of 2020 ordinary DTAs (before extraordinary effects)	6.4	0.0	6.4	36.9
2020 extraordinary effects:				
1) Revision of the multi-year internal estimates	(0.5)	0.0	(0.5)	(4.7)
2) Increase in the discount rate on prospective results	(2.7)	0.0	(2.7)	(23.1)
Effective measurement of 2020 DTAs	3.1	0.0	3.1	9.0

As a consequence of this valuation, at 31 December 2020 the Bank shows DTAs not recognised in the Balance Sheet assets for a total of € 21,357 thousand (€ 27,055 thousand at 31 December 2019) and receivables due from the consolidator for previous losses not recognised in the Balance Sheet Assets for € 225,597 thousand (€ 234,630 thousand at 31 December 2019).

This amount constitutes a potential asset for the Bank, not subject to a time-limit according to the current tax legislation, the recognition of which in the Balance Sheet assets will be assessed at future reporting dates according to the income prospects of the Bank and of the Group.

The sizeable amount of tax losses related to the Bank, specifically € 1,451.1 million, mainly accrued in the years 2016 and 2017, at the beginning of the MPS Group restructuring process and essentially derives for both years to significant write-downs carried out on loans. In particular, in 2016 it was necessary to update the methodologies and parameters used to assess loans (also to take into account the instructions contained in “Draft guidance to banks on non-performing loans”, published by the ECB in September 2016), while in 2017 it was necessary to adjust the realisable value of impaired loans disposed of during 2018. Therefore, pursuant to that established in paragraph 36 lett. c) of IAS 12, these unused tax losses are considered to derive “*from identifiable causes which are unlikely to be repeated*” and in this sense they were considered partially recognisable in the accounts in the DTA measurement process.

The table below shows the expected evolution of the return of the DTAs recognised in the financial statement at 31 December 2020, both quantitatively and in terms of time, distinguishing between DTAs transformable under Italian Law 214/2011, DTAs from non-transformable losses and other non-transformable DTAs.



Stima reversal DTA nette	Net DTA reversal estimate
DTA nette (Eur/mln)	Net DTA (€/million)
saldo corrente	current balance
Esercizio	Financial Year
A – Trasformabili L. 214/2011	A - Transformable, Law 214/2011
B – Perdite non trasformabili	B – Non-transformable losses
C – Altre non trasformabili	C – Other, non-transformable

The probability test model used in the MPS Group includes certain input data for which oscillations in value can have a significant impact on the final result achieved in valuation of DTAs recognisable in the financial statements. These are, specifically:

- 1) volumes of expected taxable incomes in the last year of the plan horizon (2024);
- 2) notional return rate on the incentive for capitalisation of businesses;
- 3) discount rate for prospective results (ratio used for Risk-adjusted profits approach);
- 4) IRES tax rates, additional to IRES and IRAP.

Below are some indications regarding the sensitivity of the valuation model, hypothesising changes, both upwards and downwards, in each of the input data listed above. The effects shown in the table refer to the change that would have been seen in the item taxes in the 2020 income statement, with respect to that effectively recognised, by changing the individual variable to the degree indicated. The change in taxable income is intended to mean the amount indicated for each year in the twenty year time horizon considered in the probability test.

Variable input data in the model	Decreases	Economic impact of the decrease (millions of euro)		Increases	Economic impact of the increase (millions of euro)	
		DTAs (item 100 b) BS assets)	receivable from tax consolidation (item 120 BS assets)		DTAs (item 100 b) BS assets)	receivable from tax consolidation (item 120 BS assets)
Taxable income of 2024	-100 mln	0.0	0.0	+100 mln	0.0	0.0
ACE rate	-0.50%	0.0	29.2	+0.50%	0.0	-29.2
Discount rate for prospective results	-1%	2.7	23.1	+1%	-2.4	-20.4
IRES rate	-1%	-4.1	-5.1	+1%	4.1	5.1

10.7.1 Current tax assets

Items/Balances	Total 31 12 2020	Total 31 12 2019
IRES and IRAP advances	-	-
Other receivables and withholdings	300,583	320,270
Current tax assets - gross	300,583	320,270
Offsetting against current tax liabilities	4,329	7,003
Current tax assets – net	296,254	313,267

Note: for IRES advances, please see Notes to the Financial Statements - Part B, Assets “Section 12 – Other assets”.

10.7.2 Current tax liabilities

Items/Balances	31 12 2020			31 12 2019		
	Booked to shareholders' equity	Booked to income statement	Total	Booked to shareholders' equity	Booked to income statement	Total
IRES and IRAP tax payables	-	-	-	-	-	-
Other amounts due for current income taxes	-	4,329	4,329	-	7,003	7,003
Amounts due for current taxes - gross	-	4,329	4,329	-	7,003	7,003
Offsetting against current tax assets	-	4,329	4,329	-	7,003	7,003
Amounts due for current taxes – net	-	-	-	-	-	-

Section 11 - Non-current assets and disposal groups held for sale and associated liabilities – Asset Item 110 and Liability Item 70

11.1 Non-current assets and disposal groups held for sale breakdown by type of asset

	Total	
	31 12 2020	31 12 2019
A. Assets held for sale		
A.1 Financial assets	-	16,731
A.2 Equity investments	-	-
A.3 Property, plant and equipment	470	10,369
<i>of which: obtained through enforcement of guarantees received</i>	-	-
A.4 Intangible assets	-	-
A.5 Other non-current assets	-	-
Total A	470	27,100
<i>of which measured at cost</i>	470	27,100
<i>of which measured at fair value level 1</i>	-	-
<i>of which measured at fair value level 2</i>	-	-
<i>of which measured at fair value level 3</i>	-	-
B. Discontinued operations	-	-
C. Liabilities associated with assets held for sale	-	-
C.1 Payables	-	-
C.2 Securities	-	-
C.3 Other liabilities	-	-
Total C	-	-
<i>of which measured at cost</i>	-	-
<i>of which measured at fair value level 1</i>	-	-
<i>of which measured at fair value level 2</i>	-	-
<i>of which measured at fair value level 3</i>	-	-
D. Liabilities associated with discontinued operating activities	-	-

Note: The line “A.3 Property, plant and equipment” includes the disposal of tangible assets held for investment purposes.

Section 12 – Other assets - Item 120

12.1 Other assets: breakdown

	Total 31 12 2020	Total 31 12 2019
Tax receivables due from tax authorities and similar	1,584	1,215
Items being processed	2,169	5,931
Amounts receivable associated with the supply of goods and services	5,525	5,421
Improvement and incremental costs on third party assets other than included in the item "Property, plant and equipment"	9	10
Prepaid expenses not attributable to own items	3,100	3,219
Accrued income not attributable to own items	6,893	5,499
Receivables from tax consolidation	124,383	126,416
Other	821	1,188
Total	144,484	148,899

LIABILITIES

Section 1 – Financial liabilities measured at amortised cost – Item 10

1.1 Financial liabilities measured at amortised cost: breakdown by type of payables to banks

Type of transaction /Balances	Carrying amount	Totale 31 12 2020			Carrying amount	Totale 31 12 2019		
		Fair value				Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Due to Central Banks	-	X	X	X	-	X	X	X
2. Due to banks	9,505,260	X	X	X	15,716,169	X	X	X
2.1 Current accounts and demand deposits	212,375	X	X	X	218,982	X	X	X
2.2 Fixed-term deposits	6,496,434	X	X	X	9,915,027	X	X	X
2.3 Loans	2,461,754	X	X	X	5,207,184	X	X	X
2.3.1 Repurchase agreements	1,898,699	X	X	X	4,918,277	X	X	X
2.3.2 Other	563,055	X	X	X	288,907	X	X	X
2.4 Amounts due for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
2.5 Leasing payables	14,481	X	X	X	15,560			
2.6 Other amounts payable	320,216	X	X	X	359,416	X	X	X
Total	9,505,260	-	9,505,260	-	15,716,169	-	15,716,169	-

Note: The sub-item “Due to banks – 2.5 Other payables” includes collaterals received against operations in OTC and listed derivatives and in repurchase agreements (these last by way of additional marginalisations) on the basis of the agreements made between the parties (CSAs for OTC derivatives, GMRA for repurchase agreements). In relation to the disclosure on fair value, we can note that most of the deposits involve an early repayment on demand option. As a consequence, it was decided to quantify the related fair value as equal to the carrying amount, excluding changes which occurred in the Bank’s creditworthiness subsequent to the date the individual relationships were begun.

1.2 Financial liabilities measured at amortised cost: breakdown by type of payables to customers

Type of transaction / Balances	Totale 31 12 2020				Totale 31 12 2019			
	Carrying amount	Fair value			Carrying amount	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1 Current accounts and demand deposits	-	X	X	X	-	X	X	X
2 Fixed-term deposits	3,177	X	X	X	3,177	X	X	X
3 Loans	9,518,781	X	X	X	6,186,382	X	X	X
3.1 Repurchase agreements	9,508,367	X	X	X	6,173,681	X	X	X
3.2 Other	10,414	X	X	X	12,701	X	X	X
4 Amounts due for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
5 Leasing payables	1,336	X	X	X	1,238	X	X	X
6 Other amounts payable	438,057	X	X	X	287,427	X	X	X
Total	9,961,351	-	9,961,351	-	6,478,224	-	6,478,224	-

Note: the sub-item 2.6 “Other payables” includes collaterals received against operations in OTC and listed derivatives and in repurchase agreements (these last by way of additional marginalisations) on the basis of the agreements made between the parties (CSAs for OTC derivatives, GMRA for repurchase agreements).

1.3 Financial liabilities measured at amortised cost: breakdown by type of securities outstanding

Type of security /Balances	Total					Total				
	31 12 2020					31 12 2019				
	Carrying amount	Fair value				Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total		Level 1	Level 2	Level 3	Total
A. Securities										
1. Bonds	456,319	-	392,649	-	392,649	456,355	-	355,067	-	355,067
1.1 structured	-	-	-	-	-	-	-	-	-	-
1.2 other	456,319	-	392,649	-	392,649	456,355	-	355,067	-	355,067
2. Other securities	-	-	-	-	-	-	-	-	-	-
2.1 structured	-	-	-	-	-	-	-	-	-	-
2.2 other	-	-	-	-	-	-	-	-	-	-
Total	456,319	-	392,649	-	392,649	456,355	-	355,067	-	355,067

Note: the 2020 carrying amount includes € 6,288 thousand in interest accrued and not liquidated as of the reference date (compared to € 6,342 thousand at the end of 2019).

1.4 Detail of subordinated debts/securities

Types/Items	Date of issue	Date of maturity	Currency	Rate	31 12 2020		31 12 2019	
					nominal value	Carrying amount	nominal value	Carrying amount
Breakdown of securities in issue subordinated debt					450,000	456,319	450,000	456,355
1. IT0004809601 MPSCS-TV 12/22	30/03/2012	30/03/2022	EURO	variable	50,000	50,452	50,000	50,460
2. IT0005003451 MPSCS-TV 14/24	14/03/2014	14/03/2024	EURO	variable	250,000	253,096	250,000	253,113
3. IT0005041709 MPSCS-TV 14/24	31/07/2014	01/07/2024	EURO	variable	150,000	152,771	150,000	152,782
Total					450,000	456,319	450,000	456,355

No subordinated debts to banks or customers are recognised in the financial statements.

Below are the main characteristics of the subordinated securities in being at 31/12/2020:

1. Lower Tier II subordinated domestic bond issue, repayment of which will be in a single instalment at maturity; early repayment is not possible;
2. Lower Tier II subordinated domestic bond issue, repayment of which will be in a single instalment at maturity; early repayment is not possible;
3. Lower Tier II subordinated domestic bond issue, repayment of which will be in a single instalment at maturity; early repayment is not possible.

The subordination clauses state that, if the Bank is liquidated, the loans will be reimbursed only after all other creditors not equally subordinated have been repaid. The Bank may freely acquire on the market portions of the loans for no more than 10% of their value. Higher amounts shall be subject to prior approval by the Bank of Italy. No portions of these securities were held in the receivable portfolio, at both reference dates.

1.5 Detail of structured debts

No structured debts are recorded in the financial statements.

1.6 Leasing payables

Type of transaction /Balances	31 12 2020	31 12 2019
Payments due included in leasing liability, not discountable, up to 5 years	7,686	5,651
Within 1 month	802	572
Between 1 and 3 months	50	77
Between 3 months and 1 year	970	796
Between 1 and 5 years	5,864	4,206
Total outgoing cash flow for leasing over 5 years	8,131	11,146
Leasing payables	15,817	16,797

Section 2 - Financial liabilities held for trading - Item 20

2.1 Financial liabilities held for trading: breakdown by type

Type of operation/ group component	NV	Total 31 12 2020				FV*
		FV				
		Level 1	Level 2	Level 3	Total	
A. On-balance-sheet liabilities						
1. Due to banks	686,303	730,774	-	-	730,774	730,774
2. Due to customers	3,064,117	3,814,725	-	-	3,814,725	3,814,725
3. Debt securities	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	-	X
3.2 Other securities	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	-	X
3.2.2 Other	-	-	-	-	-	X
Total A	3,750,420	4,545,499	-	-	4,545,499	4,545,499
B. Derivative instruments						
1. Financial derivatives		-	1,784,925	-	1,784,925	
1.1 For trading	X	-	1,784,925	-	1,784,925	X
1.2 Associated with fair value option	X	-	-	-	-	X
1.3 Other	X	-	-	-	-	X
2. Credit derivatives		-	128,873	-	128,873	
2.1 For trading	X	-	128,873	-	128,873	X
2.2 Associated with fair value option	X	-	-	-	-	X
2.3 Other	X	-	-	-	-	X
Total B	X	-	1,913,798	-	1,913,798	X
Total (A+B)	X	4,545,499	1,913,798	-	6,459,297	X

* Fair value calculated by excluding changes in value due to the change in the creditworthiness of the issuer since the issue date.

Note: the amounts shown in lines “1. Due to banks” and “2. Due to customers” are mainly related to those of line “1. Debt securities” in table 2.1 of the assets “Financial assets held for trading: breakdown by type.” We also note that the sub-items “Due to banks” and “Due to customers”, as above, include technical overdrafts. The same are measured at fair value consistently with the standards applied to “long” positions.

In application of IAS 32, paragraph 42, level 1 derivatives quoted on regulated markets were offset for € 71,906 thousand (€ 41,333 thousand at 31 December 2019) as well as level 2 OTC financial and hedging derivatives settled through the Central Counterparty London Clearing House (LCH) for € 3,490,734 thousand (€ 2,504,329 at 31 December 2019) and level 2 credit derivatives settled at the Central Counterparty ICE Clear Europe (ICE) for € 2,984 thousand (5,494 at 31/12/2019). Starting from 2020 the Bank added to the Clearing of level 2 OTC financial derivatives with LCH, operations in the same segment with the Central Counterparty la Eurex Clearing (EUX); the fair values offset under the terms of IAS 32 para. 42 amounted at 31 December 2020 to € 432 thousand. The Bank has “indirect” access to Clearing of OTC derivatives through the Clearing Members.

Type of operation/ group component	NV	Total 31 12 2019				FV*
		FV			Total	
		Level 1	Level 2	Level 3		
A. On-balance-sheet liabilities						
1. Due to banks	1,547,156	1,884,151	103	-	1,884,254	1,884,255
2. Due to customers	509,396	551,777	6	-	551,783	551,784
3. Debt securities	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	-	X
3.2 Other securities	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	-	X
3.2.2 Other	-	-	-	-	-	X
Total A	2,056,552	2,435,928	109	-	2,436,037	2,436,039
B. Derivative instruments						
1. Financial derivatives		-	1,703,462	-	1,703,462	
1.1 For trading	X	-	1,703,462	-	1,703,462	X
1.2 Associated with fair value option	X	-	-	-	-	X
1.3 Other	X	-	-	-	-	X
2. Credit derivatives		-	124,714	-	124,714	
2.1 For trading	X	-	124,714	-	124,714	X
2.2 Associated with fair value option	X	-	-	-	-	X
2.3 Other	X	-	-	-	-	X
Total B	X	-	1,828,176	-	1,828,176	X
Total (A+B)	X	2,435,928	1,828,285	-	4,264,212	X

* Fair value calculated by excluding changes in value due to the change in the creditworthiness of the issuer since the issue date.

2.2 Detail of “Financial liabilities held for trading”: subordinated liabilities

There are no subordinated liabilities.

2.3 Detail of “Financial liabilities held for trading”: structured debts

There are no structured debts.

Section 3 - Financial liabilities designated at fair value – Item 30

No positions have been classified in this category.

Section 4 – Hedging derivatives – Item 40

4.1 Hedging derivatives: breakdown by type of hedge and hierarchical levels

	Fair value 31 12 2020				NV Total
	Level 1	Level 2	Level 3	Total	
A. Financial derivatives	-	4,220	-	4,220	19,861
1) Fair value	-	4,220	-	4,220	19,861
2) Cash flows	-	-	-	-	-
3) Foreign investments	-	-	-	-	-
B. Credit derivatives	-	-	-	-	-
1) Fair value	-	-	-	-	-
2) Cash flows	-	-	-	-	-
Total	-	4,220	-	4,220	19,861

Note: the hedging derivative, settled with the Central Counterparty London Clearing House (LCH), at 31 December 2019 presented positive fair value and was offset with financial liabilities held for trading in application of IAS 32 para. 42.

4.2 Hedging derivatives: breakdown by hedged portfolio and type of hedge

Transactions/Type of hedge	Fair Value							Cash flows		Foreign investments	Total 31 12 2020
	Micro						Macro	Micro	Macro		
	debt securities and interest rates	equity securities and stock market indices	currencie s and gold	credit	commod ities	other					
1. Financial assets measured at fair value through other comprehensive income	-	-	-	-	X	X	X	-	X	X	-
2. Financial assets measured at amortised cost	4,220	X	-	-	X	X	X	-	X	X	4,220
3. Portfolio	X	X	X	X	X	X	-	X	-	X	-
4. Other transactions	-	-	-	-	-	-	X	-	X	-	-
Total assets	4,220	-	-	-	-	-	-	-	-	-	4,220
1. Financial liabilities	-	X	-	-	-	-	X	-	X	X	-
2. Portfolio	X	X	X	X	X	X	-	X	-	X	-
Total liabilities	-	-	-	-	-	-	-	-	-	-	-
1. Expected settlements	X	X	X	X	X	X	X	-	X	X	-
2. Portfolios of financial assets and liabilities	X	X	X	X	X	X	-	X	-	-	-
Total	4,220	-	-	-	-	-	-	-	-	-	4,220

Section 5 - Value adjustments to financial liabilities subject to macro-hedging - Item 50

There were no transactions for this accounting item.

Section 6 - Tax liabilities - Item 60**6.1 Current tax liabilities****6.2 Deferred tax liabilities**

Details of deferred tax liabilities are provided in the Notes to the Financial Statements Part B - Assets - Section 10 “*Tax assets and tax liabilities*”.

Section 7 - Liabilities associated with assets held for sale – Item 70

None of the Bank’s liabilities are classified in this category.

Section 8 - Other liabilities - Item 80

8.1 Other liabilities: breakdown

	Total 31 12 2020	Total 31 12 2019
Taxes due to the tax authorities and similar	2,305	3,068
Amounts due to social security and welfare institutions	2,824	1,650
Sums available to customers	72	493
Other amounts due to employees	630	3,663
Items being processed	24,918	30,315
Amounts payable associated with the payment of supplies of goods and services	12,356	15,639
Accrued liabilities not attributable to own items	23	29
Deferred income not attributable to own items	220	237
Other	3,113	2,804
Total	46,461	57,898

Section 9 - Employee severance indemnity - Item 90

9.1 Employee severance indemnity: annual changes

	Total 31 12 2020	Total 31 12 2019
A. Opening balances	2,287	2,525
B Increases	51	125
B.1 Provision for the year	5	27
B.2 Other changes	46	98
C. Decreases	174	363
C.1 Liquidations carried out	157	334
C.2 Other changes	17	29
D. Closing balances	2,164	2,287

The allocation made during the period, as specified by the Bank of Italy, does not include the portions which, as an effect of the reform introduced by Legislative Decree 252 of 5 December 2005, are paid in directly by the Bank, as a function of choices made by employees, in the form of complementary social security, or those made to the Treasury Fund directly managed by INPS. These economic components are recognised under personnel expense, in “payments to complementary social security funds: defined contribution”.

Below, the amount subject to the prudential filter is shown, recognised according to the indications issued by the Bank of Italy regarding the determination of regulatory capital.

	31 12 2020	31 12 2019
a) Value of net liability for defined benefits on the basis of the new IAS 19	2,164	2,287
b) Value of net liability for defined benefits on the basis of the approach used in the 31/12/2012 financial statements	1,478	1,554
c) Difference between the two values (a-b)	686	733
d) Tax effect on the difference	189	202
e) Net difference to be added as a prudential filter to regulatory capital	497	531

9.2 Other information

9.2.a Changes during the period in net defined benefit liabilities: severance indemnity

Items/Balances	A (-) Plan assets	B (+) Current DBO value	C (+) Asset ceiling	D= A+B+C Net liability/asset for defined benefits
Opening balances	-	2,287	-	2,287
Welfare cost relating to current work services	-	-	-	-
Interest income/expense	-	5	-	5
Revaluation of net liabilities/assets for defined benefits:	-	29	-	29
Yield of plan assets net of interest	-	-	-	-
Actuarial gains/losses deriving from changes in demographic assumptions	-	1	-	1
Actuarial gains/losses deriving from past experience	-	(18)	-	(18)
Actuarial gains/losses deriving from changes in financial assumptions	-	46	-	46
Changes in the effect of limitations on the availability of a net asset for defined benefit plans	-	-	-	-
Welfare cost relating to past employment service and/or regulatory gains/losses	-	-	-	-
Payments made by the plan	-	(157)	-	(157)
Effects of business combinations and disposals	-	-	-	-
Effect of reductions in fund	-	-	-	-
Effect of discharges on fund	-	-	-	-
Other changes	-	-	-	-
Closing balances	-	2,164	-	2,164

9.2.b Descriptions of the main actuarial hypotheses

Main actuarial hypotheses / Percentages	31 12 2020	31 12 2019
Discount rates	0.05%	0.44%
Average future inflation rate	1.15%	1.50%
Estimated salary increase rates	2.48%	2.63%

9.2.c Analysis of DBO sensitivity to changes in the main actuarial hypotheses

Actuarial hypotheses	31 12 2020		31 12 2019	
	Absolute change in DBO	Percentage change in DBO	Absolute change in DBO	Percentage change in DBO
Discount rate				
0.25% increase	(38)	(1.77%)	(49)	(2.14%)
0.25% decrease	39	1.82%	40	1.76%
Estimated salary increase rates				
0.25% increase	24	1.10%	23	0.99%
0.25% decrease	(23)	(1.08%)	(32)	(1.41%)

9.2.2 Amount of liabilities pursuant to Article 2424-bis of the Italian Civil Code

Under the terms of Article 2424-bis of the Italian Civil Code, the statutory liability accrued at year end for the employee severance indemnity was € 1,856 thousand (€ 1,970 thousand at 31 December 2019).

Section 10 - Provisions for risks and charges - Item 100

10.1 Provisions for risks and charges: breakdown

Items/Components	Total	Total
	31 12 2020	31 12 2019
1. Provisions for credit risk related to commitments and financial guarantees given	1,025	1,166
2. Provisions for other commitments and other guarantees given	-	-
3. Company pension funds	3,629	4,039
4. Other provisions for risks and charges	43,554	17,978
4.1 legal and tax disputes	13,106	17,227
4.2 personnel expenses	-	258
4.3 other	30,448	493
Total	48,208	23,183

Note: the sub-item “Other provisions for risks and charges: 4.3 others” includes provisions against risks connected with the sale of receivables; these provisions amounted to € 21,718 thousand for the “*Valentine*” securitisation transaction carried out by the Group in December 2017, in favour of the vehicle Siena NPL S.r.l., to € 6,000 thousand for the “Hydra” operation (cf. specific paragraph in Part A.2, point 15, letter c) of these Notes to the Statements) and to € 100 thousand for the “*Project Race*” operation.

10.2 Provisions for risks and charges: annual changes

Items/Components	Totale 31 12 2020			
	Provisions for other commitments and other guarantees given	Pension funds	Other provisions for risks and charges	Total
A. Opening balances	-	4,039	17,978	22,017
B. Increases	-	79	33,275	33,354
B.1 Provision for the year	-	-	33,275	33,275
B.2 Changes due to the passage of time	-	9	-	9
B.3 Changes due to discount rate changes	-	-	-	-
B.4 Other changes	-	70	-	70
C. Decreases	-	489	7,699	8,188
C.1 Uses in the year	-	489	2,794	3,283
C.2 Changes due to discount rate changes	-	-	-	-
C.3 Other changes	-	-	4,905	4,905
D. Closing balances	-	3,629	43,554	47,183

10.2.a Other provisions for risks and charges: details of annual changes

Items/Components	31 12 2020			
	Legal disputes	Personnel expenses	Other	Total
A. Opening balances	17,227	258	493	17,978
Effect of change in accounting standards				-
B. Increases	2,176	-	31,099	33,275
B.1 Provision for the year	2,176	-	31,099	33,275
B.2 Changes due to the passage of time	-	-	-	-
B.3 Changes due to discount rate changes	-	-	-	-
B.4 Other increases	-	-	-	-
C. Decreases	6,298	258	1,143	7,699
C.1 Uses in the year	1,393	258	1,143	2,794
C.2 Changes due to discount rate changes	-	-	-	-
C.3 Other decreases	4,905	-	-	4,905
D. Closing balances	13,105	-	30,449	43,554

10.3 Provisions for credit risk related to commitments and financial guarantees given

	Provisions for credit risk related to commitments and financial guarantees given			
	First stage	Second stage	Third stage	Totale 31 12 2020
Irrevocable commitments to grant finance	153	559	-	712
Financial guarantees given	191	18	104	313
Total	344	577	104	1,025

10.4 Provisions for other commitments and other guarantees given

There were no transactions for this accounting item.

10.5 Defined-benefit company pension funds

	Totale 31 12 2020	Totale 31 12 2019
defined benefit	3,629	4,039
defined contribution	-	-
Defined-benefit company pension funds	3,629	4,039

10.5.1 Illustration of the features of the funds and of the related risks

Determination of the actuarial values, required by the application of IAS 19 “Employee Benefits” for defined-benefit complementary pension funds, is carried out by an independent actuary, using the “projected unit credit” method, as described in more detail in Part A of the Notes to the Financial Statements– Accounting Policies.

Internal pension funds are as follows:

- Defined benefit pension fund, of a supplementary or additional type, reserved for the personnel of the former Mediocredito Toscano and the former Istituto Nazionale di Credito Agrario already retired as of 1 January 1999 and personnel in service hired before 27 April 1993 who have expressed the desire to remain in said section. The provision for which the Bank is solely responsible is determined on the basis of the mathematical reserve calculated by an independent actuary at the end of each financial year.
- “Defined contribution” pension fund, extended to all the Bank’s personnel, with separate assets but not a separate legal standing.

For more details, please refer to the statements of accounts for pension funds attached to the Notes to the Financial Statements.

10.5.2 Changes during the year in net defined benefit liabilities (assets) and in redemption rights

Items/Balances	31 12 2020		31 12 2019	
	Internal plans	External plans	Internal plans	External plans
Opening balances	4,039		4,108	
Increases	79		436	
Welfare cost relating to current work services	-		-	
Interest income/expense	9		20	
Members contributions to plan	-		-	
Actuarial gains/losses	70		416	
Exchange losses	-		-	
Welfare cost relating to past employment services	-			
Other changes	-		-	
Decreases	489	-	505	
Payments made by the plan	489		505	
Welfare cost relating to past employment services	-		-	
Actuarial gains	-		-	
Exchange gains	-		-	
Effect of reductions in fund	-		-	
Effect of discharges on fund	-		-	
Other changes	-		-	
Closing balances	3,629		4,039	

10.5.2.a Changes during the period in net defined benefit liabilities

Items/Balances	31 12 2020			
	A (-)	B (+)	C (+)	D=A+B+C
	Plan assets	Current DBO value	Asset ceiling	Net liabilities/assets for defined benefits
Opening balances	-	4,039	-	4,039
Welfare cost relating to current work services	X	-	X	-
Interest income/expense	-	9	-	9
Revaluation of net liabilities/assets for defined benefits:	-	70	-	70
Yield of plan assets net of interest	-	X	X	-
Actuarial gains/losses deriving from changes in demographic assumptions	X	7	X	7
Actuarial gains/losses deriving from past experience	X	20	X	20
Actuarial gains/losses deriving from changes in financial assumptions	X	43	X	43
Changes in the effect of limitations on the availability of a net asset for defined benefit plans	X	X	-	-
Welfare cost relating to past employment services	X	-	X	-
Exchange differences	-	-	-	-
Contributions:	-	-	-	-
Paid by the employer	-	-	X	-
Paid by employees	-	-	X	-
Payments made by the plan	-	(489)	X	(489)
Effects of business combinations and disposals	-	-	-	-
Effect of reductions in fund	-	-	X	-
Effect of discharges on fund	-	-	X	-
Other changes	-	-	-	-
Closing balances	-	3,629	-	3,629

10.5.3 Information on the fair value of plan assets

The assets of the defined-benefit pension funds are invested in the Bank's assets; no specific assets have been classified as plan assets. Consequently, it is not possible to provide precise information on the fair value of plan assets.

10.5.4 Description of the main actuarial hypotheses

Main actuarial hypotheses / Percentages	31 12 2020		31 12 2019	
	Defined benefit funds		Defined benefit funds	
	Internal plans	External plans	Internal plans	External plans
Discount rates	0.05%	-	0.44%	-
Estimated salary increase rates	1.04%	-	1.50%	-

10.5.5 Information on amounts, time frames, and uncertainties for financial flows

Future payments

Year	2021	2022	2023	2024	2025
Cash flow	355	328	301	273	245

Other information

Main actuarial hypotheses / Percentages	31 12 2020	31 12 2019
Number of active employees	-	-
Number of pensioners	35	36
Service Cost 2016	-	-
Residual average length in years	5.49	5.64

10.5.5.a Analysis of DBO sensitivity to changes in the main actuarial hypotheses

Actuarial hypotheses	Absolute change in DBO	Percentage change in DBO
Discount rate		
0.25% increase	(55)	(1.52%)
0.25% decrease	57	1.56%
Estimated inflationary increase rates		
0.25% increase	42	1.15%
0.25% decrease	(41)	(1.13%)

10.5.6 Plans related to more than one employer

There are no plans related to more than one employer.

10.5.7 Defined benefit plans that share the risks between entities under joint control

No plans with these features exist.

10.6 Provisions for risks and charges– other provisions

Items/Components	Total	Total
	31 12 2020	31 12 2019
2.1 Legal disputes	13,106	17,227
- Revocatory actions	-	-
- Other legal disputes	13,106	17,227
-Tax risks	-	-
2.2 Personnel expenses	-	258
- Seniority bonuses - medals etc.	-	-
- incentive system - LPO VAP etc.	-	-
- Employment dispute	-	-
- Incentivised retirements after TU agreements and before acceptance by employees	-	-
- Other benefits from termination of the employment relationship, other than liabilities	-	-
- Other	-	258
2.3 Other	30,448	493
- Risks linked to disposal of assets/business units	-	-
- Charges from company restructuring	-	-
- Indemnities for financial advisor agents	-	-
- Indemnities connected with receivable sale transactions	27,818	-
- Expenses for misappropriation	-	-
- Risks connected with sundry items	-	-
- Complaints and out-of-court agreements	-	-
- Out-of-court requests	-	-
- Diamonds Refund	-	-
- Clawback clause (IFRS 15)	-	-
- Refunds to customers	-	-
- Estimate of expenses for legal assistance services	2,455	-
- Other	175	493
Total	43,554	17,978

Section 11 - Refundable shares - Item 120

There were no transactions for this accounting item.

Section 12 - The Bank's shareholders' equity - Items 110, 130, 140, 150, 160, 170 and 180

The Bank's shareholders' equity has the following composition:

Items/Balances	31 12 2020	31 12 2019
Capital	1,517,076	1,669,516
Share premiums	-	-
Reserves	(294,461)	(326,600)
Treasury shares	-	-
Valuation reserves	(102,975)	(141,062)
Equity instruments	-	-
Profit (Loss) for the year	43,664	36,562
Total equity	1,163,304	1,238,416

12.1 "Share capital" and "Treasury shares": breakdown

12.1.a Share capital: breakdown

Items/Balances	31 12 2020		31 12 2019	
	Unexpressed nominal value	Total amount of share capital	Unexpressed nominal value	Total amount of share capital
Ordinary shares (fully paid-up)	94,516.00	1,517,076,384	104,013.23	1,669,516,282

As a result of the operation for the partial demerger of the Bank in favour of Banca Monte dei Paschi di Siena S.p.A. in the context of the "Hydra" operation (cf. specific paragraph in Part A.2, point 15, letter c) of these Notes to the Statements), completed with a deed signed on 19 November 2020 with effective date 26 November 2020, the Bank's share capital was reduced from € 1,669,516,282.10 to € 1,517,076,384.31 and is divided into 16,051 ordinary nominative shares without indication of the face value.

12.1.b Treasury shares: breakdown

As of the reporting date, the Bank did not hold treasury shares.

12.2 Capital – number of shares: annual changes

No change during the year.

12.3 Capital: other information

The share capital is fully subscribed and paid in.

12.4 Profit reserves: other information

Profit reserves, constituted in accordance with the Italian Code, with the articles of association or in relation to specific resolutions passed by the Shareholders' Meeting as to the allocation of the income for the loss, have the purpose of strengthening the Bank's capital. During 2018 the available profit reserves were completely used to cover part of the 2017 loss. For further details please see table 12.6.2. below.

Items/Balances	31 12 2020	31 12 2019
Legal reserve		
Reserve of parent company shares		
Statutory reserve		
Reserve pursuant to art. 13 Italian Lgs. Decree 124/93		
Extraordinary reserve		
Other reserves	(294,461)	(326,600)
Total	(294,461)	(326,600)

12.5 Equity instruments: breakdown and annual changes

There were no transactions for this accounting item.

12.6 Other information

12.6.1 Valuation reserves

12.6.1.1 Valuation reserves: breakdown

Items/Components	31 12 2020	31 12 2019
1. Financial assets measured at fair value through other comprehensive income	(99,593)	(138,162)
2. Property, plant and equipment	-	-
3. Intangible assets	-	-
4. Foreign investment hedging	-	-
5. Cash flow hedging	-	-
6. Exchange differences	-	-
7. Non-current assets and disposal groups held for sale	-	-
8. Special revaluation laws	-	-
9. Employee severance indemnities	(1,304)	(1,276)
10. Company pension funds	(2,396)	(2,326)
11. Tax effect	317	702
Total	(102,976)	(141,062)

12.6.1.2 Valuation reserves: annual changes

	Financial assets measured at fair value through other comprehensive income	Employee severance indemnities	Company pension funds	Tax effect	Total
A. Opening balances	(138,162)	(1,276)	(2,326)	702	(141,062)
B. Increases	44,849	18	-	(677)	44,190
B.1 Fair value increases	1,933			(532)	1,401
B.2 Other changes	42,916	18		(145)	42,789
C. Decreases	6,280	46	70	(292)	6,104
C.1 Fair value decreases	5,911			(159)	5,752
C.2 Other changes	369	46	70	(133)	352
D. Closing balances	(99,593)	(1,304)	(2,396)	317	(102,976)

12.6.1.3 Valuation reserves relating to financial assets measured at fair value through other comprehensive income: breakdown (before tax effects)

Items/Components	31 12 2020		31 12 2019	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	2,594	720	1,030	653
2. Equity securities	-	101,466	-	138,539
3. UCITS units	-	-	-	-
4. Loans	-	-	-	-
Total	2,594	102,186	1,030	139,192

12.6.1.4 Valuation reserves relating to financial assets measured at fair value through other comprehensive income: annual changes (before tax effects)

	Debt securities	Equity securities	UCITS units	Loans
1. Opening balances	377	(138,539)	-	-
2. Positive changes	2,443	-	-	-
2.1 Fair value increases	1,933	-	-	-
2.2 Transfer to income statement of negative reserves	510	-	-	-
- due to impairment	-	-	-	-
- due to disposal	510	-	-	-
2.3 Other changes	-	-	-	-
3. Negative changes	946	(37,073)	-	-
3.1 Fair value decreases	577	5,333	-	-
3.2 Reversal to income statement of positive reserves	369	(42,406)	-	-
- due to disposal	369	(42,406)	-	-
3.3 Other changes	-	-	-	-
4. Closing balances	1,874	(101,466)	-	-

12.6.2 The Bank's capital: availability and possibility of distribution of the various items

Items/Balances	Amount	Possibility of utilisation (*)	Available portion	Summary of uses made in previous three years	
				for coverage of loss	for other reasons
Capital	1,517,076	-	-	-	152,440
Capital reserves				184,599	
Profit reserves	(294,461)	-	-	75,976	(38,265)
Profit reserves FTA 2013 IAS 19	665	-	-	-	-
Reserves from FTA IFRS 9	(46,215)	-	-	-	-
Retained losses	(206,204)	-	-	75,976	(38,265)
Reserves from disposal of OCI equity securities	(42,707)	-	-	-	-
Other reserves		-	-	10,632	-
Valuation reserves	(102,975)	-	-	-	-
Profit for 2020	43,664	-	-	-	-
Total Equity	1,163,304	-	-	271,207	114,175

(*) Key: A for share capital increases; B for coverage of losses; C for distribution to shareholders

Note: in 2020, in the context of the "Hydra operation (cf. specific paragraph in Part A.2, point 15, letter c) of the present Notes to the Statements), the share capital was reduced by € 152,440 thousand and the reserves related to Losses carried forward € 38,265 thousand, for a total reduction in shareholders' equity of € 114,175 thousand. "Retained losses" indicate the loss for financial year 2017 for the portion not covered by the reserves and by the profits of subsequent years. Limited to the last three financial years, uses were made in 2018 to cover part of the e loss for financial year 2017 (for € 271,207 thousand) using the available reserves. In addition, the "Retained losses" were further reduced using, for the entire amount, in 2019 the profit for the year 2018 (of € 80,699 thousand) and in 2020 the profit for the year 2019 (of € 36,562 thousand).

Other information

1. Commitments and financial guarantees given (other than those designated at fair value)

Nominal value of commitments and financial guarantees given	31 12 2020				Total
	First stage	Second stage	Third stage	Total	31 12 2019
Irrevocable commitments to grant finance	5,982,557	115,197	2,183	6,099,937	4,495,992
a) Central Banks	-	-	-	-	-
b) Public administrations	-	-	-	-	-
c) Banks	97,057	-	-	97,057	30,131
d) Other financial companies	5,448,083	3,811	-	5,451,894	3,930,094
e) Non-financial companies	436,375	111,113	1,992	549,480	535,484
f) Households	1,042	273	191	1,506	283
Financial guarantees given	56,763	18,810	306	75,879	71,180
a) Central Banks	-	-	-	-	-
b) Public administrations	-	-	-	-	-
c) Banks	17,893	-	-	17,893	8,220
d) Other financial companies	2,747	-	-	2,747	3,947
e) Non-financial companies	36,122	18,810	306	55,238	59,013
f) Households	-	-	-	-	-
Total	6,039,320	134,007	2,489	6,175,816	4,567,172

2. Other commitments and other guarantees given

	Nominal value	
	31 12 2020	31 12 2019
Other guarantees given	444,487	460,745
of which: impaired credit exposures	-	-
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	59,683	13,683
d) Other financial companies	384,804	447,062
e) Non-financial companies	-	-
f) Households	-	-
Other commitments	240,000	-
of which: impaired credit exposures	-	-
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
e) Non-financial companies	240,000	-
f) Households	-	-
Total	684,487	460,745

Note: the table shows, in “Other guarantees given”, € 444,487 thousand (€ 460,745 thousand at 31 December 2019) referable to the maximum risk of indemnities due to the purchaser counterparties for potential claims consequent to the breach of the declarations and warranties issued by the Bank in the context of operations for the sale of impaired receivables.

3. Assets lodged as collateral for the Bank’s liabilities and commitments

Portfolios	31 12 2020	31 12 2019
1. Financial assets measured at fair value through profit or loss	4,773,700	5,694,735
2. Financial assets measured at fair value through other comprehensive income	91,213	63,867
3. Financial assets measured at amortised cost	2,126,575	975,313
4. Property, plant and equipment	-	-
<i>of which: property, plant and equipment that constitute inventories</i>	-	-

Note: the table summarises the assets lodged by the Bank as collateral for its liabilities, for the most represented by repurchase agreements.

4. Management and brokerage on behalf of third parties

Type of services	Amounts	Amounts
	31 12 2020	31 12 2019
1. Execution of orders on customers' behalf		
a) purchases	9,302,856	6,242,264
1. settled	9,280,715	6,218,346
2. not settled	22,141	23,918
b) sales	8,592,876	7,374,938
1. settled	8,560,361	7,357,868
2. not settled	32,515	17,070
2. Portfolio management		-
a) individual	-	-
b) collective	-	-
3. Custody and administration of securities		
a) third party securities deposited with the Bank associated with its role as custodian bank (excluding portfolio management)	-	-
1. securities issued by companies included in consolidation	-	-
2. other securities	-	-
b) third party securities on deposit (excluding portfolio management):	9,248,304	7,077,315
1. securities issued by companies included in consolidation	-	-
2. other securities	9,248,304	7,077,215
c) third party securities deposited with third parties	9,248,304	7,077,315
d) own securities deposited with third parties	5,759,239	7,648,684
4. Other transactions	7,510,084	4,086,109

Note: the amounts indicated in point 3 "Custody and administration of securities" represent the par value of the securities. The sub-items "third party securities" include € 598,382 thousand as collateral received to guarantee derivative and repurchase agreements payable exposures (€ 661,008 thousand in 2019), as well as securities received for repurchase and securities lending operations receivable for a nominal value of € 8,640,641 thousand (€ 6,400,056 thousand at 31 December 2019). The aggregate had a total fair value of € 10,802,103 thousand (€ 7,865,822 at 31 December 2019).

The "Other transactions" indicated at point 4, represent the volumes of placement activities with or without guarantees.

5. Financial assets subject to netting in the financial statements, or subject to framework netting or similar agreements

Technical forms	Gross amount of financial assets (a)	Amount of financial liabilities netted in the financial statements (b)	Net amount of financial assets recognised in the financial statements (c=a-b)	Correlated amounts not subject to netting in the financial statements		Ammontare netto (f=c-d-e) 31 12 2020	Ammontare netto 31 12 2019
				Financial instruments (d)	Cash deposits received as guarantees (e)		
1. Derivatives	6,745,101	3,544,484	3,200,617	1,994,729	693,937	511,951	401,493
2. Repurchase agreements	9,826,800	-	9,826,800	9,825,964	-	836	103,239
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Totale 31 12 2020	16,571,901	3,544,484	13,027,417	11,820,693	693,937	512,787	X
Totale 31 12 2019	12,794,647	2,534,456	10,260,191	8,420,806	1,360,335	X	479,050

The assets indicated in the above table are measured according to the criteria illustrated in the accounting standards of reference.

The amounts related to derivatives refer to i) derivatives quoted on regulated markets; ii) OTC derivatives settled at the Central Counterparties LCH London Clearing House, ICE Clear Europe and EUREX Clearing, through Clearing Members; iii) OTC derivatives entered into with institutional counterparties settled by ISDA, MNA and CSA.

The amounts related to repurchase agreements refer to transactions settled, respectively, through GMRA and GMSLA collateralisation agreements.

The amounts shown in column “c” correspond to those presented in the Balance Sheet Assets under Item 20. “Financial assets measured at fair value through profit or loss - a) Financial assets held for trading” as regards derivatives and under item 40. “Financial assets measured at amortised cost” as regards repurchase agreements.

Description of netting rights subject to framework netting agreements or similar agreements, including cases in which the criteria envisaged in section 42 of IAS 32 are not met.

Operations regarding derivatives listed on regulated markets have the characteristics referred to in the amendment to IAS 32 for offsetting financial assets and liabilities, in that the Bank has a current and unconditional right, which can be exercised during the normal course of business and also in the cause of default, insolvency or bankruptcy of the counterpart, to offset the financial asset or liability (IAS 32 §AG38B), whether the intention is to settle the amount on a net basis or to make use of the asset while simultaneously eliminating the liability (IAS 32 §AG38E). With reference to OTC derivatives settled with the Central Counterparties LCH, ICE and EUREX, the relation between the Bank and the Clearing Members is governed by an ISDA MNA and CSA contract in which, unlike what occurs in the context of the agreements envisaged with the other counterparties, the application of a “Multiple Transaction Payment Netting” clause is envisaged, defined under article 2(c) of the 2002 ISDA MNA. The activation of this clause involves:

- settlement on a net basis on a daily or infra-daily basis;
- the execution of a single transfer of funds for each regulated currency inclusive of exchanges of contractual flows, any amounts to be paid in the case of early termination and payments/deposits related to the initial and variation margin (collateral).

In the event of default of a Clearing Member the Bank can choose whether to transfer the positions to another Clearing Member or have the existing positions liquidated; in any case the netting mechanism provided for in the ISDA MNA is applied.

This type of transaction also has the characteristics envisaged in the amendment to IAS 32 (see previous point).

OTC derivatives entered into with institutional counterparties are governed by ISDA MNA and CSA contracts. The contractual clauses for these operations allow for offset adjustment of the financial assets and liabilities in question only in the case in which certain events occur, while the possibility of offsetting during the course of normal business being excluded.

With the exception of the agreements stipulated with the Central Clearing Members of the CCP, no agreements exist with institutional counterparties that envisage the application of the Multiple Transaction Payment Netting clause.

Therefore, this type does not have the characteristics necessary for netting in the financial statements, as regulated by the amendment to IAS 32.

Repurchase agreements and securities borrowing and lending are all governed by the following agreements, developed with an eye to mitigating credit risk:

- Global Master Repurchase Agreement (GMRA) for repurchase agreements;
- Global Master Securities Lending Agreement (GMSLA) for securities lending;

On the basis of the analysis carried out, with particular reference to the contractual rules relating to the settlement of cash flows, no cases were identified that envisage settlement on a net basis of daily or infra-daily cash flows, during the normal course of business. Therefore, the requirements referred to in the amendment to IAS 32 for relative netting in the financial statements are not met.

6. Financial liabilities subject to netting in the financial statements, or subject to framework netting agreements or similar

Technical forms	Gross amount of financial liabilities (a)	Amount of financial assets netted in the financial statements (b)	Net amount of financial liabilities recognised in the financial statements (c=a-b)	Correlated amounts not subject to netting in the financial statements		Ammontare netto (f=c-d-e) 31 12 2020	Ammontare netto 31 12 2019
				Financial instruments (d)	Cash deposits placed as guarantees (e)		
1. Derivatives	5,452,513	3,544,484	1,908,029	1,318,000	568,455	21,574	24,208
2. Repurchase agreements	11,407,065	-	11,407,065	11,406,656	-	409	1,859
3. Securities lending	-	-	-	-	-	-	-
4 Other	-	-	-	-	-	-	-
Totale 31 12 2020	16,859,578	3,544,484	13,315,094	12,724,656	568,455	21,983	X
Totale 31 12 2019	15,452,557	2,534,456	12,918,101	12,484,296	423,965	X	9,840

The liabilities indicated in the above table are measured according to the criteria illustrated in the accounting standards of reference.

The amounts shown in column “c” correspond to those presented in the Balance Sheet Liabilities under Item 10. “Financial liabilities measured at amortised cost”, in relation to repurchase agreements, and 20. “Financial liabilities held for trading”, as regards derivatives.

In relation to the disclosure for netting rights, please refer to the information provided at the bottom of table “5. Financial assets subject to netting in the financial statements, or subject to framework netting or similar agreements” above.

7. Securities lending transactions

Securities lending transactions, as for similar repurchase agreement transactions, are carried out mostly to hedge against similar and specular transactions. They are also carried out to hedge against short positions on securities (known as technical overdrafts, representing, in terms of volumes, mainly sales of government securities) taken on by the trading desks for strategies focused on short/medium-term maturities.

During 2020 securities lending transactions decreased considerably: the amount of securities lending transactions, at 31 December 2020, came out at € 22.6 million compared to € 1,859.7 million at 31 December 2019 while there was practically no securities borrowing .

Considering together the securities lending and repurchase agreement transactions, at 31 December 2020 the total net funding position, correlated with financing of net long positions in securities, was € 1,580 million (€ 3,979 million at 31 December 2019).

8. Disclosure on jointly-controlled companies

This section was not completed as it is not relevant to the Bank.

Part C - Notes to the Income Statement

Section 1 – Interest – Items 10 and 20

1.1 Interest and other income: breakdown

Items/Technical types	Debt securities	Loans	Other transactions	Total 31 12 2020	Total 31 12 2019
1. Financial assets measured at fair value through profit or loss	39,077	177	-	39,254	52,411
1.1 Financial assets held for trading	36,685	-	-	36,685	50,160
1.2 Financial assets designated at fair value	-	-	-	-	-
1.3 Other financial assets obligatorily measured at fair value	2,392	177	-	2,569	2,251
2. Financial assets measured at fair value through other comprehensive income	1,732	-	X	1,732	1,448
3. Financial assets measured at amortised cost	6,318	149,878	X	156,196	161,384
3.1 Due from banks	-	29,677	X	29,677	28,443
3.2 Due from customers	6,318	120,201	X	126,519	132,941
4. Hedging derivatives	X	X	(225)	(225)	(46)
5. Other assets	X	X	1	1	1
6. Financial liabilities	X	X	X	93,345	85,188
Total	47,127	150,055	(224)	290,303	300,386
<i>of which interest income on impaired financial assets</i>	-	17,102	-	17,102	27,469
<i>of which interest income on financial leases</i>	-	-	-	-	-

1.1.a Interest income on impaired assets

Items	Total 31 12 2020	Total 31 12 2019
- Bad loans	8,548	12,985
<i>of which: forbore</i>	3,438	3,926
- Probable defaults	8,358	14,173
<i>of which forbore</i>	7,163	10,496
- Impaired past-due exposures	196	311
<i>of which forbore</i>	-	61
Total	17,102	27,469

1.2. Interest and similar income: other information

1.2.1 Interest income on foreign currency financial assets

Items/Balances	Total 31 12 2020	Total 31 12 2019
Interest income on foreign currency financial assets	13,839	12,686

1.3 Interest expense and similar charges: breakdown

Items/Technical types	Payables	Securities	Other transactions	Total 31 12 2020	Total 31 12 2019
1. Financial liabilities measured at amortised cost	(75,536)	(18,917)	-	(94,453)	(117,052)
1.1 Payables to central banks	-	X	X	-	-
1.2 Payables to banks	(74,574)	X	X	(74,574)	(96,838)
1.3 Payables to customers	(962)	X	X	(962)	(826)
1.4 Outstanding securities	X	(18,917)	X	(18,917)	(19,388)
2. Financial liabilities held for trading	-	-	-	-	-
3. Financial liabilities designated at fair value	-	-	-	-	-
4. Other liabilities and provisions	X	X	-	-	-
5. Hedging derivatives	X	X	-	-	-
6. Financial assets	X	X	X	(62,187)	(58,188)
Total	(75,536)	(18,917)	-	(156,640)	(175,240)
<i>of which interest payable relating to leasing payables</i>	(581)	-	-	(581)	(619)

1.4 Interest expense and similar charges: other information

1.4.1 Interest expense on foreign currency liabilities

Items/Balances	Total 31 12 2020	Total 31 12 2019
Interest expense on foreign currency financial liabilities	3,739	11,215

1.5 Spreads relating to hedging transactions

Items	Total 31 12 2020	Total 31 12 2019
A. Positive spreads relating to hedging transactions	-	-
B. Negative spreads relating to hedging transactions	(225)	(46)
C. Balance (A+B)	(225)	(46)

Section 2 – Fees – Items 40 and 50

2.1 Fee income: breakdown

Type of services / Balances	Total 31 12 2020	Total 31 12 2019
a) guarantees given	984	1,084
b) credit derivatives	-	-
c) asset management, brokerage and consultancy services:	22,960	18,030
1. financial instrument trading	-	-
2. foreign exchange trading	-	-
3. individual portfolio management	-	-
4. custody and administration of securities	-	-
5. custodian bank	-	-
6. placing of securities	20,171	16,058
7. order reception and transmission	2,789	1,972
8. advisory services	-	-
8.1 on investments	-	-
8.2 on financial structure	-	-
9. distribution of third-party services	-	-
9.1. portfolio management	-	-
9.1.1. individual	-	-
9.1.2. collective	-	-
9.2. insurance products	-	-
9.3. other products	-	-
d) collection and payment services	-	-
e) servicing for securitisation transactions	-	-
f) factoring services	-	-
g) tax collection and State lottery services	-	-
h) management of multilateral trading systems	-	-
i) holding and managing current accounts	-	-
j) other services	34,942	30,293
Total	58,886	49,407

Note: in relation to the sub-item “c) 6. securities placement”, 32 placing operations with/without guarantee were handled by the Bank.

In relation to the disclosure required by IFRS 15 please refer to the information provided in Part A, Section 2, para. 15) Other information. We can specify in this regard that fee income is normally recognised in the accounts at point in time, with the exception of that booked to sub-item “a) guarantees given” and for approximately 29% of that booked to sub-item “j) other services”, which are received over time. As regards the latter this income consists, in particular, of:

- fees for the work done for the Management of the SME Guarantee Fund, for € 2,718 thousand (€ 1,438 thousand at 31 December 2019);
- commissions charged to customers for late use of amounts agreed to be disbursed mainly referable to corporate finance (in particular project financing) operations, for an amount of € 4,356 thousand (€ 3,754 thousand at 31 December 2019). For these transactions it is contractually provided for that,

if the funds are not drawn down completely within a certain date, the customers pay periodically these commissions, normally calculated applying a percentage of the credit spread on the amount that is not yet drawn down);

- agency fees in the amount of € 2,266 thousand (€ 2,577 thousand at 31 December 2019). These fees are paid by customers for the role played by the Bank as lead manager/agent of loans in pools, for the administrative work related to sending and collecting instalments, to retrocession of collections pro-rata to the participants, to managing arrears but also and above all for the work of monitoring the covenants, annual analysis of accounting indices, etc.

2.1.a Fee income: breakdown of fees for other services

Type of services / Balances	Total 31 12 2020	Total 31 12 2019
a) for early repayment/termination of loans and mortgage loans	227	431
b) fees for advisory services	13,899	18,517
c) fees for services	3,443	2,569
d) fees for securities lending	167	374
e) other	17,206	8,402
Total	34,942	30,293

Note: the detail "e) others" refers for € 8,307 thousand to fees received from the MEF for participation in the auctions of government securities, and for the remainder, to commissions for enquiries and secretarial work, commissions for non-use or late use of the line agreed, disinvestment expenses and agency fees.

2.2 Fee income: distribution channels for products and services

Channels / Balances	31 12 2020	31 12 2019
a) at bank branches:	-	-
1. portfolio management	-	-
2. placing of securities	-	-
3. third-party services and products	-	-
b) offsite sales:	-	-
1. portfolio management	-	-
2. placing of securities	-	-
3. third-party services and products	-	-
c) other distribution channels:	20,171	16,058
1. portfolio management	-	-
2. placing of securities	20,171	16,058
3. third-party services and products	-	-

2.3. Fee expense: breakdown

Services / Balances	Total 31 12 2020	Total 31 12 2019
a) guarantees received	(60)	(131)
b) credit derivatives	-	-
c) management and brokerage services:	(24,895)	(21,926)
1. financial instrument trading	(23,499)	(15,075)
2. foreign exchange trading	-	(1)
3. portfolio management:	-	-
3.1 own	-	-
3.2 delegated by third parties	-	-
4. custody and administration of securities	-	(2,228)
5. placing of financial instruments	(1,395)	(4,622)
6. external marketing of financial instruments, products and services	-	-
d) collection and payment services	(7)	(9)
e) other services	(3,444)	(7,038)
Total	(28,406)	(29,104)

2.3.a Fee expense: breakdown of fees for other services

Type of services / Balances	Total 31 12 2020	Total 31 12 2019
a) presentation of loan applications	(2,529)	(4,324)
b) handling of bad loans	(7)	(2)
d) fees for securities lending	(154)	(282)
e) other	(754)	(2,430)
Total	(3,444)	(7,038)

Section 3 - Dividends and similar income - Item 70

3.1 Dividends and similar income: breakdown

Items/Income	31 12 2020			31 12 2019		
	Dividends	Similar income	Total	Dividends	Similar income	Total
A. Financial assets held for trading	914	632	1,546	585	1,108	1,693
B. Financial assets obligatorily measured at fair value	-	-	-	-	-	-
C. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-
D. Equity investments	-	-	-	-	-	-
Total	914	632	1,546	585	1,108	1,693

Section 4 - Net income from trading activities - Item 80

4.1 Net income from trading activities: breakdown

Transactions/Income components	Capital gains (A)	Gains on disposal (B)	Capital losses (C)	Losses on disposal (D)	Net gains (losses)	
					31 12 2020	31 12 2019
1. Financial assets held for trading	37,629	112,110	(20,128)	(130,046)	(435)	65,814
1.1 Debt securities	29,974	105,967	(17,865)	(104,683)	13,393	52,955
1.2 Equity securities	6,067	4,865	(962)	(22,413)	(12,443)	2,874
1.3 UCITS units	1,588	1,278	(1,301)	(2,950)	(1,385)	9,985
1.4 Loans	-	-	-	-	-	-
1.5 Other	-	-	-	-	-	-
2. Financial liabilities held for trading	1,693	49,456	(40,588)	(61,878)	(51,317)	(72,145)
2.1 Debt securities	1,626	49,007	(38,865)	(59,215)	(47,447)	(72,216)
2.2 Payables	-	-	-	-	-	-
2.3 Other	67	449	(1,723)	(2,663)	(3,870)	71
3. Other financial assets and liabilities: Exchange differences	X	X	X	X	2,506	(50)
4. Derivative instruments	2,498,266	4,579,081	(2,248,530)	(4,790,674)	67,366	40,983
4.1. Financial derivatives:	2,495,114	4,396,359	(2,209,506)	(4,632,630)	78,560	118,032
- On debt securities and interest rates	2,370,569	3,271,697	(2,124,206)	(3,520,716)	(2,656)	114,026
- On equity securities and share indices	86,299	965,279	(49,541)	(949,458)	52,579	2,220
- On foreign currencies and gold	X	X	X	X	29,223	(4,493)
- Other	38,246	159,383	(35,759)	(162,456)	(586)	6,279
4.2 Credit derivatives	3,152	182,722	(39,024)	(158,044)	(11,194)	(77,049)
<i>of which: natural hedging connected with the fair value option</i>	-	-	-	-	-	-
Total	2,537,588	4,740,647	(2,309,246)	(4,982,598)	18,120	34,602

4.1.a Write-downs and trading losses attributable to assets of evident low credit quality

The write-downs and trading losses attributable to assets of evident low credit quality amounted to € 1,974 thousand (€ 8,312 thousand at 31 December 2019). Compared to the previous year, in which derivatives included in this category had generated respectively capital losses and losses of € 1,064 thousand and € 7,049 thousand, in 2020 on the segment only capital losses of € 1,598 thousand were recognised.

Section 5 - Net gains/(losses) on hedging activities - Item 90

5.1 Net gains/(losses) on hedging activities: breakdown

Income components / Balances	Total 31 12 2020	Total 31 12 2019
A. Income related to:		
A.1 Fair value hedging derivatives	-	1,593
A.2 Hedged financial assets (fair value)	4,881	-
A.3 Hedged financial liabilities (fair value)	-	-
A.4 Financial derivatives hedging cash flows	-	-
A.5 Foreign currency assets and liabilities	-	-
Total income from hedging activities (A)	4,881	1,593
B. Costs related to:		
B.1 Fair value hedging derivatives	(5,166)	-
B.2 Hedged financial assets (fair value)	-	1,660
B.3 Hedged financial liabilities (fair value)	-	-
B.4 Financial derivatives hedging cash flows	-	-
B.5 Foreign currency assets and liabilities	-	-
Total expense from hedging activities (B)	(5,166)	1,660
C. Net gains (losses) on hedging activities (A-B)	(285)	(67)
<i>of which: result of hedges of net positions</i>	-	-

Section 6 - Gains/(Losses) on sale/repurchase - Item 100

6.1 Gains/(Losses) on sale/repurchase: breakdown

Items/Income components	Totale 31 12 2020			Totale 31 12 2019		
	Gains	Losses	Net gains (losses)	Gains	Losses	Net gains (losses)
Financial assets						
1. Financial assets measured at amortised cost	-	(276)	(276)	3,189	(762)	2,427
1.1 Due from banks	-	-	-	-	-	-
1.2 Receivables from customers	-	(276)	(276)	3,189	(762)	2,427
2. Financial assets measured at fair value through other comprehensive income	463	(586)	(123)	1	-	1
2.1 Debt securities	463	(586)	(123)	1	-	1
2.2 Loans	-	-	-	-	-	-
Total assets (A)	463	(862)	(399)	3,190	(762)	2,428
Financial liabilities measured at amortised cost						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Outstanding securities	-	-	-	-	-	-
Total liabilities (B)	-	-	-	-	-	-

Section 7 – Net gains/(losses) on other financial assets and liabilities measured at fair value through profit or loss - Item 110

7.1 Net change in value of other financial assets and liabilities measured at fair value through profit or loss: breakdown of financial assets and liabilities designated at fair value

There were no transactions for this accounting item.

7.2 Net change in value of other financial assets and liabilities measured at fair value through profit or loss: breakdown of other financial assets obligatorily measured at fair value

Transactions / Income components	Capital gains (A)	Gains on disposal (B)	Capital losses (C)	Losses on disposal (D)	Net gains (losses) 31 12 2020
1. Financial assets					
1.1 Debt securities	2,554	-	(5,007)	-	(2,453)
1.2 Equity securities	150	6,184	(367)	(865)	5,102
1.3 UCITS Units	422	-	(534)	(307)	(419)
1.4 Loans	8	4,234	(166)	(544)	3,532
2. Financial assets in other currencies: exchange differences	X	X	X	X	(2,535)
Total	3,134	10,418	(6,074)	(1,716)	5,762

Note: as regards debt securities the negative result (€ -5 million) is attributable to the Junior security of the Siena NPL securitisation (€ -4 million) and to the securities related to the “Norma” securitisation (€ -1 million). For equity securities the result (€ +5.1 million) is almost entirely attributable to the sales of the SFP “Scarlino EN SFP1 LIV” (€ +6.2 million) and of the Astaldi shares (€ -0.9 million).

Section 8 – Net value adjustments due to credit risk - Item 130

8.1 Net value adjustments due to credit risk in relation to financial assets measured at amortised cost: breakdown

Transactions/Income components	Value adjustments (1)			Write-backs (2)		Totale 31 12 2020	Totale 31 12 2019
	First and second stage	Third stage		First and second stage	Third stage		
		Write-offs	Other				
A. Due from banks	-	-	-	466	-	466	47
- Loans	-	-	-	466	-	466	47
- Debt securities	-	-	-	-	-	-	-
Of which: purchased or originated credit-impaired	-	-	-	-	-	-	-
B. Due from customers	(26,028)	(646)	(77,425)	82	59,104	(44,913)	4,148
- Loans	(23,577)	(646)	(77,425)	-	59,104	(42,544)	4,183
- Debt securities	(2,451)	-	-	82	-	(2,369)	(35)
Of which: purchased or originated credit-impaired	-	-	(28)	-	-	(28)	(463)
C. Total	(26,028)	(646)	(77,425)	548	59,104	(44,447)	4,195

Note: please see, for more information, the paragraph “Risks, uncertainties and impacts of the COVID-19 epidemic” in chapter 16. “Use of estimates and assumptions in preparing the financial statements” of Section 1 – Accounting standards of Part A.2 of the Notes to the Statements. We must stress that, as of 31 December 2020 the revision of the macroeconomic scenarios consequent to the pandemic entailed the recognition of additional adjustments of € 39.5 million, of which approximately € 25.7 million for the performing and approximately € 13.8 million for the non-performing portfolio.

Net value adjustments for credit risk during the year related to operating loans falling under the scope of IFRS 15 totalled € (11) thousand.

8.1.a Net value adjustments for credit risk related to loans measured at amortised cost subject to Covid-19 support measures: breakdown

Transactions/Income components	Value adjustments			Write-backs		Totale 31 12 2020
	First and second stage	Third stage		First and second stage	Third stage	
		Write-offs	Other			
1. Forborne loans compliant with the GLs	(5,066)	-	(28)	-	-	(5,094)
2. Loans subject to other forbearance measures	(1,204)	-	(141)	-	-	(1,345)
3. New loans	(78)	-	-	-	-	(78)
Total 31 12 2020	(6,348)	-	(169)	-	-	(6,517)

8.2 Net value adjustments for credit risk in relation to financial assets measured at fair value through other comprehensive income: breakdown

Transactions /Income components	Value adjustments			Write-backs		Totale 31 12 2020	Totale 31 12 2019
	First and second stage	Third stage		First and second stage	Third stage		
		Write-offs	Other				
A. Debt securities	(321)	-	-	18	965	662	(797)
B. Loans	-	-	-	-	-	-	-
- to banks	-	-	-	-	-	-	-
- to customers	-	-	-	-	-	-	-
<i>Of which: purchased or originated credit-impaired financial assets</i>	-	-	-	-	-	-	-
Total	(321)	-	-	18	965	662	(797)

8.2.a Net value adjustments for credit risk related to loans measured at fair value through other comprehensive income subject to Covid-19 support measures: breakdown

The table contains nothing because for the year in progress there were no loans of this type.

Section 9 – Gains/losses on contractual changes without cancellations- Item 140**9.1 Gains (losses) on contractual changes**

Portfolios	31 12 2020	31 12 2019
	Net gains (losses)	Net gains (losses)
1. Financial assets measured at amortised cost	(2,359)	(46)
2. Financial assets measured at fair value through other comprehensive income	-	-
Total	(2,359)	(46)

Note: the item includes, for approximately € (1,611) thousand, losses referable to Covid-19 suspensions completed.

Section 10 - Administrative expenses - Item 160

10.1 Personnel expense: breakdown

Type of cost /Sectors	Total 31 12 2020	Total 31 12 2019
1. Employees	(38,668)	(39,876)
a) wages and salaries	(28,232)	(28,374)
b) social security contributions	(6,843)	(7,578)
c) retirement indemnities	(1,718)	(1,582)
d) other pension costs	-	-
e) provision for personnel severance indemnities	(5)	(27)
f) provision for pensions and similar obligations:	(610)	(578)
- defined contribution	(601)	(558)
- defined benefit	(9)	(20)
g) payments to external supplementary welfare funds:	-	-
- defined contribution	-	-
- defined benefit	-	-
h) costs deriving from payment agreements based on own equity instruments	-	-
i) other employee benefits	(1,260)	(1,737)
2. Other working personnel	-	-
3. Directors and Statutory Auditors	(255)	(318)
4. Retired personnel	(36)	(35)
5. Recovered expenses for employees seconded to other companies	(4,611)	(4,668)
6. Expense reimbursements for third party employees seconded to the Bank	17,902	17,723
Total	(25,668)	(27,174)

Note: the fees paid to Directors and Statutory Auditors, shown before contributions and tax expenses, are divided as follows: € 190 thousand to Directors (€ 270 thousand in 2019) and € 65 thousand to Statutory Auditors (€ 48 thousand in 2019).

10.2 Average number of employees by category

Employee categories /Average number	31 12 2020	31 12 2019
Employees:	312	313
b) managers	16	18
c) mid-level managers	185	186
c) other personnel	111	109
Other personnel	-	-
Total	312	313

10.3 Defined-benefit company pension funds: costs and revenue

Items/Balances	31 12 2020			31 12 2019		
	Defined-benefit company pension funds		Severance indemnity provisions	Defined-benefit company pension funds		Severance indemnity provisions
	Internal plans	External plans		Internal plans	External plans	
Interest income/expense	(9)	-	(5)	(20)	-	(27)
Welfare cost relating to current employment service and gains and losses from fund discharge	-	-	-	-	-	-
Welfare cost relating to past employment services	-	-	-	-	-	-
Gains/losses from discharge of fund	-	-	-	-	-	-
Other management costs	-	-	-	-	-	-
Total	(9)	-	(5)	(20)	-	(27)

10.3.a Contributions to the Plan which the Bank estimates it will pay out in the next year

	31 12 2020
Defined-benefit company pension funds	25
Severance indemnities	25
Total	50

10.4 Other employee benefits

Nothing to report.

10.5 Other administrative expenses: breakdown

Items/Balances	31 12 2020	31 12 2019
Stamp duty	(181)	(295)
Indirect duties and taxes	(279)	(116)
Real estate rent	(521)	(532)
Fees for outside professionals	(6,014)	(9,938)
Maintenance of furnishings and property used for business purposes	(750)	(667)
Postal charges	(26)	(41)
Telegraph, telephony and telex	(29)	(131)
Advertising, sponsorships and promotions	-	-
Sundry rents and leasing	(5,676)	(5,463)
Information and searches	(6)	(6)
Transport	(99)	(146)
Electricity, heating, water	(8)	(5)
Security services	(4)	(4)
Reimbursement of staff vehicle and travel costs	(108)	(342)
Contracts for cleaning of premises	(253)	(145)
Municipal property tax	(96)	(102)
Rental of data transmission lines	(54)	(54)
Printed matter and stationery	(16)	(21)
Insurance	(778)	(431)
Processing through third parties	-	-
Software	-	-
Membership fees	(415)	(455)
Entertainment expenses	(40)	(60)
Subscriptions and purchase of publications	(16)	(14)
Expenses for services provided by companies and entities in the MPS Group	(14,543)	(15,186)
Contributions to the Resolution Funds (SRF) and Deposit Guarantee Systems (DGS)	(12,987)	(13,644)
Expenses for training courses	-	-
Fees for DTAs	(6,127)	(6,165)
Other	(2,801)	(2,839)
Total	(51,827)	(56,802)

Note: the reduction in Other Administrative Expenses (OAEs) is mainly attributable to the reduction in “Fees for external professionals” (lower expenses for recovery of impaired receivables of € 3.9 million, following the sales made in the last few years) and to the reduction in “Contributions to the Resolution Funds (lower expenses of € 0.6 million), as well as to the reduction of € 0.6 million in “Expenses for services provided by companies in the MPS Group”.

Section 11 – Net provisions for risks and charges – Item 170

11.1 Net Provisions for credit risk related to commitments to grant finance and financial guarantees given: breakdown

Transactions/Income components	First stage	Second stage	Third stage	Totale 31 12 2020	Totale 31 12 2019
1) Financial guarantees given	(34)	24	426	416	526
Provisions for the year	(113)	(9)	-	(122)	(165)
Write-backs	79	33	426	538	691
2) Commitments to grant finance	11	(286)	-	(275)	718
Provisions for the year	(95)	(443)	-	(538)	(298)
Write-backs	106	157	-	263	1,016
E. Total	(23)	(262)	426	141	1,244

11.2 Net provisions for other commitments and guarantees given: breakdown

There were no transactions for this accounting item.

11.3 Net other provisions for risks and charges: breakdown

Transactions/Income components	Allocations	Write-backs	Totale 31 12 2020	Totale 31 12 2019
Legal disputes	(2,176)	4,904	2,728	974
Personnel expenses	-	-	-	-
Other risks and charges	(27,878)	-	(27,878)	565
E. Total	(30,054)	4,904	(25,150)	1,539

Note: for provisions to the item “Other risks and charges” please see what is presented at the foot of the table in Part B “10.1 Provisions for risks and charges: breakdown”.

Section 12 – Net value adjustments on property, plant and equipment – Item 180

12.1 Net value adjustments on property, plant and equipment: breakdown

Assets / Income components	Depreciation	Value adjustments due to impairment	Write-backs	Net gains (losses)	Net gains (losses)
				31 12 2020	31 12 2019
A. Property, plant and equipment					
A.1 For business use	(1,802)	-	-	(1,802)	(1,844)
- Owned	(4)	-	-	(4)	(4)
- Rights of use acquired with leasing	(1,798)	-	-	(1,798)	(1,840)
A.2 Assets held for investment purposes	(176)	-	-	(176)	(123)
- Owned	(176)	-	-	(176)	(123)
- Rights of use acquired with leasing	-	-	-	-	-
A.3 Inventories	X	-	-	-	-
Total	(1,978)	-	-	(1,978)	(1,967)

Section 13 – Net value adjustments on intangible assets – Item 190

There were no transactions for this accounting item.

Section 14 – Other operating income/charges – Item 200

14.1 Other operating charges: breakdown

Items/Balances	Total	Total
	31 12 2020	31 12 2019
Amounts not receivable not attributable to own items	(2)	(3)
Out-of-period expense not attributable to own items	-	(3)
Amortisation/depreciation: leasehold improvement costs classified among “Other assets”	(1)	(3)
Settlements paid for litigation	-	-
Charges from legal rulings and settlements	(703)	(537)
Other	(64)	(8)
Total	(770)	(554)

14.2 Other operating income: breakdown

Items/Balances	Total	Total
	31 12 2020	31 12 2019
Amounts not payable not attributable to own items	-	24
Out-of-period income not attributable to own items	-	27
Other costs charged back	1,544	801
Other	1,371	766
Total	2,915	1,618

Section 15 – Gains/(losses) on equity investments – Item 220

There were no transactions for this accounting item.

Section 18 – Gains/(losses) on disposal of investments – Item 250**18.1 – Gains/(losses) on disposal of investments: breakdown**

At 31 December 2020 a gain of € 100 was recognised on the sale of other assets.

Section 19 – Income taxes for the year on profit from current operations – Item 270

19.1 Income taxes for the year on profit from current operations: breakdown

Income components / Sectors	Total	
	31 12 2020	31 12 2019
1. Current taxes (-)	(591)	(57,425)
2. Changes in current taxes for previous years (+/-)	1,007	(687)
3. Reduction in current taxes for the year (+)	-	-
4. Change in prepaid taxes (+/-)	3,088	(6,628)
5. Change in deferred taxes (+/-)	2,288	(2,418)
6. Taxes accruing during the year (-) (-1+/-2+3+3bis+/-4+/-5)	5,792	(67,158)

Note: the item “Current taxes” includes the IRAP provision of € 2,250 thousand (€ 5,000 thousand at 31 December 2019) and the IRES provision of € 7,374 thousand (€ 11,683 thousand at 31 December 2019). The item also includes the result of the probability test which determined a revaluation of the receivable from the Consolidator of € 9,033 thousand and of deferred tax assets related to tax losses of € 3,131 thousand. At 31 December 2019 the probability test had generated a write-down of the receivable of € 40,741 thousand.

The “change in deferred tax assets” and the “change in deferred taxes” are commented on in Part B of the Notes to the Financial Statements, in Section 10 of the Assets.

19.2 Reconciliation between the theoretical tax charge and the actual tax charge in the financial statements

IRES

Items/Balances	31 12 2020	%	31 12 2019	%
(A) Profit (Loss) on current operations, before taxes	37,872		103,719	
(B) Profit (loss) before taxes on non-current assets held for sale	-	27.5%	-	27.5%
(A+B) Profit (loss) on current operations before taxes	37,872		103,719	
Theoretical IRES tax burden	10,415		28,523	
Non-deductible interest expense	-		-	
Gain on disposal of pex securities	-		(6)	
Impairment of pex securities	101		256	
Non-deductible administrative expenses	368		335	
Non-deductible/taxable contingencies	105		130	
Company tax losses without expected recovery	(9,033)		40,741	
AEG Deduction	(4,427)		-	
Other permanent differences	(1,545)		-	
Dividends exempt 95%	(1,655)		-	
Permanent IRES differences	(16,086)		41,456	
Value adjustments for deferred IRES tax assets from previous years	(3,131)		(9,010)	
Value adjustments for deferred IRAP tax liabilities from previous years	-		-	
Changes in current IRES taxes for previous years	-		688	
IRAP in income statement	3,010		5,501	
Income taxes on current operations	(5,792)		67,158	
Income taxes for the year of asset disposal groups held for sale	-		-	

Note: The reconciliation related to IRES includes, besides the main tax at the rate of 24%, also the 3.5% surcharge introduced by Italian Law no. 208 of 28 December 2015, paragraphs 65-66.

IRAP

Items/Balances	31 12 2020	%	31 12 2019	%
(A) Profit (Loss) on current operations, before taxes	37,872		103,719	
(B) Profit (loss) before taxes on non-current assets held for sale	-	4.65%	-	4.65%
(A+B) Profit (loss) on current operations before taxes	37,872		103,719	
Theoretical IRAP tax burden	1,761		4,823	
Non-deductible interest expense	-		-	
Net value adjustments on receivables	(31)		37	
Gains (losses) on contractual changes without cancellations	-		(2)	
Personnel expenses	30		35	
Allocation to provision for risks and charges - non-deductible IRAP portic	1,163		(129)	
Losses on equity investments	-		-	
Lump sum recovery 10% administrative expenses	241		264	
Sundry non-deductible administrative expenses	64		51	
Lump sum recovery 10% amortisation/depreciation	17		35	
Other non-significant operating income/charges	(35)		(14)	
Other increases	72		-	
Dividends excluded	(21)		(14)	
2008-2012 adjustments on loans subject to disposal	(715)		-	
Other decreases	-		(973)	
Permanent differences	785		(710)	
Effect of increase in regional rates	464		838	
Value adjustments for deferred IRAP tax assets from previous years	-		550	
IRAP in income statement	3,010		5,501	

Section 20 – Gains/(losses) on discontinued operations, net of taxes – Item 290

There were no transactions for this accounting item.

Section 22 - Earnings per share

22.1 Average number of ordinary shares in diluted capital

Items/Balances	(no. shares)	
	31 12 2020	31 12 2019
Weighted average of ordinary shares outstanding (+)	16,051	16,051
Diluting effect deriving from put options sold (+)	-	-
Diluting effect deriving from ordinary shares to be assigned as the result of payments	-	-
Diluting effect deriving from convertible liabilities (+)	-	-
Diluting effect deriving from convertible privileged shares (+)	-	-
Weighted average of ordinary shares outstanding for diluted earnings per share	16,051	16,051

22.2 Other information

22.2.a Reconciliation of profit (loss) for the period – basic earnings per share numerator

Items/Balances	(amounts in Euro)	
	31 12 2020	31 12 2019
1. Net profit (Loss)	43,663,968	36,562,187
2. Profit (loss) attributable to other categories of shares	-	-
Net profit (loss) attributable to ordinary shares - basic earnings per share numerator	43,663,968	36,562,187

22.2.b Net profit (loss) reconciliation – diluted earnings per share numerator

Items/Balances	(amounts in Euro)	
	31 12 2020	31 12 2019
1. Net profit (Loss)	43,663,968	36,562,187
2. Profit (loss) attributable to other categories of shares	-	-
3. Interest expense on convertible instruments (+)	-	-
4. Other (+/-)	-	-
Net profit (loss) attributable to ordinary shares - basic earnings per share numerator	43,663,968	36,562,187

22.2.c Basic and diluted earnings per share

Items/Balances	(amounts in Euro)	
	31 12 2020	31 12 2019
1. Basic earnings per share	2,720	2,278
2. Diluted earnings per share	2,720	2,278

Part D – Comprehensive Income

ANALYTICAL STATEMENT OF COMPREHENSIVE INCOME

Items	Totale 31 12 2020	Totale 31 12 2019
10. Profit (Loss) for the period	43,664	36,562
Other income components without transfer to income statement	37,002	(1,767)
20. Equity securities designated at fair value through other comprehensive income:	37,073	(1,415)
a) Fair value change	(5,333)	(1,440)
b) Transfers to other shareholders' equity components	42,406	25
30. Financial liabilities designated at fair value through profit or loss (changes in own creditworthiness):	-	-
40. Hedging of equity securities designated at fair value through other comprehensive income:	-	-
50. Property, plant and equipment	-	-
60. Intangible assets	-	-
70. Defined benefit plans	(98)	(486)
80. Non-current assets and disposal groups held for sale	-	-
90. Portion of equity investment valuation reserves measured at equity	-	-
100. Income tax expense related to other comprehensive income without transfer to income statement	27	134
Other comprehensive income with transfer to income statement	1,085	2,145
110. Foreign investment hedging:	-	-
120. Exchange differences:	-	-
130. Cash flow hedging:	-	-
140. Hedging instruments: (non-designated elements)	-	-
150. Financial assets (other than equity securities) measured at fair value through other comprehensive income:	1,497	2,959
a) changes in value	1,356	2,959
b) transfer to income statement	141	-
- adjustments for credit risk	-	-
- gains/losses on disposal	141	-
c) other changes	-	-
160. Non-current assets and disposal groups held for sale:	-	-
170. Portion of equity investment valuation reserves measured at equity:	-	-
180. Income tax expense related to other comprehensive income with transfer to income statement	(412)	(814)
190. Total other income components	38,087	378
200. Comprehensive income (Items 10 + 130)	81,751	36,940

Note: letter "b) Transfers to other shareholders' equity components" of item 20. "Equity securities designated at fair value through other comprehensive income" shows the reversal to equity of the negative valuation reserve of the "Fenice Holding" security, sold during financial year 2020.

Part E – Information on risks and related hedging policies

Introduction

The organisational model on which the Internal Controls System is based provides for outsourcing to the parent company's Risk Management Unit, in observance of the specific rules laid down in the corporate policy on the subject of outsourcing of the corporate auditing units within the banking Group and in a specific SLA signed with the Parent Company.

Responsibility for the Unit is assigned, in keeping with the rules of the Supervisory Authorities and the powers attributed to the Board of Directors and with the consent of the Board of Statutory Auditors, to the pro tempore Manager of the Parent Company's Chief Risk Officer (CRO) Department.

The internal contact point for the Risk Management activities is identified as the Manager of the Bank's AML and Compliance Unit, who is responsible for:

- guaranteeing a constant connection between the Bank and the outsourced Risk Management unit;
- providing his or her support to the outsourced Risk Management unit;
- reporting to the Risk Management unit, on the basis of the available information, particular events or situations capable of modifying the risks generated by the Bank.

Below is a summary of the organisation for Group risk governance, the associated processes and the key functions. Additionally, an estimate of Total Internal Capital is provided with a description of the related measurement models.

For more information on Risk Governance and the risk culture in the Group please also see that specified in the Report on Operations.

Risk governance system

The risk governance system adopted by the Group features a clear distinction of roles and responsibilities between the first, second and third level control functions.

The policies regarding the assumption, management, hedging, monitoring and control of risks are defined by the Parent Company's statutory bodies. Specifically:

- the Board of Directors of the Parent Company defines and approves the strategic guidelines and risk governance policies and, at least once a year, expresses in numeric terms, the Risk Appetite for the entire Group;
- the Board of Statutory Auditors and the Risks and Sustainability Committee assess the level of efficiency and adequacy of the internal control system, specifically regarding control of risks;
- the Managing Director/General Manager guarantees compliance with the risk policies and procedures;
- the Director assigned responsibility for the internal control and risk management system, established in accordance with the Code of Conduct for Listed Companies, is responsible for establishing and maintaining an effective system of internal control and risk management.

In order to support efficiency and flexibility in the decision-making process and to smooth interaction between the various corporate departments involved, specific Management Committees exist, which are responsible for risks:

- the Risk Management Committee establishes the risk management policies, assesses the Group's risk appetite, in accordance with the annual and multi-annual targets for value creation for the Group and verifies and monitors overall observance of the limits assigned to the various levels of operations; evaluates, at a comprehensive level and at the level of individual companies, the risk profile achieved and hence capital consumption;

- the Finance and Liquidity Committee formulates the principles and strategic guidelines for proprietary finance; resolves and puts forward proposals regarding exposure to interest rate risk and liquidity in the banking book and to define capital management actions;
- the Credit Committee expresses guidelines regarding lending processes and an opinion on credit policies at least once a year, verifying their commercial sustainability and compliance with the Risk Appetite policy. In addition, it has the responsibility, on the basis of the delegated powers, to resolve on the subject of loan disbursement and loan management and problem assets.

In the context of the Internal Control System, the Chief Audit Executive Department carries out third level controls, while the Chief Risk Officer Department and the Compliance Department are responsible for second level controls and the Business Control Units (BCUs) for the first level controls.

The Chief Audit Executive Department carries out independent and objective assurance and advisory activities aimed on one hand to check, also with on-site tests, the regularity of operations and risk performance, and on the other hand to assess the functionality of the overall internal control system, also in order to pursue the improvement of the effectiveness and efficiency of the organisation. It also plays the role of Internal Secondary Supervisor with the objective of focussing on the main characteristics of the prudential supervision process adopted by the European supervisory authorities and the guidelines/priorities that it outlines on occasion, in order to evaluate the Group's positioning with respect to the expectations of the Single supervisory mechanism.

The Chief Risk Officer Department, reporting directly to the Board of Directors and reporting functionally to the Managing Director, carries out the tasks of the risk control unit, the anti-money laundering and terrorism (AML) unit and internal validation. The manager of the CRO Department, in addition to being responsible for the risk control unit, is also in charge of the AML unit. Additionally, the manager of the internal validation unit, as defined in the supervisory legislation and internally established in the Group's policy on internal control systems, also reports to the CRO.

The Department is therefore responsible for:

- guaranteeing the overall functioning of the risk management system;
- participating in defining the performance check on the Risk Appetite Framework (RAF), besides guaranteeing the consistency with the RAF of the most significant operations;
- verifying capital adequacy in the context of the ICAAP process and the adequacy of liquidity in the context of the ILAAP process;
- monitoring the indicators of the Recovery Plan;
- ensuring the necessary reporting to the Group's decision-making bodies and top management;
- guaranteeing proper and adequate auditing activity to Group companies that have outsourced the relevant corporate unit;
- performing the anti-money laundering function provided for by the Law and that of internal validation of the risk management models;
- guaranteeing proper and adequate auditing activity to Group companies that have outsourced the relevant corporate unit.

In particular, within the Chief Risk Officer Department, the structures of the risk control unit are:

- the Financial Risk Officer Area, which defines the integrated methods for assessing and analysing risks and ensures that they are constantly monitored, verifying their consistency with the Risk Appetite and observance of the threshold defined in terms of adequacy with respect to the capital and the liquidity reserves, and participating in the definition of any mitigation actions required. It collaborates in the preparation, drafting and monitoring of the Recovery Plan. It supervises the evolution of the proprietary financial risk measurement and control system, in line with internal and regulatory standards. It guarantees

management risk reporting for company bodies and top management. It prepares the Disclosure to the Public (Pillar 3) and monitors and analyses Business Model issues.

- the Lending Risk Officer Area, which supervises the evolution of the credit risk measurement system, in line with internal and regulatory standards, both in terms of statistical models and analytical and process measurements, monitoring measurement of the credit risk relative portfolio quality down to single name level. It performs second-level controls on Group credit exposures;
- the Operating Risk Officer Area which supervises the evolution of the risk measurement and control system associated with the operational execution of the Bank's business model (including operational risk, reputational risk and risks associated with customer portfolios).

The Compliance Department ensures compliance with the laws for the Banking Parent Company. The unit has direct responsibility for managing the risks related to breaches of the most significant laws in bank-customer relations and reports periodically to the top management bodies and to the supervisory authorities on the overall compliance status of the Bank's systems and operations. The Compliance Unit reports directly to the Managing Director.

The peripheral BCUs, located at the controlled banks or the main business areas, implement compliance checks on operations and represent the first level of organisational control of operations within the more general Internal Control System.

While observing the autonomy and independence requirements of each participating unit, the Committee for Coordination of the Units also operates with auditing tasks. The Committee has the aim of promoting and sharing operating and methodological aspects to identify possible synergies in the auditing activities by the second and third level Units, coordinating the methods and timing on the subject of planning and reporting to the Corporate Bodies and of planning initiatives connected with the Internal Control System, sharing the areas for improvement highlighted by all the Units with auditing tasks and by the Supervisory Authorities.

Autonomy and independence requirements of the Risks Department

The Parent Company's Risk Control Unit is headed by the Chief Risk Officer.

The autonomy and independence of the Unit are ensured by direct reporting to the Collegial Body with strategic supervision functions (the Board of Directors), reporting only functionally to Management (Managing Director/General Manager). It has direct access to the control body (Board of Statutory Auditors), and can communicate with it continuously without restrictions or liaisons. The CRO also has the right at his/her discretion to take part in the meetings of the Risks and Sustainability Committee to intervene or propose discussions on specific matters.

In particular, the Parent Company's Chief Risk Officer is appointed/dismissed by the Board of Directors, on the proposal of the Risks and Sustainability Committee, making use of the contribution of the Appointments Committee, after consulting the Board of Statutory Auditors.

The remuneration of the Parent Company's Chief Risk Officer is determined by the Board of Directors, on the proposal of the Remuneration Committee, acquiring the opinion of the Risks and Sustainability Committee.

Activities related to the International Supervisory Legislation

First pillar: since 2008, the Group has used internal models validated by the Bank of Italy to assess and manage credit risks (AIRB - Advanced Internal Rating Based) and operational risks (AMA - Advanced Measurement Approach). Over time, in agreement with the Supervisory Authority, these models have been further developed and their scope of application has been extended to Group entities not included in the initial validation perimeter.

Second pillar: in the year in particular the initiatives continued aimed at guaranteeing compliance with the new Supervisory Review and Evaluation Process (SREP) framework and at improving further the self-assessment processes regarding the Group's capital and Liquidity adequacy (ICAAP - Internal Capital Adequacy Assessment Process and ILAAP - Internal Liquidity Adequacy Assessment Process) of which obligatory disclosure is provided to the Supervisors.

The internal capital and liquidity adequacy assessment processes fall within the more general Risk Management macro-process, in direct connection with the Risk Appetite Framework (RAF), part of the annual creation of the Risk Appetite Statement (RAS) with the related thresholds.

The overall internal assessment of capital and liquidity adequacy takes place periodically in the context respectively of the ICAAP and ILAAP strategic processes and mainly through:

- 1) ICAAP/ILAAP Outcomes, that is assessments of a quantitative (inherent risk) and qualitative (risk management and controls) kind on the risk positioning prepared by the Risk Control Unit and submitted to the Board of Directors for its resolutions (Capital Adequacy Statement and Liquidity Adequacy Statement), that is the summary statements of the Board of Directors that express its vision and awareness on the management of current and prospective capital and liquidity adequacy;
- 2) ICAAP/ILAAP Ongoing, which consists of the periodic analyses of capital and liquidity adequacy, that are presented in the periodic reporting of the Risk Control Unit to the corporate bodies.

During 2020, the overall internal framework of reference for determining the Group's risk appetite developed further (the Risk Appetite Framework - RAF). The Group was also involved in various projects aimed at improving the management systems for various risks.

Third pillar: the related Market Disclosure is released quarterly on the Group's website, at www.mps.it/investors and is updated continuously in compliance with the regulatory developments on the subject.

Analysis of Internal Capital

The Total Internal Capital (or Total Absorbed Internal Capital) is the minimum operational amount of capital required to cover economic losses due to unexpected events generated by simultaneous exposure to various types of risk.

The main types of risk to which the Group is exposed during its normal business activities, can be schematically classified as follows:

- Credit Risk;
- Market Risk;
- Operating Risk;
- Banking Book Interest Rate Risk;
- Counterparty Risk;
- Property Risk;
- Issuer Risk;
- Concentration Risk;
- Equity Investment Portfolio Risk;
- Business/Strategic Risk;
- Liquidity Risk;
- Reputational Risk.

Total Internal Capital is quantified based on all the above types of risks, with the exception of liquidity risk and of reputational risk, which instead are mitigated through policies and organisational processes.

Protection is also put in place against the risks inherent in investment products/services designed for the Group's customers, both to protect the customers and to prevent potential impact on the Group's reputation.

Assessment models

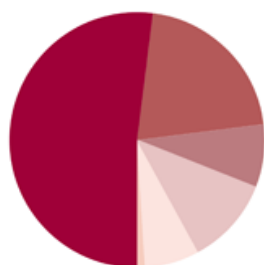
The Risk Management Unit quantifies Internal Capital on a regular basis in relation to each risk type and periodically reports to the Risk Management Committee and the Top Management in the context of the informational flows prepared by the Chief Risk Officer Department.

The approach used for quantifying and integrating the risks to capital, to which the Group is exposed, is referred to in the literature as Pillar 1 Plus. This approach entails that, to the Pillar 1 requirements for Credit and Counterparty Risk (which already include the requirements related to Issuer Risk on the Banking Book (BB), Equity Investment Risk, Property Risk) and for Operational Risk, are added (avoiding double counts) the requirements calculated using internal models related to Market Risks of both the Trading Book and the Banking Book and Banking Book Interest Rate Risk (Financial Risks), Concentration Risk, Business/Strategic Risk and the Risk Model.

Total Internal Capital is calculated without considering inter-risk diversification, hence directly adding together the contributions of internal capital for individual risks (Building Block Approach). This approach tends to assimilate the indications present in the SREP (Supervisory Review and Evaluation Process) Guidelines published by the EBA.

Capitale Interno Complessivo

MPS Capital Services - 31.12.2020



- Rischio di Credito e Controparte; 52%
- Rischio Finanziario; 21%
- Rischio Operativo; 8%
- Rischio di Business/Strategico; 11%
- Rischio di Concentrazione; 7%
- Rischio Modello; 1%

Capitale Interno Complessivo	Total Internal Capital
MPS Capital Services – 31.12.2020	MPS Capital Services – 31.12.2020
Rischio di Credito e Controparte	Credit and Counterparty Risk
Rischio Finanziario	Financial Risk
Rischio Operativo	Operating Risk
Rischio di Business/Strategico	Business/Strategic Risk
Rischio di Concentrazione	Concentration Risk
Rischio Modello	Model Risk

The Group also continually manages and quantifies Liquidity Risk (risks-to-liquidity, as defined in the SREP Guidelines) using internal methodologies and policies of an organisational nature.

Section 1 – Credit risk**Qualitative information****1. General aspects**

The Bank, in the context of its strategic priorities set by the Parent Company's Business Plan, continues to pursue the improvement of the quality of its loan portfolio with the objective of limiting the cost of credit.

The Parent Company's Chief Lending Officer Department defines annually, with possible revision every six months, the strategic guidelines related to the loan portfolio, both at the Group level and at the level of the single subsidiaries. The Group's lending is managed with a view to risk oversight and taking advantage of opportunities for growth. The lending policies and management systems developed aim to make use of trend-related information at the level of the individual relationship, and are characterised by deep awareness and strategic management of the position (credit culture).

The main elements that contribute to the definition of the lending policy can be summarised briefly as:

- internal rating system;
- sectoral classification.

Already back in 2008, the MPS Group received from the Bank of Italy the authorisation for the use of the advanced internal approaches for determining the capital requirements against credit risk (AIRB – Advanced Internal Rating Based approach). The Bank uses internal estimates of the probability of default (PD) and the loss given default (LGD) for the loan portfolio, relating to the exposures towards businesses.

The internal PD, LGD and EAD models for measuring credit risk represent one of the main elements of assessment for all the Group's structures involved in the lending industry.

To make the valuation of the legal-economic links objective and unequivocal, within the MPS Group, a customised process entitled "Associated Customer Groups" is now operational; it makes it possible to establish and up-date the mapping of the afore-mentioned links by means of the application of automatic process rules which handled the objective data which can be gathered from internal and external official sources.

Impacts deriving from the COVID-19 pandemic

In order to identify and measure credit risk in the context of the COVID-19 pandemic emergency, the Monte dei Paschi di Siena Group adopted an approach based on the following guidelines: (i) provide prompt support to households and businesses in the country; (ii) ensure a clear and accurate vision of the risks; (iii) adopt specific credit standards for assessing the solvency of the counterparties; (iv) integrate the methods and the information used into operational monitoring; (v) allocate adequate operating capacity.

At the reporting date of these financial statements, the Bank had resolved loans supported by state guarantees for approximately € 282 million and had managed payment suspension requests for approximately € 1,213 million.

In order to be able to govern the different risk profiles, the action was accompanied by constant attention to the correct introduction of the information classification variables and to supplementing the data to keep trace of the characteristics of the single operations and the causal factors. The results of the initiatives are monitored on a daily basis and specific control activity was activated to ensure the correct performance of the operations and management of the documentation.

Per poter assicurare una chiara visione dei rischi sono state effettuate valutazioni sulla base di diversi scenari e ridefiniti i *risk limit* nell'ambito del nuovo contesto. Si citano, ad esempio, la revisione del *Risk Appetite Framework*, le analisi di scenario condotte per l'adozione di prudenti misure di valutazione degli accantonamenti, la segmentazione del portafoglio crediti post-COVID-19 e la conseguente modifica del perimetro del portafoglio *high risk*, come più approfonditamente dettagliato nei paragrafi a seguire.

Already starting from the second quarter of 2020 the credit standards for assessing the prospective repayment ability of customers were strengthened and refined and specific lending strategies were identified according to the sectoral impact of the resilience characteristics of the single customers and consequently of the estimated evolution on the rating of each counterparty; in addition also counterparties belonging to the household sector were the subject of segmentation analyses making use of external data to check for the presence of critical signs not noticeable in the internal information sources.

These elements constitute the framework adopted in both the origination activity and the proactive management of the most risky portfolio.

In the knowledge that the current context reduced the representativeness of the financial information of businesses and, more generally, the ability of systems based on performance data to capture risk elements quickly, the early warning system was supplemented with new data and indicators on the basis of which to prioritise the activities of assessing the solvency status of debtors in order to define the best management strategy.

The information deriving from the aforesaid indicators made it possible to circumscribe a perimeter of counterparties which, starting from February 2021, will be the subject of a crash program of qualified screening and assessment at the end of which for each counterparty the most opportune initiatives to be implemented will be defined (continuation of the relationship with no action, risk management/mitigation through the application of government support measures, classification as in default).

The above programme, which follows an early revision of the company high risk portfolio carried out during the fourth quarter of 2020 with particular reference to companies hardest hit by COVID-19, aims to mitigate the potential cliff effect that could be caused by the expiry of the moratoria. The drivers that guided the said early revision were based on the dimensional thresholds of amount (analysing the top counterparties for each territorial department), on the presence of widened bad debts and on the first signs of going over the limit.

The evolution of the operating model for managing the high risk portfolio is also planned for before the end of 2021 in order to increase the promptness of action, through an increase in the number of qualified resources assigned, the launch of “reskilling” activity, thus ensuring management appropriate to the most significant exposures with the highest risk level through assigning “direct portfolio composition” to a specialist team.

The approach will factor in the new drivers/detection rules of the evolved “early warning” system, the setting up of specialised “portfolio” structures for high risk customers above certain dimensional thresholds and the industrialisation of “small ticket” management.

2. Credit risk management policies

2.1. Organisational aspects

2.1.1 Organisational aspects: banking book

The Bank carries out medium- and long-term lending, aimed at developing productive sectors, related to extraordinary enterprise finance and corporate finance, in all its technical forms. In some cases, a subsidised loan is arranged, although only in a remaining few cases since public aid is limited to a small number of projects for research, industrialisation and agricultural supply chains. New finance operations are also agreed in the context of agreements for the restructuring of pre-existing debts.

Assessment of creditworthiness, to monitor the risk assumed, is carried out both through an analysis of the repayment sources on the basis of income and cash production capacity (former, current and prospective), and as a function of the specific features of the project financed (competitive positioning, management quality, quality and quantity of equity and financial resources available, and equity capacity of the shareholders). Generally, real (mortgages, privileges, liens) and/or unsecured guarantees (sureties, letters of patronage) are obtained, in order to mitigate risk and reduce capital absorption.

Loans are classified in categories of different risk intensity on which the credit approval autonomy limits of the lowest-level delegated bodies are parameterised; these limits are increased or decreased depending on the rating attributed to the counterparty: the Bank in fact assesses its customers through the system of ratings attributed by the Parent Company.

In relation to the process of determining creditworthiness for specialised lending operations, specifically identified as IPRE (Income Producing Real Estate), Project Finance or Object Finance, note that the Bank of Italy authorised the Group to use the Regulatory Classification approach (the so-called “Slotting Criteria”) for specialised lending with exposure of € 5 million or more. Transactions for an amount of less than € 5 million are, instead, assessed according to the ordinary process and reported with the standard method.

The lending activity also involves granting credit lines for derivative transactions, aimed at limiting the exposure of the contracting parties (Corporate customers) to market risks.

The General Management of the Bank, in keeping with the guidance issued by the Chief Lending Officer Department of the Parent Company, establishes the criteria and methods for monitoring the portfolio, on an on-going basis making the best possible use of information about the credit facility positions, which is made available within the banking Group. These criteria can be found in the Group Loan Classification and Measurement Rules (see also paragraph 3. Impaired loan exposures).

In terms of the organisational structure, the activities described above are carried out by the Credit Department, which is subdivided into the structures indicated below:

- Loan Department Staff - these employees, in addition to supporting other structures in the Department are also responsible for:
 - coordinating the credit monitoring activity, according to the principles contained in the Group Rules on loan classification and measurement;
 - performing “rating review” activities for the Bank’s exclusive customers and requesting reviews from the competent Parent Company structures for shared customers;
 - monitoring the activity of reviewing the Slotting Criteria related to specialised lending operations;
- Loan Measurement and High Risk Office - responsible for:
 - assessing the creditworthiness of institutional and financial counterparties for the concession of specific credit lines;
 - assessing the creditworthiness of corporate counterparties for the concession of credit lines of a financial nature;

- preparing technical opinions for all new loan proposals and for changes to already approved credit operations, including those classified as high risk, investigated by various functions in the Credit Department, with decision-making powers external to the Corporate Finance Department;
- deciding on loan proposals falling under its powers and proposing them, including those relative to high risk clientele, and, for those received from other Departments, sending them to higher decision-making bodies;
- Performing Portfolio Management Office which performs the following activities:
 - assessing all the proposed changes related to ordinary finance operations in amortisation, as well as monitoring the correct classification of the performing positions according to the principles contained in the Group Rules on Loan Classification and Measurement;
 - examining applications for loans from employees;
 - monitoring the guarantees backing loan operations;
 - coordinating the activity of updating of the valuation of properties acquired as collateral;
 - monitoring the General Database;
- Non-Performing Portfolio Management Office, which is responsible for monitoring anomalous credit according to the principles contained in the Group Rules on Loan Classification and Measurement and for undertaking the most opportune initiatives in the relative management of the same, as better specified below.

The matters illustrated above are analytically regulated by specific corporate regulations.

2.1.2 Organisational aspects: trading book

The assessment of market counterparties for transactions involving financial instruments carried out by the Global Markets Department is the responsibility of the Credit Assessment Office - Counterparty Assessment and Correspondent Banking Sector. Usually, market counterparties are regulated intermediaries, such as banks, EMIs (Electronic Money Institutions), investment firms, financial firms (pursuant to Art. 107 of the Consolidated Finance Act), AMCs, SICAVs, Italian and foreign-law Funds, insurance companies, as well as territorial, governmental and supranational agencies; some of these economic entities have a rating attributed by important international agencies.

The Counterparty Assessment and Correspondent Banking Sector is tasked with carrying out all stages of the lending process through the applicant business units, from collecting the necessary documentation to the initial investigation review, from the assessment of creditworthiness to the loan proposal.

The credit granted is of a dynamic nature, that is it can be used up to the total limit for operations of a financial nature, in its various technical forms and among the various companies related to a single Group, if not otherwise indicated at the moment of acceptance. In order to absorb the total counterparty risk, the Parent Company's Risk Management Unit identifies the calculation algorithms differentiated in relation to the different financial nature of the operations.

The Counterparty Assessment and Correspondent Banking Sector, also on the basis of the operating needs expressed by the Front Office units, periodically reviews and revises the creditworthiness of the borrower counterparties. If anomalous situations emerge, the Service proceeds with an extraordinary revision of the position and/or, if necessary, immediately applies an appropriate reduction in its amount. Each revision is immediately notified to the involved corporate functions.

Every six months the Counterparty Assessment and Correspondent Banking Sector produces a report for the Board of Directors concerning exposure to counterparty risk, indicating i) the trend of the credit line/utilisation ratio, the risk concentration, the guarantees and the quality of the risk; ii) the record of overdrafts related to the credit lines granted, together with comments on the causes and nature of the overdrafts; iii) the counterparties provided with credit lines and the record of pre-lending investigations, the situation of collaterals and of the country risk.

The Parent Company, in compliance with the directives it issues, is informed about updates on loans granted to counterparties and the related utilisations, by feeding a dedicated application (Zeta limit).

Regarding operational controls, the Counterparty Assessment and Correspondent Banking Service oversees compliance with the total credit limit granted and assures the correct distribution of uses dynamically; it makes the checks on the exact allocation of the credit granted and on the record of its use; it monitors daily the over-the-limit positions – in terms of amount and duration – through the EWRM application, reporting the irregularities noted to the top management and the Internal Audit Office.

Monitoring takes place through the Murex3 application, which is able to reflect the effects of the transactions made, in real time. The operating limits granted and the utilisations referred to individual market counterparties are analysed using the MLC extension of the Murex3 application.

2.2 Management, measurement and control systems

The statistical models aimed at creating the Internal Rating Model and the attribution processes obtained, already back in 2008, the authorisation of the Supervisory Authority for calculating the capital requirements with the Advanced IRB (AIRB) System.

For entities for which an Internal Rating Model has not been authorised, reference is made to what is established in the prudential regulations for identification of the respective Risk Weight, following the standardised model.

The prudential regulations require the Group to adopt credit risk measures necessary for calculating Regulatory Capital (AIRB approach): Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD). The “Probability of Default”, expressed by the rating, represents the ability to fulfil the commitments assumed over the time horizon of one year. The rating presupposes, therefore, a probabilistic approach to risk assessment, measures the quality of the portfolio from a predictive viewpoint entering into the daily credit assessment, credit management and pricing processes, into the provision methodologies and into the reporting to the management.

Counterparty risk, which corresponds to a particular type of credit risk, means the risk that the counterparty in a transaction involving certain financial instruments, such as derivatives, securities financing transactions (SFT) and long settlement transactions (LST) will default, prior to settlement of the transaction. In determining the level of Regulatory Capital, based on that established in the prudential regulations, the Group determines the contribution made by counterparty risk using the “market value” and “volatility adjustments” methods to determine EAD, respectively for derivatives and LST and for SFT. For corporate and retail entities in the portfolio, the Group uses the IRB approach to identify PD and LDG levels, while for the remaining part of the portfolio it identifies risk weight levels using the standardised model.

The regulatory endowment of the risk parameters has enabled the Group to obtain important operating benefits in terms of both greater accuracy of forecast estimates related to credit risk and specific counterparty risk, and greater control of lending aggregates: on the basis of the risk parameters, in fact, the Group sets up the process of annual planning of the figures related to lending items, arriving at accurate and sustainable estimates regarding the composition of the loan portfolio, the probable default and bad loan flows and the amount of adjustments.

Sustainability of estimates regarding credit risk is ensured by the establishment of concrete actions involving the loan portfolio, which the peripheral networks are informed of through a regulatory document as well as through changes made to credit processes and lending and management parameters.

Sustainability of estimates regarding cases of counterparty risk is ensured through a process which defines and monitors management limits assigned to the relevant business units.

All the lending processes use the counterparty rating as decision-making driver and are defined according to the specific features of the different customer segments, in order to optimise the use of the resources invested in the management/monitoring of credit and to achieve the right balance between commercial thrust and effectiveness of the credit management. The internal ratings system, which involves the corporate and retail portfolios, arises from the development of statistical models specialised for the type of customer aimed at attributing a solvency grade both for prospective counterparties (first disbursement models based on financial and socio-demographic

information, and information coming from external databases) and for already existing clients (for which behavioural models that use internal performance data have also been used).

In order to increase the levels of efficiency in the management of the Internal Rating, the internal Rating Agencies located around the country have become the only reference point for any business unit on the subject of ratings. The role of the Agencies enables greater interaction with the Network so as to make more effective the assistance activity, generate better synergy and enable a more effective transfer of knowledge.

Specifically, relative to credit risk, the Group has defined a regressive macroeconomic model to estimate changes in PD, as a function of the main credit drivers. Initially, the credit drivers that explain variations in PD in a significant manner are identified. Then, on the basis of the regressive model, disturbances in the credit drivers are estimated, in line with the current and prospective economic situation.

This shock to the credit drivers determines the change in the PDs of the credit portfolio, triggering the simulation of a hypothetical downgrading of counterparties, with the consequent variation of risk in terms of Expected Loss, Unexpected Loss and the entry of new Defaults.

Impacts deriving from the Covid-19 pandemic

The pandemic did not impact the management processes and the risk measurement and control methods. In response to the effects of the pandemic for the Group, in terms of earnings objectives and capital impacts, a review of the 2020 Risk Appetite Statement was carried out during the third quarter, with subsequent updating of the operating limits on credit risks based on the RAS.

2.3 Methods of measuring expected losses

Analysis of credit risk is carried out internally for operating purposes by means of the Loan Portfolio Model developed internally by the Parent Company; as analytical output it produces the classic risk measurements of the Expected Loss and Unexpected Loss, both operating (diversified intra-risk, with a time frame of one year and a confidence interval calibrated to the target rating of the Group itself) and regulatory. The inputs are numerous: probability of default (PD), obtained using validated and non-validated models, LGD rates (operating and regulatory), number and type of guarantees that back the single lending relationships, regulatory and operating Credit Conversion Factors (CCFs) on the basis of which, respectively, the regulatory and operating EAD is estimated.

The internal PD, LGD, and EAD models for credit risk measurement represent one of the main assessment elements used for all the Group structures involved in the credit industry, both central (Risk Management, Credit Department, CFO, General Management, Risk Committee, Board of Directors) and peripheral (Ratings Agencies and Account Managers). Currently the Group is authorised to use Advanced Internal Rating-Based (AIRB) systems for the determination of capital requirements against credit risk for the PD and LGD parameters for business portfolios and exposures to retail customers of the Parent Company, MPS Capital Services, and MPS Leasing & Factoring, and is awaiting validation of the EAD parameter for these counterparties.

To develop the internal rating systems, rigorous advanced statistical methods have been used, observing the requirements envisaged in the regulations. At the same time, models have been selected so that the results obtained are in line with the Group's historical experience in credit management. Finally, in order to optimise proper use of the new instruments, the rating models have been shared in a top-down manner - from Risk Management down to the individual customer managers. In the loss rate model estimate, internal evidence related to capital flows, recovery, and expense effectively recorded for past non-performing positions have been used. The results obtained from the model are subsequently compared with what is observed by the Work Out Area which is dedicated to managing and recovering non-performing loans.

The main features of the advanced rating systems are illustrated below:

- the rating for all validated regulatory portfolios is calculated using a counterparty approach, in line with management practices that envisage credit risk assessment, both during disbursement and monitoring stages, at the level of the individual borrower;
- the rating is based on a Group logic: each individual counterparty is attributed a single rating at the banking Group level, on the foundation of the information set relative to all the lending Banks within the AIRB perimeter. The LGD is distinct for the different companies, due to the variation in the products disbursed and the type of customers to which they are offered;
- segmentation of the rating models has been defined so as to make the individual model clusters align with the commercial, credit policy and regulatory portfolio logics envisaged by law;
- the final ratings determination varies by counterparty type. The credit process involves a level of study proportional to the risk associated with the counterparty: the assessment of loans granted has a complex articulated structure for medium-large corporate counterparties, with larger exposure and concentration risks, and a simplified structure for Small Business and Retail customers;
- in line with the process, the final rating for medium/large corporate companies is determined through a combination of several components: statistical rating, qualitative rating, override option, and evaluation of the economic group to which they belong. During 2020, in addition, an assessment questionnaire on the idiosyncratic effects of the COVID-19 pandemic was prepared jointly by risk management and business units: the questionnaire has made it possible to understand the specific ability of each company to react to the crisis situation in different areas: distribution model, revenues, cost structure, etc. This information was incorporated into the analytical revaluation of the single counterparties, bringing out a significant increase in the number of downgrades compared to what was observed in previous years. For Small Business and Retail counterparties, instead, the rating is determined on the basis of only the statistical component;
- the rating has an internal validity of 12 months and is normally reviewed once a year, except in the case of rating reviews that follow highly structured and codified rules or that are brought forward on the initiative of the account manager or following serious impairment of the counterparty;
- the LGD rate refers to economic losses recorded and not only accounting losses; for this reason, costs sustained during the recovery process and the time factor are also included in the estimate stage;
- the loss rate in the case of default is distinct for the various types of financing and the attribution occurs at the level of the individual operations; it is differentiated by geographic area, having encountered, over time and currently, different recovery rates between Northern and Central Italy and the South and islands;
- the loss rate estimate on positions with default status other than non-performing loans was carried out using Cure Rates. For counterparties with an administrative status of probable default or impaired past due, percentages of return to performing have been determined and are used to adjust the LGD rate estimated starting from disputed cases.

The Group has adopted a single Master Scale for all types of exposures: this allows all the structures involved in managing credit to have an immediate comparison of the risk associated with various counterparties or portfolios. In addition, the probability of default for internal rating classes is mapped to the external Standard&Poor's rating scale to make internal risk assessments comparable to those available on the financial market.

Activities to develop and monitor the rating systems are assigned to Risk Management and monitored by the Internal Validation and Internal Control departments.

The Group used the PD, LGD and EAD parameters estimated for regulatory purposes for the calculation of Risk Weighted Assets, as well as for other operational and internal management purposes. In effect, these constitute the foundation for calculation for the various systems of measurement and monitoring, specifically:

- for measurement of economic capital in the face of credit risk;
- for the process of calculating risk-adjusted performance and measuring value creation;
- for risk-adjusted pricing processes;
- for credit destination processes (credit policies).

To determine expected loss as required under standard IFRS 9, it was necessary to take specific actions to adjust the above parameters, among which we can note in particular:

- adoption of a Point in Time (PIT) PD against the Through the Cycle (TTC) PD used for Basel purposes;
- removal from LGD of a number of additional components, namely indirect costs (non-recurring costs) and of the component linked to the adverse economic cycle (so-called “downturn”); and to reflect the most current recovery rates (PIT), the expectations on the future (forward-looking) trends and the inclusion of any recovery fees in the case of recovery entrusted to third parties;
- use of multi-period PDs and, if necessary, LGDs, in order to determine the expected loss per for the entire residual life of the financial instrument (stages 2 and 3);
- use, in the context of the process of discounting expected future cash flows, of the effective interest rate of the single operation, unlike what is provided for in the regulatory models, in which the single cash flows are discounted using discounting rates determined in accordance with the prudential regulations.

For more details on the methods used to determine loan loss amounts relative to IFRS 9, the definition of default and the methods used by the Group to classify financial assets among impaired assets, please see the paragraph “Methods of determining the impairment of IFRS 9 instruments” in part A “Accounting Policies”, as well as the paragraph below “Impaired loan exposures”, in these Notes to the Financial Statements.

During the year no changes were made to the estimation techniques and to the significant assumptions underlying the methods of determining regulatory expected credit losses, while as regards changes to the methods of determining accounting expected credit losses the main changes were associated with the re-estimation of the LGD measures on the basis of the new definition of default.

An examination of the main changes underlying the LGD IFR9 2020 model is presented below; overall these did not entail, at the reporting date of the present financial statements, a significant impact on the provisioning levels.

As indicated above, during 2020 the Group updated the LGD IFRS9 model adjusting it to the new definition of default, which came into force starting on 1 January 2021. In this context further changes were also introduced in order to improve the accuracy of the estimates: the historical series was updated including the information of the most recent years and a complete review of the drivers was carried out for both the pre-Non-performing model and the Performing model, in analogy with what had been done for regulatory purposes in the 2020 Model Change. Specifically:

- **Non-Performing Model:**
 - *Lengthening of the historical series:* positions reclassified as Non-Performing from 1 January 1999 to 31 December 2019;
 - *Maximum Recovery Period (MRP):* identification of a time period beyond which open non-performing positions can be equated to closed positions (i.e. substantially closed);
 - *Incomplete Workout:* inclusion of the future recoveries for positions which, at the observation date, have the workout process still in progress. A statistical inference technique was defined; this made it possible to estimate future recoveries for open positions on the basis of the vintage of the position; the positions were then inserted in the sample for calibration of LGD;
 - *Art. 500:* non-performing files that come within the scope of application of Art. 500 CRR2 were treated as equivalent to Incomplete Workouts eliminating from the recovery flows recoveries deriving from the sale operation and subsequently the factor of projection of the future recoveries was applied;
 - *Risk Drivers:* statistical selection, differentiated for each Model Segment identified, of the risk drivers in order to identify with a statistically robust process those that best explain the trend of the target variable LGD;
- **Pre-Non-Performing Model:**
 - *Lengthening of the historical series:* January 2009 – January 2018 cohorts (defaults up to January 2019) and horizon end January 2020;
 - *Multiple Defaults:* amalgamation of defaults that are repeated within 9 months of the closure of the previous default which includes the probation period of 3 months (staying 3 months in default after return to performing) introduced into the regulations related to the new definition of default;

- *Vintage*: in order to capture more specifically the idiosyncratic characteristics of positions in a default status other than Non-Performing a further risk driver was introduced, representing the time passed since entry into default. This made it possible to obtain an estimate more aligned to the different recovery prospect on files with different default vintages;
- *Incomplete Workout* and *Art. 500*: to files that at the end of the time horizon have not flowed into an absorbent status (Performing, Non-Performing or closed in default other than non performing) and to Art. 500 files are assigned the values of the migration parameters observed on the positions closed on the basis of the default vintage and the risk drivers;
- *Risk Drivers*: statistical selection, differentiated for each Model Segment identified, of the risk drivers in order to identify with a more robust process those that best explain the trend of the target variable (Danger Rate, Exposure Delta).

The request for application (application package) of the 2020 Model Change, which includes the actions presented above, was sent to the Supervisory Authority in the fourth quarter of 2020. At the end of 2020 the Regulator carried out a specific audit (IMI 2020-BMPS-4857) which examined only the aspects most closely connected to the new definition of default. The actions associated with the new definition of default will be introduced for regulatory purposes after authorisation from the Supervisory Authority, the further aspects will be assessed through a new specific inspection that will be carried out in 2021.

For IFRS9 purposes, the LGD models were updated on the basis of the LGD model re-estimated for the 2020 Model Change and were implemented for accounting purposes starting from December 2020; the update of the IFRS9 PD model will instead be implemented starting from March 2021.

Changes due to COVID-19

The current context, strongly impacted by the COVID-19 pandemic, was incorporated into the context of the use of the forward-looking parameters that include the effects of the crisis currently in progress and of the potential future recovery. The approach adopted by the Group is consistent with the main indications of the international institutions that have recognised in the macroeconomic scenarios, in the presence of public guarantees and in the moratoria the main elements impacted by the COVID-19 pandemic. The assumptions made by the management and the changes in the financial instrument assessment and measurement models connected with the pandemic crisis are presented below, with particular reference to the assessment of the significant increase in credit risk (SICR) and to the measurement of the expected losses.

Assessment of the significant increase in credit risk (SICR)

During financial year 2020 some transitional changes to the staging model used for assessment of the significant increase in credit risk (SICR) were implemented; these were consequent to the pandemic context and to the general crisis that this triggered in the Italian economic fabric starting from February 2020.

In relation to the qualitative criteria, the presence of the forbore performing attribute is one of the elements that automatically entails the recognition of an SICR. This attribute is assigned in the presence of the requisites provided for in the legislation of reference, as updated in the light of the changes included in the EBA guidelines following the COVID-19 pandemic (Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the Covid-19 crisis), which, very briefly, did not provide for the automatic triggering of forbore status in the case of *ex lege* or system moratorium. Analogously, no change was made to the qualitative criterion related to the 30 days past due.

In addition, the Group uses as qualitative criterion the belonging to the High Risk management portfolio.

The fact that a customer belongs to the lending policy guideline “Requalification”, the criterion used up to the 2019 Financial Statements, was discontinued as a staging driver because with the new lending policies of financial year 2020 the perimeter of “Requalification” was included in the High Risk chain, already included in risk stage 2.

In April 2020, the changed repayment ability of customers and the considerable government measures aimed at supporting liquidity, entailed a change in a number of lending strategies adopted at the beginning of 2020 and

which were acquired as qualitative rules of Stage allocation (Stage 2)¹. Starting from June 2020, these strategies were changed and named “selective” because, to capture the asymmetrical impacts of the crisis, a more granular segmentation was used for the different sectors of economic activity using detailed forecast information on more than 200 geographic region segments. On the basis of the information acquired, the turnover reduction estimates and the recovery assumptions for 2021 were used; for each company finally a “prospective” rating was estimated with the objective of factoring in its capacity of reactivity/resilience to the crisis. To the cluster of businesses at higher risk was assigned the “selective management” strategy given the need to carry out a bottom-up action in order to understand in detail the current and prospective situation also in order to be able to identify the best supporting measures to overcome the period of difficulty generated by the pandemic.

In the same way, during 2020, these forecasting elements were adopted in the quantitative component of the model adopted for the IFRS9 Stage Allocation. The “corrections” to the rates of expected default at one year were used to factor in the same forecasting score adopted on the lending strategies. Through this action it was possible to differentiate the forecast macroeconomic scenarios for the economic activity of businesses. The external score (Cerved) was used for the first time starting from the June accounting measurements, and was used again for the measurements at the end of financial year 2020.

Finally, with reference to the quantitative criterion for determination of SICR, the ordinary stage allocation method was confirmed, this provides for recognition of the change in PD between origination and the reporting date with the following implementations made during the year to reflect the typical features of the pandemic, such as maintenance for the whole of 2020 in the assessment of forward-looking PDs of the use of the Jan20-Dec22 scenario (recessive), and the use of the Cerved scores for Corporate counterparties.

With the expectation of a general deterioration in the financial results of businesses, the Group changed the identification of Significant Increase in Risk based only on the observation of negative EBITDA figures. This indicator is in any case an element of Early Warning subject to assessment of its significance in a time horizon adequate to overcoming the economic crisis in progress.

Measurement of expected losses

The method of estimating Expected Credit Loss (ECL) adopted for the purposes of determining impairment of loans in keeping with the international standard IFRS 9 is implemented, as mentioned above, at the level of single operations or security tranches, starting from IRB models of the parameters of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD), on which opportune corrective actions carried out, in such a way as to guarantee consistency with the prescriptions of the standard.

In particular, the measurement of financial assets reflects the best estimate of the effects of future conditions, first of all those of the economic context, on the basis of which the forward-looking PDs and LGDs are conditioned. In the context of IFRS 9, also on the basis of the indications of the international Regulators, information on the future macroeconomic scenarios in which the Bank could find itself operating assumes particular significance. These affect, very evidently, the situation of debtors with reference both to the “riskiness” of migration of the exposures to lower quality classes (regarding therefore the “staging”) and the recoverable amounts (regarding therefore the determination of the expected loss on the exposures). From a methodological point of view, observing the provisions of IFRS 9, for which the estimate of the ECL must be the result of the weighting of a series of possible prospective scenarios (so-called “probability weighted”), the impairment model contemplates the use of “baseline” scenarios, that is the use of the scenario considered most probable, together with “improving” and “worsening” scenarios, to each of which is associated a probability of occurrence.

The scenarios are prepared internally by the Parent Company’s Studies and Research Unit, on the basis of provisions contributed by a leading external provider, are approved by the Board of Directors and are also used for other Group processes that make use of forward-looking elements, namely the Risk Appetite Framework (RAF), the Recovery Plan, the budget, the forecast, the impairment tests on goodwill and equity investments and finally the tests on recoverability of deferred tax assets (DTAs). A detailed description of the scenarios adopted by

¹ In April 2020 the Group discontinued the Requalification strategy entailing the re-entry of risky exposures and equally the qualitative criterion of staging represented by inclusion within this perimeter. We must specify that customers included in the “Requalification” strategy were allocated to the High Risk Chain, already identified as stage 2.

the Group is presented in Part A - Section "A. 2 – Principal financial statement aggregates" and in particular in the paragraph "Risks, uncertainties and impacts of the COVID-19 epidemic: quantification of losses for impairment of receivables".

Scenarios are distinguished by different levels of favourability/adversity in economic development and growth. For the purposes of estimating ECL, the most probable scenario (baseline) and two alternative scenarios (worsening/improving) were considered, to represent the distribution tails of the scenarios. The probability of the scenarios is calculated internally on the basis of the occurrence percentage (percentile) assigned by the external supplier. To this end, note that the Group established a probability of 42.62% for the baseline scenario, and 21.31% and 36.07% respectively for the "worsening" and "improving" scenarios.

The information on the main macroeconomic and financial indicators used in the "improving" and "worsening" "baseline" scenarios, related to the four years 2020- 2023, the estimate of which was developed this past December:

- the "baseline" scenario was characterised by an annual performance of Italy's GDP expected in a range of figures between -10% and +1.8%. The Italian consumer price index is expected in a range between -0.1% and +1.3%. A stable trend characterises the 3-month Euribor rate, expected to be negative up to 2023, for a figure of -0.4%. The unemployment rate is expected to increase, from 9.9% in 2020 to 11.6% in 2023. The price of properties in Italy estimated, respectively, in a range between -0.5% and +0.7%, with reference to residential properties and between 0.7% and +1.0% as regards non-residential properties;
- in the "improving" scenario the performance of Italy's GDP is forecast in a range of figures between -9.4% and +1.7%. The Italian consumer price index is estimated within a range between -0.1% and +1.6%. The 3-month Euribor rate is expected to be stable in the three years, negative up to 2023, for a figure of -0.3%. The unemployment rate is expected to decrease, from 9.8% in 2020 to 7.9% in 2023. In the case of the prices of properties in Italy the "improving" scenario includes the expectation of a range between -0.4% and +1.8% in the case of residential properties and between +0.9% and +1.8%, in the case of non-residential properties;
- in the case of the "worsening" scenario the Italian GDP is estimated within a range between -10.1% and +1.7%. The Italian consumer price index is estimated within a range between -0.1% and +1.2%. The 3-month Euribor rate is expected to be stable in the three years at a figure of -0.3%. The unemployment rate is expected to increase, from 10.0% in 2020 to 12.4% in 2023. The trend of property prices in Italy is expected within a range between -0.6% and +0.1%, in the case of residential properties and +0.6% and 0.5%, in the case of non-residential properties.

		Gross domestic product	Italian residential real estate price index	Italian non-residential real estate price index	EUR 3M	Unemployment rate	Consumer price index
Worse	2020	-10.08%	-0.58%	0.64%	-0.40%	9.99%	-0.12%
	2021	3.97%	-0.99%	-0.61%	-0.48%	12.88%	0.39%
	2022	2.90%	-0.09%	0.00%	-0.45%	12.74%	0.88%
	2023	1.75%	0.15%	0.55%	-0.42%	12.44%	1.19%
Baseline	2020	-9.96%	-0.55%	0.69%	-0.40%	9.95%	-0.11%
	2021	5.26%	-0.58%	-0.02%	-0.47%	11.92%	0.59%
	2022	2.73%	0.38%	0.49%	-0.44%	11.86%	1.01%
	2023	1.78%	0.71%	0.99%	-0.41%	11.56%	1.34%
Better	2020	-9.40%	-0.44%	0.86%	-0.40%	9.80%	-0.05%
	2021	7.62%	0.40%	1.29%	-0.45%	10.25%	0.85%
	2022	2.84%	1.48%	1.61%	-0.39%	8.74%	1.25%
	2023	1.67%	1.78%	1.81%	-0.27%	7.93%	1.60%

GDP is the macroeconomic variable with the greatest impact on the determination of the ECL and, therefore, is the representative variable which drives all the others: the average value during the three years 2020-2022 is -0.66% in the baseline scenario. The average figure for GDP in the three years 2021-2023 is 3.26% in the baseline scenario.

We can note that, for the application of the forward-looking information on the probabilities of default the three years 2020-2022 were used, because, in the current context of systemic support to customers in difficulty owing to the pandemic, a physiological delay (estimated at 12 months) was created in the observation of the insolvency rate and, in general, of the deterioration of creditworthiness. As regards instead the Loss Given Default the three years 2021-2023 was taken into consideration given that the slowdown in expected recoveries and the decrease in cure rates were already observed during 2020.

Inclusion of the state guarantees

The acquisition of these guarantees, also in consideration of what was declared by the ESMA, does not impact the calculation of the SICR of loan exposures, because the latter is not connected to the guarantees, but to the creditworthiness which remains the specific one of the counterparty, being relevant instead for the purposes of measuring the expected loss to the extent to which the guarantees are not subject to separate recognition in financial statements and are considered an integral part of the contractual conditions which govern loans.

Starting from the second half of 2020, the application of an LGD parameter that takes into account of the mitigations attributable to the State introduced and expanded with the “Treat Italy” and “Liquidity” decrees and in keeping with the ESMA and EBA indications was introduced in the context of the calculation of collective impairment.

In detail, for relationships guaranteed directly or counter-guaranteed by the Italian State, the Expected Credit Loss was calculated using a fully-secured LGD. This approach derives from the assessment conducted on the characteristics of the guarantees that make it possible to consider the same as an integral part of the contract under the terms of IFRS 9.

Sensitivity analysis of expected losses

As explained in the paragraph “Risks, uncertainties and impacts of the COVID-19 epidemic: Quantification of losses for impairment of receivables” contained in “Part A – Accounting policies”, the determination of the expected credit losses involves significant elements of judgement, with particular reference to the model used for the measurement of losses and of the related risk parameters, to the triggers considered expressive of a significant deterioration of credit, to the selection of the macroeconomic scenarios.

In order to assess how forward-looking factors can affect expected losses it is considered reasonable to perform a sensitivity analysis in the context of different scenarios based on consistent forecasts for the evolution of the different macroeconomic factors. The innumerable interrelations among the single macroeconomic factors are, in fact, such as to make scarcely significant a sensitivity analysis of expected losses based on a single macroeconomic factor.

The table below shows the sensitivity for the Bank’s main loan portfolios, consisting of cash loans to customers in the corporate and retail segments, net of loans classified in the portfolio of non-current assets and disposal

groups held for sale. The analysis shows the impact on each risk stage for gross exposures, write-downs and the coverage ratio in the use hypothesis of a weight of 100% respectively for the baseline, worst and best scenarios in place of the weighted scenario (based on the different weights the Group assigned to each scenario) determined and used by the Bank to estimate risk staging and write-downs related to 31 December 2020.

	Weighted	Scenarios (Change in €/mln)		
		Worse	Baseline	Better
STAGE 1 Gross exposure	12,663.96	(67.62)	(13.59)	51.29
of which CORPORATE	12,583.18	(67.62)	(13.59)	51.29
of which RETAIL	80.78	-	-	-
STAGE 1 Write-downs	9.87	(0.14)	(0.01)	0.13
of which CORPORATE	9.81	(0.14)	(0.01)	0.13
of which RETAIL	0.06	0.00	0.00	(0.00)
STAGE 1 coverage ratio (%)	0.08%	(0.00%)	(0.00%)	0.00%
of which CORPORATE	0.08%	(0.00%)	(0.00%)	0.00%
of which RETAIL	0.07%	0.00%	0.00%	(0.00%)
STAGE 2 Gross exposure	1,669.21	67.62	13.59	(51.29)
of which CORPORATE	1,662.54	67.62	13.59	(51.29)
of which RETAIL	6.66	-	-	-
STAGE 2 Write-downs	61.96	2.64	0.97	(2.64)
of which CORPORATE	61.50	2.64	0.97	(2.64)
of which RETAIL	0.45	0.00	0.00	(0.00)
STAGE 2 coverage ratio (%)	3.71%	0.01%	0.03%	(0.05%)
of which CORPORATE	3.70%	0.01%	0.03%	(0.05%)
of which RETAIL	6.82%	0.06%	0.02%	(0.06%)
STAGE 3 Gross exposure	196.67	-	-	-
of which CORPORATE	195.61	-	-	-
of which RETAIL	1.06	-	-	-
STAGE 3 Write-downs	76.75	0.35	0.15	(0.38)
of which CORPORATE	76.46	0.34	0.15	(0.38)
of which RETAIL	0.28	0.00	0.00	(0.00)
STAGE 3 coverage ratio (%)	39.02%	0.18%	0.08%	(0.19%)
of which CORPORATE	39.09%	0.18%	0.08%	(0.19%)
of which RETAIL	26.77%	0.01%	0.01%	(0.01%)
TOTAL Write-downs	148.58	2.85	1.10	(2.89)
of which CORPORATE	147.78	2.85	1.10	(2.89)
of which RETAIL	0.80	0.00	0.00	(0.00)

2.4 Credit risk mitigation techniques

The Group makes use of a system for managing credit risk attenuation techniques (CRM model) which oversees the entire process of acquiring, assessing, controlling and creating the Credit Risk Mitigation instruments used.

This management system is structured so as to guarantee observance of the regulatory, legal and organisational requirements laid down in the Supervisory Measures for applying the credit risk mitigation rules. The admissibility requirements are both of a general nature, as they are valid for all CRM techniques, and of a specific nature for each technique.

The general requirements, aimed at ensuring the legal certainty and effectiveness of the guarantees are ensured in respect of the following significant elements:

- the binding nature of the legal commitment between the parties and the enforceability in court;
- the ability to be documented, the unenforceability of the instrument with third parties in all jurisdictions relevant for the purposes of establishment and enforcement;
- the timeframe for enforcement in the case of non-fulfilment;
- the respect for organisational requirements.

Regarding the respect for organisational requirements, attenuation of the risk is ensured:

- by the presence of an IT system that supports each stage in the life cycle of the guarantee (acquisition, assessment, management, revaluation, enforcement);
- by the formulation of guarantee management policies (principles, methods, processes), which are regulated and available to all users.

The Bank does not apply processes for netting credit risk exposures with items of the opposite sign in the on-balance-sheet or “off-balance-sheet” contexts, as regards the commercial portfolio. The disbursement of credit with the acquisition of guarantees is subject to specific control measures, which are differentiated by the guarantee type, applied at the time of disbursement and during monitoring.

The main credit protection forms of a real type used by the Bank are pledges and mortgages on properties but other types are also present (insurance policies, guarantee funds). On occasion the exposures are also backed by unsecured guarantees, mainly provided by private individuals (sureties) but also by companies (sureties and binding letters of patronage).

Overall the Bank, to protect loans, accepts the various instruments summarised below:

- sureties (including omnibus sureties and unsecured guarantees provided by third party subjects);
- endorsements;
- surety policies;
- letters of comfort/binding letters of patronage;
- independent guarantee contracts;
- assumptions;
- unsecured guarantees under foreign law;
- credit derivatives:
 - credit default swaps;
 - total return swaps;
 - credit linked notes.

The main guarantors are indicated below:

- Sovereign States and Central Banks;
- entities in the public sector and regional entities;
- multilateral development banks;
- regulated intermediaries;

- guarantee bodies (joint facilities);
- companies and private individuals.

The Bank has provided itself with a single process for the acquisition of real guarantees, which at the same time is a working tool and expression of the management policies. Management of guarantees is begun following the decision to grant the loan and the process is divided into several stages:

- acquisition (also multiple): in this stage, controls are carried out (formal and regarding the amount) to ensure that the guarantees proposed during the decision-making stage match those provided;
- adjustment/variation/correction: makes it possible to modify the features of the guarantee without interrupting credit protection;
- querying: makes it possible to learn the current figures and historical evolution of the guarantees received;
- termination/cancellation.

If monitoring measures regarding real guarantees indicate operational anomalies during the acquisition stage or possible inadequacies/losses of the values received as liens, events provided for in the credit monitoring rules are activated that aim to update the credit risk assessment.

As regards relations with market counterparties for operations in financial instruments (repurchase agreements, securities trading and lending, forex, and financial and credit derivatives), the Bank instead adopts policies to reduce counterparty risk through bilateral netting agreements which allow, in the case of default, for offsetting within its own operating sphere of all the existing credit and debit positions. In this context, in order to optimise the credit risk management and mitigation, the Bank adopts the following protocols: ISDA (with CSAs for derivatives), GMSLA (Global Master Securities Lending Agreements for securities lending) and GMRA (Global Master Repurchase Agreements for repurchase agreements). At the end of 2020, 100% of derivative use is for counterparties with whom an ISDA Master Agreement exists, of which more than 99% are also supported by collateral agreements (CSAs), or the equivalent.

Another risk mitigation technique used by the Bank during 2020 is indirect adhesion to the “SwapClear” service, through the clearing brokers Barclays Bank Ireland PLC, Morgan Stanley Europe SE and Bofa Securities Europe. This is a clearing activity (performed by LCH Clearent Ltd for the professional inter-bank market) for the more standardised types of OTC derivative agreements (such as plain vanilla IRS), whereby individual transactions are centralised with the Clearer, through the legal mechanism of novation. This “circuit” not only entails an initial margin, but also the liquidation of a daily variation margin on individual transactions, deriving from automatic netting of mutual credit and debit positions. To this is added indirect subscription to the clearing service on credit derivatives operated by ICE CLEAR Ltd, through the clearing brokers Bofa Securities Europe and Barclays Bank Ireland PLC. In addition with a view to “Brexit” Morgan Stanley Europe SE and Bofa Securities Europe were accredited at the clearing house Eurex Clearing AG based in Germany, part of the Deutsche Börse Group and totally controlled by Eurex Frankfurt AG.

Finally, counterparty risk monitoring is always active in relation to Listed Derivatives subject to clearing, as a consequence of the implementation of Regulation (EU) 575/2013 - Capital Requirements - CRR. This entails the extension of counterparty risk also to the counterparty Bofa Securities Europe, part of the Bank of America Group.

3. Impaired loan exposures

3.1 Strategies and management policies

Impaired financial assets include loans which, following the occurrence of events after their disbursement, show objective evidence of a possible loss of value.

The activity of managing, monitoring and controlling impaired receivables, with the exception of non-performing loans, of which only the administrative part is followed as a rule, is entrusted to the Non-Performing Portfolio Management (NPPM) Office.

For the classification of impaired exposures in the various categories (bad loans, Probable Defaults, impaired past-due) reference is made to the regulations issued by the Bank of Italy, supplemented by internal rules consistent with Group rules on classifying and measuring loans, which govern the transfer of loans to the various categories. In particular the classification occurs automatically as regards loans that are past-due and/or over-the-limit for more than 90 days, if the threshold of materiality established under the Bankit regulations is met, while the transfer to Probable Default (PD) and to Bad Loan occurs following specific checks and assessments submitted for the decisions of the Bodies included in the decision-making chain according to a process designed to guarantee correct classification of the loan.

The management of impaired receivables begins from the first signs of impairment supported among other things by a specific procedure that makes it possible to intercept the parameters identified for default detection. These parameters are classified as “binding”, which entail obligatory transfer to a specific worse regulatory status, and “non-binding” for which the decision-making chain must obligatorily perform an assessment of the position in order to decide whether or not to proceed to a change in classification. The phases associated with classification as Probable Default with reference to positions subject to forbearance are also managed in this context. By “forborne exposures” is meant loans to which tolerance measures (or “forbearance measures”) have been applied. These measures consist of “forbearances”, in terms of change and/or refinancing of the existing contract in relation to a debtor in financial difficulty. In this phase managers must assess the degree of financial difficulty of the counterparty and if they find that there are characteristics that lead them to consider it serious, they must proceed, as well as to the aforementioned forbearance, also to reclassification of the counterparty as in probable default.

In the context of the management of impaired positions that are not bad, the Non-Performing Portfolio Management Office has the objective of recovering the arrears and of looking for the best strategy to bring the single positions back to “Performing” status. On this point, on the basis of the analysis of each individual position and joining up with the other Group banks as regards shared positions, the decisions considered most opportune are taken, both with regard to the recovery times and methods and in relation to the classification of said position and the assessment of the related receivable in observance of the current rules.

Up to 31.12.2020 the return of “impaired loans” to performing status took place in various ways according to the classification category:

- for the category “impaired past-due and/or over-the-limit” with the payment of the arrears exceeding 90 days and the reduction of the same below the threshold of materiality;
- for the category “Probable Default”, besides payment of the arrears, also with verification of the cessation of any subjective conditions, with particular reference to the customer’s state of financial difficulty, which had determined this classification; in this last case the monitoring of forborne non-performing concessions begins; this provides for a cure period of 12 months during which the customer must necessarily remain classified as a Probable Default; after this period, in the event of regular payments and provided that at least one instalment of principal has been paid, the customer can come back to the “performing” status and the forborne position is transformed into performing under probation, but remains still under observation for a further 24 months. In the case of a shared customer, the removal from the “Probable Default” classification must be agreed with the other group Banks;
- for the category “bad loan”, a return to performing status is possible if, in addition to payment of the arrears (in addition to any payments due in the very near future), the following conditions are met:

- i. absence of enforcement procedures and reports of dispute to the Risk Authority;
- ii. overcoming the economic and financial difficulties that had led to this classification.

Starting from 1.1.2021 the new definition of default (DOD) came into force, this makes it possible to standardise the criteria for identification of the past due amount, the methods of managing the indicators to be considered for the purposes of identifying probable default and the definition of the criteria for return of a position to a “non-default” status.

The main changes introduced with respect to the regulations in force regard the following areas:

- i. new definition of past due:
 - lowering of the "relative" significance threshold from 5% to 1%;
 - introduction of an "absolute" significance threshold differentiated by type of exposure;
 - classification of a debtor in default (NPE) status on exceeding jointly both the significance thresholds for 90 consecutive days;
- ii. introduction of an observation period of at least 3 months prior to reclassification as performing for debtors previously classified as in default (NPE) that regularise their position;
- iii. classification of a debtor in default (NPE) status at the Banking Group level;
- iv. classification of a debtor in default status if the distressed restructuring is likely to involve a Reduced Financial Obligation (i.e. $\Delta NPV > 1\%$);
- v. introduction of new propagation rules / assessment of the propagation of the default status of a position on the basis of the existing link with other positions transferred to non-performing status.

In this context, specific initiatives were activated with the aim of adjusting the management, accounting and regulatory processes with respect to the new definition of default.

The activity of managing positions classified as bad is entrusted to the Parent Company's Workout Area which operates following a specific mandate that provides for specific operational autonomies. The Parent Company's Work Out area makes use of the administrative support of the Bad Loan Administration Sector of the NPPM Office as regards accounting registrations. It is however the office's responsibility to correctly assess the loans and to pass the related resolutions that go beyond the operational autonomies conferred with the mandate signed including reinstatements of “Performing” status that must be analysed and proposed to the Bank. The analysis and management of “impaired assets” includes obviously also the estimate of the write-downs of the nominal values of the receivables (doubtful outcomes and discounting according to the criteria identified in application of the IAS/IFRS accounting standards) for all non-performing customers “above the threshold” of € 1,000 thousand according to what is laid down in the group rules on classification and assessment of loans.

During 2020, deleveraging activities continued for positions classified as probable default and bad, which had already begun in previous years. This activity entailed a significant decrease in the stock of NPEs. In the context of this process, on 29 June 2020 the Board of Directors of the Bank approved the proportional partial demerger in favour of the parent Banca Monte dei Paschi di Siena (BMPS) of a compendium made up in large part of impaired receivables (NPEs), together with tax assets (DTAs), other assets, other liabilities and Shareholders' Equity. The “MPSCS compendium” was in turn transferred by MPS to AMCO – Asset Management Company S.p.A. in the context of a wider non-proportional partial demerger operation with asymmetric option entitled “HYDRA” (for more details please see the specific paragraph in Part A.2, point 15, letter c) of the Notes to the Statements).

Also for 2021 the NPE Strategy provides for close attention to the stock of impaired receivables in order to proceed to proactive management with the objective of looking for more incisive actions aimed at a further reduction of the same to be implemented through different strategies: monitoring and more targeted actions on the High Risk stock to avoid an impairment of the loan, strengthening of the monitoring of forborne positions for reinstatement of performing status, out-of-court strategies aimed at reducing the stock (settlements, write-offs, disposals, etc.) with particular attention to the vintage of classification of the single positions.

For a review of the activities carried out in 2020, please see the section "Loan aggregates - Impaired assets" in the Report on Operations.

3.2 Write-offs

Total and/or partial write-offs are accounted for when it is ascertained that the loan is uncollectable or when there are no realistic prospects of recovery.

It is assumed that the conditions on which a non-realistic assessment of recoverability is based, in the face of which it is considered opportune to abandon the interruption of the limitation period, mature when arrangement, bankruptcy, execution and also hereditary procedures have come to an end, at the same time as the absence of jointly-responsible parties or guarantors to foreclose, but also in cases of documented ascertainment of non-pursuability/inconvenient pursuability of the debtors/guarantors and finally on conclusion of out-of-court arrangements.

The control process with the aim of identifying the absence of realistic recovery prospects is focused on counterparties with a certain level of coverage and a certain time classified as bad.

The case in question involved the Bank only marginally.

3.3 Purchased or originated credit-impaired financial assets

Purchased or originated credit-impaired (POCI) financial assets include financial instruments, purchased or originated, which already at the moment of their first recognition in the accounts are credit-impaired, that is they show some signs of impairment of their credit quality.

Accounting rules related to POCI assets apply to financial instruments measured at amortised cost or at fair value through other comprehensive income, or to SPPI-compliant financial instruments in the context of the HTC and HTCS business models.

These types of financial assets include the cases indicated below. In particular, the first two refer to “Originated credit-impaired assets” (OCI), while the remainder refer to “Purchased credit-impaired financial assets” (PCI).

- substantial credit changes (other than those which determine failure of the SPPI test) granted to non-performing clients relative to which, in accordance with the accounting policy, derecognition accounting is used;
- new loans to impaired counterparties;
- purchase of a portfolio of impaired loans as part of a business combination;
- purchase of individual financial instruments.

As regards Originated Credit Impaired (OCI) relationships, compared with gross exposure at the beginning of the year of € 2.7 million attributable to two positions both classified as bad which did not come within the perimeter of demerger of the “Hydra” project, at the end of the year no positions of this kind were recognised.

There were no relationships of the Purchased Credit Impaired (PCI) type.

4. Financial assets subject to commercial renegotiation and forbore exposures

These cases include renegotiations of credit exposures, through changes to the original contractual conditions, granted to performing clients for commercial reasons, with the aim of maintaining the relationship with the customer. The changes in question can be divided into the following two categories, based on the goal and effects of the change agreements made between the parties:

- operations which involve, to the debtor’s advantage, a change in the original payment due dates (rescheduling);
- operations which do not involve a change to the original due dates and are made to adjust the expense of the debt to market conditions. These operations involve a change in the original contractual conditions, generally made after a request by the client, in relation to aspects linked to the expense of the debt.

Requests for rescheduling involve in any case an assessment of the existence of financial difficulties, which is done on the basis of objective aspects, to avoid errors in the assignment of the forbore classification and is governed also from a subjective/qualitative point of view by specific Group regulatory guidelines.

The lever of the forbearance measure is activated on the onset of a critical financial situation such as to have an impact on the counterparty's available cash flows, making it unable to fulfil its financial commitments.

At the moment of forbearance, it is crucial to assess the degree of the customer's financial difficulty (serious or not) to determine the type of measure (suspension of payments or simple rescheduling of the debt) and to ensure that the measure is credibly aimed at resolving the customer's difficulty.

To achieve this objective, in the corporate world, it is necessary not to stop at mere analysis of historic figures but to acquire forecast data and medium/long-term strategies from the entrepreneur. In the private side, it is essential to assess the instalment/income ratio/ unemployment situation and prospective commitments associated with the family.

From an operational point of view the Bank's orientation is to reschedule the customer's commitments so as to them compatible with the aforementioned items of information and to proceed instead to suspend payments only in the case of a drop in employment or other symptoms of serious financial difficulty of the company.

The stock of performing forbearance measures at the beginning of the year; of € 336 million, for approximately 4.7% was classified as NPE; on the other hand, the said stock translated in 28% of cases into coming out of the probation period without default events.

At 31 December 2020, the stock of forbore performing positions was € 227 million.

The stock of forbore NPEs, at the beginning of the year of € 1,028 million, recorded during the year a significant reduction coming out at 31 December 2020 at € 140 million, following reinstatement of Performing status, settlement and write-off measures and following disposals, with particular reference to the "Hydra" extraordinary demerger operation.

The existing stock at the end of 2020 is made up in part of positions in restructuring, which are the subject of specialist monitoring in the context of plans resolved and/or awaiting approval. The residual component (not in restructuring) has high over-the-limit rates and the operating objective is to check that there are the conditions for granting further forbearance measures or, alternatively, for adopting write-off or disposal measures.

In financial year 2020 the production of new forbearance measures generated a net cost recognised in item 140. "Gains/losses on contractual changes without cancellations" of the income statement, calculated as delta fair value between forecast cash flows before and after the forbearance measure, of € 1.1 million.

During 2020 the effects of the COVID-19 pandemic were reflected in production activity and aggregate demand in all economies. To counter the negative effects that the epidemiological emergency is producing on the national socio-economic fabric and to stop the transitory crisis producing permanent effects, during the year the Italian Government implemented a series of measures characterised by extraordinary necessity and urgency.

The Bank, in accordance with what was implemented by the Parent Company, adopting the measures provided for in the "Treat Italy" Decree and by the ABI or defining targeted actions undertook a series of initiatives aimed at supporting companies both in the operating shutdown phase, and to facilitate the future recovery of the activity. As regards the impacts that these measures to support the economy had in the process of assessing the SICR and the measurement of expected losses, please see what is presented in paragraph 2.3 above, "Methods of measuring expected losses" as well as in the paragraph "Risks, uncertainties and impacts of the COVID-19 epidemic" in chapter 16. "Use of estimates and assumptions in preparing the financial statements" of Section 1 – Accounting standards of Part A.2 of the Notes to the Statements.

Quantitative information

A. CREDIT QUALITY

For the purposes of quantitative disclosure on credit quality:

- the term “on-balance-sheet loan exposures” means all on-balance-sheet financial assets due from banks and customers, whatever their accounting allocation portfolio (measured at fair value through profit or loss, measured at fair value through other comprehensive income, measured at amortised cost, non-current assets and disposal groups held for sale);
- the term “off-balance-sheet loan exposures” means all financial operations other than on-balance-sheet ones (financial guarantees given, revocable and irrevocable commitments, derivatives, etc.) that entail the assumption of a credit risk, whatever the purpose of these operations (trading, hedging, etc.). Off-balance-sheet loan exposures also include the counterparty risk connected with both securities lending transactions and repurchase agreements, commodities lending or borrowing, as well as loans with margins coming within the notion of “SFTs” (Securities Financing Transactions) defined in the prudential legislation.

Impaired loan exposures (on- and off-balance-sheet) do not include financial assets held for trading and hedging derivatives, which are therefore, conventionally, recognised among non-impaired loan exposures.

Equity securities and UCITS units are excluded.

A.1 Impaired and non-impaired loan exposures: amounts, value adjustments, trend and economic distribution

A.1.1 Breakdown of financial assets by portfolio and credit quality (book values)

Portfolios / Quality	Bad loans	Probable defaults	Impaired past-due exposures	Non-impaired past-due exposures	Other non-impaired exposures	Total
1. Financial assets measured at amortised cost	12,992	101,949	2,068	11,420	17,960,986	18,089,415
- of which: forborne exposures	5,466	85,850	1,900	-	-	93,216
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	108,901	108,901
- of which: forborne exposures	-	-	-	-	-	-
3. Financial assets designated at fair value	-	-	-	-	-	-
- of which: forborne exposures	-	-	-	-	-	-
4. Other financial assets obligatorily measured at fair value	-	525	-	-	46,666	47,191
- of which: forborne exposures	-	117	-	-	-	117
5. Financial assets held for sale	-	-	-	-	-	-
- of which: forborne exposures	-	-	-	-	-	-
Totale 31 12 2020	12,992	102,474	2,068	11,420	18,116,553	18,245,507
Totale 31 12 2019	426,102	454,409	10,129	27,512	16,131,085	17,049,237

A.1.1.a Detail of non-impaired loan exposures: vintage of past-due amounts

Portfolios / Quality	Past-due up to 3 months	Past-due from over 3 months to 6 months	Past-due from over 6 months to 1 year	Past-due for over 1 year	Not past due	Total
1. Financial assets measured at amortised cost	8,392	299	2,626	104	17,960,986	17,972,407
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	108,901	108,901
3. Financial assets designated at fair value						-
4. Other financial assets obligatorily measured at fair value	-	-	-	-	46,666	46,666
5. Financial assets held for sale	-	-	-	-	-	-
Total 31 12 2020	8,392	299	2,626	104	18,116,553	18,127,974
Total 31 12 2019	22,597	3,993	922	-	16,103,573	16,131,085

A.1.2 Breakdown of financial assets by portfolio and credit quality (gross and net amounts)

Portfolios / Quality	Impaired assets				Non-impaired assets			Total (net exposure)
	Gross exposure	Total adjustments	Net exposure	Total partial write-offs*	Gross exposure	Total adjustments	Net exposure	
1. Financial assets measured at amortised cost	190,963	(73,955)	117,008	5,115	18,046,553	(74,146)	17,972,407	18,089,415
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	109,239	(338)	108,901	108,901
3. Financial assets designated at fair value	-	-	-	-	X	X	-	-
4. Other financial assets obligatorily measured at fair value	3,308	(2,783)	525	-	X	-	46,666	47,191
5. Financial assets held for sale	-	-	-	-	-	-	-	-
Totale 31 12 2020	194,271	(76,738)	117,533	5,115	18,155,792	(74,484)	18,127,974	18,245,507
Totale 31 12 2019	1,660,918	(770,278)	890,640	89,076	16,186,297	(48,822)	16,158,597	17,049,237

Note: as of the reporting date of these financial statements, the Bank had 2 exposures related to creditors that had made a request for “blank” arrangement, for net exposure of approximately € 584 thousand.

A.1.2.a Detail of financial assets held for trading and hedging derivatives

Portfolios / Quality	Assets of evident low credit quality		Other assets
	Accumulated capital losses	Net exposure	Net exposure
1. Financial assets held for trading	22,737	197	8,632,735
2. Hedging derivatives	-	-	-
Totale 31 12 2020	22,737	197	8,632,735
Totale 31 12 2019	38,081	589	10,355,867

A.1.2.b Purchased credit-impaired financial assets

There were no purchased credit-impaired financial assets in the portfolio.

A.1.3 Breakdown of financial assets by past-due band (book values)

Portfolios / risk stages	First stage			Second stage			Third stage		
	Up to 30 days	From over 30 days up to 90 days	Over 90 days	Up to 30 days	From over 30 days up to 90 days	Over 90 days	Up to 30 days	From over 30 days up to 90 days	Over 90 days
1. Financial assets measured at amortised cost	412	-	-	590	7,493	2,925	-	7,146	55,253
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-	-	-	-
Totale 31 12 2020	412	-	-	590	7,493	2,925	-	7,146	55,253
Totale 31 12 2019	2,407	-	-	1,980	18,210	4,915	2,601	11,454	577,321

A.1.4 Financial assets, commitments to grant finance and financial guarantees given: trend of total value adjustments and total provisions

Reasons/risk stages	Total value adjustments															Total provisions on commitments to grant finance and financial guarantees given				Total
	Assets included in the first stage					Assets included in the second stage					Assets included in the third stage					Of which: purchased or originated credit-impaired financial assets	First stage	Second stage	Third stage	
	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual write-downs	of which: collective write-downs	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual write-downs	of which: collective write-downs	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual write-downs	of which: collective write-downs					
Opening balances	5,605	35	-	-	5,641	43,182	-	-	-	43,182	667,959	3,212	25,307	594,735	101,742	1,978	168	468	529	746,465
Increases due to purchased or originated financial assets	2,013	317	-	-	2,331	4,605	-	-	-	4,605	-	-	-	-	-	-	14	85	-	7,034
Derecognitions other than write-offs	(668)	(18)	-	-	(686)	(2,469)	-	-	-	(2,469)	(140,474)	-	(24,742)	(164,822)	(394)	-	(24)	(4)	(426)	(168,825)
Net value adjustments for credit risk (+/-)	(3,360)	3	-	-	(3,358)	29,543	-	-	-	29,543	8,387	(965)	-	9,830	(2,408)	-	187	29	-	33,824
Contractual changes without cancellations	-	-	-	-	-	-	-	-	-	-	(93)	-	-	(91)	(2)	-	-	-	-	(93)
Changes in the estimation methodology	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs	-	-	-	-	-	-	-	-	-	-	(638)	-	-	-	(638)	-	-	-	-	(638)
Other changes	8,066	-	-	-	8,066	(12,370)	-	-	-	(12,370)	(461,184)	(2,248)	(565)	(381,651)	(82,347)	(1,979)	-	-	-	(468,301)
Total final inventories	11,656	337	-	-	11,994	62,491	-	-	-	62,491	73,957	(1)	-	58,001	15,953	(1)	345	578	103	149,466
Recoveries due to collection on financial assets written off	-	-	-	-	-	-	-	-	-	-	126	-	-	126	-	-	-	-	-	126
Write-offs recognised directly in the income statement	-	-	-	-	-	-	-	-	-	-	(646)	-	-	(646)	-	-	-	-	-	(646)

A.1.5 Financial assets, commitments to grant finance and financial guarantees given: transfers among the different credit risk stages (gross and nominal amounts)

Portfolios / risk stages	Gross amounts/nominal amount					
	Transfers between first stage and second stage		Transfers between second stage and third stage		Transfers between first stage and third stage	
	From first stage to second stage	From second stage to first stage	From second stage to third stage	From third stage to second stage	From first stage to third stage	From third stage to first stage
1. Financial assets measured at amortised cost	612,652	382,707	32,000	20,288	1,511	1,292
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-
4. Commitments to grant finance and financial guarantees given	39,014	63,619	-	-	-	-
Totale 31 12 2020	651,666	446,326	32,000	20,288	1,511	1,292
Totale 31 12 2019	359,143	450,066	71,165	68,534	18,996	-

A.1.5a Loans subject to Covid-19 support measures: transfers between the different credit risk stages (gross amounts)

Portfolios / risk stages	Gross values					
	Transfers between first stage and second stage		Transfers between second stage and third stage		Transfers between first stage and third stage	
	From first stage to second stage	From second stage to first stage	From second stage to third stage	From third stage to second stage	From first stage to third stage	From third stage to first stage
A. Loans measured at amortised cost	133,837	51,295	1,853	7,552	-	433
A.1. Forborne compliant with the GLs	93,528	44,115	379	7,552	-	433
A.2. Subject to other forbearance measures	40,309	7,180	1,474	-	-	-
A.3. New loans	-	-	-	-	-	-
B. Loans measured at fair value through other comprehensive income	-	-	-	-	-	-
B.1. Forborne compliant with the GLs	-	-	-	-	-	-
B.2. Subject to other forbearance measures	-	-	-	-	-	-
B.3. New loans	-	-	-	-	-	-
Total 31 12 2020	133,837	51,295	1,853	7,552	-	433

A.1.6 On- and off-balance-sheet exposures to banks: gross and net amounts

Types of exposures/amounts	Gross exposure		Total value adjustments and total provisions	Net exposure	Total partial write-offs
	Impaired assets	Non-impaired assets			
A. On-balance-sheet exposures					
a)Bad loans	-	X	-	-	-
- of which forborne exposures	-	X	-	-	-
b) Probable defaults	-	X	-	-	-
- of which forborne exposures	-	X	-	-	-
c) Impaired past-due exposures	-	X	-	-	-
- of which forborne exposures	-	X	-	-	-
d) Non-impaired past-due exposures	X	-	-	-	-
- of which forborne exposures	X	-	-	-	-
e) Other non-impaired exposures	X	3,797,417	(374)	3,797,043	-
- of which forborne exposures	X	-	-	-	-
Total A	-	3,797,417	(374)	3,797,043	-
B. Off-balance sheet exposures					
a) Impaired	-	X	-	-	-
b) Non-impaired	X	3,146,657	(2)	3,146,654	-
Total B	-	3,146,657	(2)	3,146,654	-
Total (A+B)	-	6,944,074	(376)	6,943,697	-

A.1.7 On- and off-balance-sheet loan exposures to customers: gross and net amounts

					31 12 2020
Types of exposures/amounts	Gross exposure		Total value adjustments and total provisions	Net exposure	Total partial write-offs
	Impaired assets	Non-impaired assets			
A. On-balance-sheet exposures					
a)Bad loans	36,849	X	(23,857)	12,992	2,721
- of which forborne exposures	13,657	X	(8,191)	5,466	-
b) Probable defaults	154,793	X	(52,320)	102,473	1,501
- of which forborne exposures	127,286	X	(41,319)	85,967	1,501
c) Impaired past-due exposures	2,629	X	(561)	2,068	-
- of which forborne exposures	-	X	-	-	-
d) Non-impaired past-due exposures	X	11,809	(389)	11,420	-
- of which forborne exposures	X	2,081	(182)	1,899	-
e) Other non-impaired exposures	X	19,710,848	(73,721)	19,637,127	893
- of which forborne exposures	X	225,658	(21,259)	204,399	812
Total A	194,271	19,722,657	(150,848)	19,766,080	5,115
B. Off-balance sheet exposures					
a) Impaired	2,489	X	(104)	2,385	-
b) Non-impaired	X	13,395,939	(23,417)	13,372,522	-
Total B	2,489	13,395,939	(23,521)	13,374,907	-
Total (A+B)	196,760	33,118,596	(174,369)	33,140,987	5,115

A.1.7a Loans subject to Covid-19 support measures: gross and net amounts

Types of exposures/amounts	Gross exposure	Total value adjustments and total provisions	Net exposure	31 12 2020	
				Total partial write-offs	
A. Bad loans	-	-	-	-	-
a) Forborne compliant with the GLs	-	-	-	-	-
b) Subject to other forbearance measures	-	-	-	-	-
c) New loans	-	-	-	-	-
B. Loans in probable default status	24,428	(7,231)	17,197	-	-
a) Forborne compliant with the GLs	379	(42)	337	-	-
b) Subject to other forbearance measures	24,049	(7,189)	16,860	-	-
c) New loans	-	-	-	-	-
C. Impaired past due loans	-	-	-	-	-
a) Forborne compliant with the GLs	-	-	-	-	-
b) Subject to other forbearance measures	-	-	-	-	-
c) New loans	-	-	-	-	-
D. Other non-impaired past due loans	107	(4)	103	-	-
a) Forborne compliant with the GLs	107	(4)	103	-	-
b) Subject to other forbearance measures	-	-	-	-	-
c) New loans	-	-	-	-	-
E. Other non-impaired loans	797,339	(16,463)	780,876	-	-
a) Forborne compliant with the GLs	548,644	(14,328)	534,316	-	-
b) Subject to other forbearance measures	116,424	(2,057)	114,367	-	-
c) New loans	132,271	(78)	132,193	-	-
Total (A+B+C+D+E)	821,874	(23,698)	798,176	-	-

Note: as provided for in the Bank of Italy communication of 15 December 2020 the total partial write-offs column contains no amounts.

A.1.8 On-balance-sheet loan exposures to banks: trend of gross impaired exposures

A.1.8bis On-balance-sheet loan exposures to banks: trend of gross forborne exposures broken down by credit quality

No on-balance-sheet loan exposure to banks was classified among impaired exposures in either the financial statements at 31 December 2020 or the financial statements at 31 December 2019.

A.1.9 On-balance-sheet loan exposures to customers: trend of gross impaired exposures

Reasons / Categories	31 12 2020		
	Bad loans	Probable defaults	Impaired past-due exposures
A. Initial gross exposure	922,702	726,702	11,514
- of which: exposures sold but not derecognised	91,810	10,761	-
B. Increases	47,215	57,673	3,366
B.1 transfers from non-impaired exposures	-	33,394	3,272
B.2 transfers from purchased or originated credit-impaired financial assets	-	-	-
B.3 transfers from other categories of impaired exposures	45,208	10,056	-
B.4 contractual changes without cancellations	-	122	-
B.5 other increases	2,007	14,101	94
C. Decreases	933,068	629,582	12,251
C.1 transfers to non-impaired exposures	-	21,542	1,186
C.2 write-offs	-	638	-
C.3 collections	16,997	50,429	775
C.4 disposals	65,442	20,655	-
C.5 losses on disposal	276	-	-
C.6 transfers to other categories of impaired exposures	124	44,850	10,290
C.7 contractual changes without cancellations	-	1,116	-
C.8 other decreases	850,229	490,352	-
D. Gross closing balance	36,849	154,793	2,629
- of which: exposures sold but not derecognised	-	10,487	-

Note: the line “other decreases” includes “outgoings” of non-performing loans included within the perimeter of the “Hydra” operation; the decrease in gross exposure amounted to € 712,365 thousand for bad positions and € 437,176 thousand for those in probable default.

A.1.9 bis On-balance-sheet loan exposures to customers: trend of gross forborne exposures broken down by credit quality

Reasons / Quality	31 12 2020	
	Forborne exposures: impaired	Forborne exposures: non-impaired
A. Initial gross exposure	1,028,552	336,889
- of which: exposures sold but not derecognised	102,571	-
B. Increases	45,248	36,889
B.1 transfers from non-forborne non-impaired exposures	6,881	16,850
B.2 transfers from forborne non-impaired exposures	16,112	X
B.3 transfers from impaired forborne exposures	X	11,151
B.3 transfers from non-forborne impaired exposures	8,208	2,351
B.4 other increases	14,047	6,537
C. Decreases	932,857	146,038
C.1 transfers to non-forborne non-impaired exposures	X	94,844
C.2 transfers to forborne non-impaired exposures	11,151	X
C.3 transfers to impaired forborne exposures	X	16,112
C.4 write-offs	638	-
C.5 collections	49,803	16,071
C.6 disposals	67,231	-
C.7 losses on disposal	-	-
C.8 other decreases	804,034	19,011
D. Gross closing balance	140,943	227,740
- of which: exposures sold but not derecognised	10,394	-

Note: impaired loan exposures at 31 December 2019 which during 2020 were subject to forbearance measures totalled € 8,208 thousand (€ 12,700 thousand the previous year).

A.1.10 On-balance-sheet impaired loan exposures to banks: trend of total value adjustments

No on-balance-sheet loan exposure to banks was classified among impaired exposures in either the financial statements at 31 December 2020 or the financial statements at 31 December 2019.

A.1.11 On-balance-sheet loan exposures to customers: trend of total value adjustments

Reasons / Categories	31 12 2020					
	Bad loans		Probable defaults		Impaired past-due exposures	
	Totals	Of which: forborne exposures	Totals	Of which: forborne exposures	Totals	Of which: forborne exposures
A. Opening balance of overall value adjustments	496,600	183,814	272,294	233,831	1,385	-
- of which: exposures sold but not derecognised	48,225	48,225	2,570	2,570	-	-
B. Increases	66,979	30,804	30,419	23,323	585	-
B.1 value adjustments on purchased or originated credit-impaired financial assets	-	X	-	X	-	X
B.2 other value adjustments	50,094	17,633	24,727	17,612	461	-
B.3 losses on disposal	276	-	-	-	-	-
B.4 transfers from other categories of impaired exposures	16,071	12,756	1,286	105	-	-
B.5 contractual changes without cancellations	-	X	27	X	-	X
B.6 other increases	538	415	4,379	5,606	124	-
C. Decreases	539,721	206,427	250,393	215,835	1,409	-
C.1 write-backs from valuation	33,152	10,456	30,938	21,983	120	-
C.2 write-backs from collection	351	93	3,475	2,471	-	-
C.3 gains on disposal	2,990	2,990	-	-	-	-
C.4 write-offs	-	-	638	638	-	-
C.5 transfers to other categories of impaired exposures	31	31	16,038	12,756	1,289	-
C.6 contractual changes without cancellations	-	X	373	X	-	X
C.7 other decreases	503,197	192,857	198,931	177,987	-	-
D. Final total value adjustments	23,858	8,191	52,320	41,319	561	-
- of which: exposures sold but not derecognised	-	-	2,570	2,570	-	-

Note: the line “other decreases” includes “outgoings” of non-performing loans included within the perimeter of the “Hydra” operation; the decrease in value adjustments amounted to € 365,061 thousand for bad positions and € 148,344 thousand for those in probable default.

Exposure to sovereign risk

As contemplated by the international accounting standards (in particular IAS 1 and IFRS7) in relation to disclosures on exposures to sovereign credit risk (such as issuers of debt securities, counterparties of OTC derivative contracts, reference entities of credit derivatives and financial guarantees), details of the Bank's exposures at 31 December 2020 are provided.

Overall, exposure to sovereign credit risk, in net nominal values, amounted to € 3,594 million (€ 6,552 million at 31 December 2019) and for € 3,558 million is represented by the long net position with the Republic of Italy (€ 6,513 million at 31 December 2019) and for € 36 million by a long net position with the rest of the world (€ 39 million at 31 December 2019).

The exposures indicated in the following table, including the expenses accrued at the end of the period, include the short positions of the portfolio classified in item 20a of the assets "*Financial assets held for trading*". For credit derivatives the net amount (long or short) of the notional values underlying protection purchases and sales is given. The column "total exposure" shows the net total asset/liabilities, at nominal value, related to the single countries and included in the assets at the end of every period. Any derivative contracts listed on regulated markets are excluded since the economic effects of these are directly posted as an offsetting entry in the cash and cash equivalents, as a result of the settlement of the changes in the margins on a daily basis.

COUNTRY	DEBT SECURITIES							LOANS			CREDIT DERIVATIVES	31 12 2020
	Financial assets measured at fair value through profit or loss		Financial assets measured at fair value through other comprehensive income		Financial assets measured at amortised cost			Financial assets measured at amortised cost			Financial assets held for trading	TOTAL
	Nominal	Market value = book value	Nominal	Market value = book value	Nominal	Market value	Carrying amount	Nominal	Market value	Carrying amount	Nominal	Nominal
Argentina	240	1	-	-	-	-	-	-	-	-	-	240
Austria	2	2	-	-	-	-	-	-	-	-	-	2
Belgium	-	-	-	-	-	-	-	-	-	-	-	-
Bosnia	9	1	-	-	-	-	-	-	-	-	-	9
France	27	32	-	-	-	-	-	-	-	-	-	27
Germany	-	-	-	-	-	-	-	-	-	-	-	-
Greece	5	7	-	-	-	-	-	-	-	-	-	5
Italy	127,415	-	-	-	-	-	-	19,377	19,377	19,377	3,411,157	3,557,949
United Kingdom	-	-	-	-	-	-	-	-	-	-	-	-
Spain	29,670	40,665	-	-	-	-	-	-	-	-	4,727	34,397
United States	1	2	-	-	-	-	-	-	-	-	-	1
Turkey	1	1	-	-	-	-	-	-	-	-	-	1
Other countries	1,268	1,254	-	-	-	-	-	-	-	-	-	1,268
Totale 31 12 2020	158,638	41,965	-	-	-	-	-	19,377	19,377	19,377	3,415,884	3,593,898
Totale 31 12 2019	3,400,106	3,302,490	-	-	-	-	-	27,810	27,810	27,810	3,124,462	6,552,377

Other information

Credit derivatives in Italy	31 12 2020	31 12 2019
Protection purchases		
Nominal	108,149	138,902
Positive fair value	-	1,200
Negative fair value	(2,845)	(82)
Protection sales		
Nominal	3,519,306	3,263,542
Positive fair value	-	-
Negative fair value	(119,366)	(118,502)

A.2 Classification of financial assets, commitments to grant finance and financial guarantees given on the basis of external and internal ratings

A.2.1 Breakdown of financial assets, commitments to grant finance and financial guarantees given: by external rating classes (gross amounts)

								31 12 2020
Non-impaired	External rating classes						Unrated	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Financial assets measured at amortised cost	9,542	562,684	924,700	-	2,053,023	-	14,687,567	18,237,516
- first stage	9,542	562,684	924,700	-	2,053,023	-	12,830,343	16,380,292
- second stage	-	-	-	-	-	-	1,666,261	1,666,261
- third stage	-	-	-	-	-	-	190,963	190,963
B. Financial assets measured at fair value through other comprehensive income	28,050	-	49,086	32,103	-	-	-	109,239
- first stage	28,050	-	49,086	32,103	-	-	-	109,239
- second stage	-	-	-	-	-	-	-	-
- third stage	-	-	-	-	-	-	-	-
C. Financial assets held for sale	-	-	-	-	-	-	-	-
- first stage	-	-	-	-	-	-	-	-
- second stage	-	-	-	-	-	-	-	-
- third stage	-	-	-	-	-	-	-	-
Total (A+B+C)	37,592	562,684	973,786	32,103	2,053,023	-	14,687,567	18,346,755
- of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	-	-
D. Commitments to grant finance and financial guarantees given	-	-	31,441	-	25,070	-	6,119,304	6,175,815
- first stage	-	-	31,441	-	25,070	-	5,982,808	6,039,319
- second stage	-	-	-	-	-	-	134,007	134,007
- third stage	-	-	-	-	-	-	2,489	2,489
Total (A+B+C+D)	37,592	562,684	1,005,227	32,103	2,078,093	-	20,806,871	24,522,570

Note: 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 classes adopted to complete the table are those used by Standard & Poor's. In the presence of multiple assigned external ratings, the criteria adopted to select the rating are those prescribed by the Bank of Italy (in the presence of two ratings, the worse one is used, in the presence of three or more assigned ratings, the second-best is selected). To ensure that the information is significant, internal transcoding tables were used to convert the classification provided by the different rating companies to the one adopted by Standard & Poor's.

A.2.2 Breakdown of financial assets, commitments to grant finance and financial guarantees given: by internal rating classes (gross amounts)

Non-impaired	Internal rating classes								31 12 2020
	High quality	Good quality	Sufficient quality	Mediocre quality	Poor quality	Default	Group administrative default	Unrated	Total
A. Financial assets measured at amortised cost	100,556	1,594,582	1,642,923	761,165	18,947	-	189,940	13,929,405	18,237,518
- first stage	95,987	1,436,641	1,079,527	187,804	-	-	-	13,580,333	16,380,292
- second stage	4,569	157,941	563,396	573,321	17,163	-	800	349,072	1,666,262
- third stage	-	-	-	40	1,784	-	189,140	-	190,964
B. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	109,239	109,239
- first stage	-	-	-	-	-	-	-	109,239	109,239
- second stage	-	-	-	-	-	-	-	-	-
- third stage	-	-	-	-	-	-	-	-	-
C. Financial assets held for sale	-	-	-	-	-	-	-	-	-
- first stage	-	-	-	-	-	-	-	-	-
- second stage	-	-	-	-	-	-	-	-	-
- third stage	-	-	-	-	-	-	-	-	-
Total (A+B+C)	100,556	1,594,582	1,642,923	761,165	18,947	-	189,940	14,038,644	18,346,757
- of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	-	-	-
D. Commitments to grant finance and financial guarantees given	38,760	92,290	194,475	67,337	-	-	2,489	5,780,464	6,175,815
- first stage	38,760	71,235	144,703	20,437	-	-	-	5,764,184	6,039,319
- second stage	-	21,055	49,772	46,900	-	-	-	16,280	134,007
- third stage	-	-	-	-	-	-	2,489	-	2,489
Total (A+B+C+D)	139,316	1,686,872	1,837,398	828,502	18,947	-	192,429	19,819,108	24,522,572

Note: High Quality (Master Scale classes AAA, A1) Good Quality (Master Scale classes A2, A3, B1) Sufficient Quality (Master Scale classes B2, B3, C1, C2) Mediocre Quality (Master Scale classes C3, D1, D2, D3) Poor Quality (Master Scale classes E1, E2, E3).

The table describes the breakdown of the Bank's customers by risk classes attributed according to the rating assigned by internal models. For this purpose, the only exposures (counterparties) shown are those whose internal rating is periodically determined without any transcoding from official rating to internal rating concerning instead sectors such as "banks", "non-banking financial institutions" and "Governments and Government Agencies". Based on this caveat, therefore, the exposures referred to these latter segments - while provided with official ratings - were also indicated as "unrated" in the internal rating models.

A.3 Distribution of guaranteed loan exposures by type of guarantee

A.3.1 Guaranteed on- and off-balance-sheet loan exposures to banks

31 12 2020																
Gross exposure	Net exposure	Secured guarantees					Unsecured guarantees								Total secured and unsecured guarantees	
							Credit derivatives					Endorsement credits				
		Real estate - mortgages	Real estate - financing for leasing	Securities	Other secured guarantees	CLN	Other derivatives				Public administrations	Banks	Other financial companies	Others		
							Central counterparties	Banks	Other financial companies	Others						
1. Guaranteed on-balance-sheet loan exposures:	1,209,766	1,209,684	-	-	1,208,520	-	-	-	-	-	-	-	-	-	-	1,208,520
1.1 fully secured	1,209,766	1,209,684	-	-	1,208,520	-	-	-	-	-	-	-	-	-	-	1,208,520
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2 partially secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Guaranteed “off-balance-sheet” loan exposures:	89,880	89,880	-	-	89,880	-	-	-	-	-	-	-	-	-	-	89,880
2.1 fully secured	89,880	89,880	-	-	89,880	-	-	-	-	-	-	-	-	-	-	89,880
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 partially secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Cash exposures guaranteed by securities are mainly represented by repurchase agreements. "Real guarantees" supporting off-balance sheet exposures, represented by cash collateral or securities, cover net counterparty risk determined on the basis of netting agreements defined in ISDA contracts. These guarantees are shown at fair value estimated at the reporting date, or when this information is lacking, at the contractual value of the same

A.3.2 Guaranteed on- and off-balance-sheet loan exposure to customers

31 12 2020																
	Gross exposure	Net exposure	Secured guarantees				Unsecured guarantees								Total secured and unsecured guarantees	
			Real estate - mortgages	Real estate - financing for leasing	Securities	Other secured guarantees	Credit derivatives				Endorsement credits					
							CLN	Other derivatives			Public administrations	Banks	Other financial companies	Others		
								Central counterparties	Banks	Other financial companies						Others
1. Guaranteed on-balance-sheet loan exposures:	12,334,755	12,201,217	1,723,750	-	8,944,826	495,849	-	-	-	-	-	18,545	693	40,736	397,598	11,621,997
1.1 fully secured	11,081,479	10,981,494	1,675,635	-	8,785,644	368,842	-	-	-	-	-	15,094	402	20,502	113,358	10,979,477
- of which impaired	142,393	91,451	78,762	-	1,902	6,097	-	-	-	-	-	-	-	-	4,689	91,450
1.2 partially secured	1,253,276	1,219,723	48,115	-	159,182	127,007	-	-	-	-	-	3,451	291	20,234	284,240	642,520
- of which impaired	35,927	17,351	524	-	8,217	914	-	-	-	-	-	-	62	190	6,190	16,097
2. Guaranteed “off-balance-sheet” loan exposures:	5,671,902	5,671,487	93,711	-	5,409,008	57,639	-	-	-	-	-	1,447	-	3,887	42,995	5,608,687
2.1 fully secured	5,564,369	5,564,188	89,084	-	5,405,834	56,665	-	-	-	-	-	1,447	-	1,964	9,050	5,564,044
- of which impaired	1,805	1,805	1,437	-	-	-	-	-	-	-	-	-	-	-	368	1,805
2.2 partially secured	107,533	107,299	4,627	-	3,174	974	-	-	-	-	-	-	-	1,923	33,945	259,475
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Cash exposures guaranteed by securities are mainly represented by repurchase agreements. "Real guarantees" supporting off-balance sheet exposures, represented by cash collateral or securities, cover net counterparty risk determined on the basis of netting agreements defined in ISDA contracts. These guarantees are shown at fair value estimated at the reporting date, or when this information is lacking, at the contractual value of the same.

A.4 Financial and non-financial assets obtained through enforcement of guarantees received

	Loan exposure written off	Gross value	Total value adjustments	Carrying amount	
					of which obtained during the year
A. Property, plant and equipment	750	750	-	750	-
A.1. For use in business	-	-	-	-	-
A.2. For investment purposes	-	-	-	-	-
A.3. Inventories	750	750	-	750	-
B. Equity securities and debt securities	269	269	269	-	-
C. Other assets	-	-	-	-	-
D. Non-current assets and disposal groups held for sale	2,209	2,209	2,209	-	-
D.1. Property, plant and equipment	-	-	-	-	-
D.2. Other assets	2,209	2,209	2,209	-	-
Total 31 12 2020	3,228	3,228	2,478	750	-
Total 31 12 2019	750	750	-	750	-

B. Distribution and concentration of loan exposures

B.1 Sectoral distribution of on- and off-balance-sheet loan exposures to customers

31 12 2020										
Exposures/counterparties	Public administrations		Financial companies		Financial companies: of which insurance companies		Non-financial companies		Households	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. On-balance-sheet loan exposures										
A.1 Bad loans	-	-	-	-	-	-	11,353	(22,181)	1,639	(1,677)
- of which: forborne exposures	-	-	-	-	-	-	4,310	(7,746)	1,156	(445)
A.2 Probable defaults	-	-	1,449	(4,556)	-	-	92,752	(43,221)	8,272	(4,543)
- of which: forborne exposures	-	-	117	(2,609)	-	-	79,812	(35,668)	6,039	(3,042)
A.3 Impaired past-due exposures	-	-	-	-	-	-	1,611	(475)	457	(86)
- of which: forborne exposures	-	-	-	-	-	-	-	-	-	-
A.4 Non-impaired exposures	4,308,535	(27)	10,226,504	(1,712)	14,272	-	4,920,193	(69,835)	193,317	(2,536)
- of which: forborne exposures	-	-	199	-	-	-	191,680	(20,123)	14,419	(1,318)
Total A	4,308,535	(27)	10,227,953	(6,268)	14,272	-	5,025,909	(135,712)	203,685	(8,842)
B. Off-balance-sheet loan exposures										
B.1 Impaired exposures	-	-	-	-	-	-	2,194	(104)	191	-
B.2 Non-impaired exposures	5,215,647	-	7,211,780	(38)	48	-	943,787	(23,372)	1,308	(7)
Total B	5,215,647	-	7,211,780	(38)	48	-	945,981	(23,476)	1,499	(7)
Totale (A+B) 31 12 2020	9,524,182	(27)	17,439,733	(6,306)	14,320	-	5,971,890	(159,188)	205,184	(8,849)
Totale (A+B) 31 12 2019	11,067,427	(28)	11,154,341	(30,315)	4,888	-	5,606,877	(748,080)	347,091	(77,917)

B.2 Geographical distribution of on- and “off-balance sheet” loan exposures to customers

Exposures/Geographic areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICAS		ASIA		REST OF WORLD	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. On-balance-sheet loan exposures										
A.1 Bad loans	12,992	(23,857)	-	-	-	-	-	-	-	-
A.2 Probable defaults	94,509	(48,564)	7,964	(3,756)	-	-	-	-	-	-
A.3 Impaired past-due exposures	2,068	(561)	-	-	-	-	-	-	-	-
A.4 Non-impaired exposures	18,886,704	(73,966)	716,239	(141)	42,776	-	-	-	2,828	(3)
Total A	18,996,273	(146,948)	724,203	(3,897)	42,776	-	-	-	2,828	(3)
B. Off-balance-sheet loan exposures										
B.1 Impaired exposures	2,385	(104)	-	-	-	-	-	-	-	-
B.2 Non-impaired exposures	12,178,516	(23,125)	1,120,143	(286)	40,490	-	-	-	33,373	(6)
Total B	12,180,901	(23,229)	1,120,143	(286)	40,490	-	-	-	33,373	(6)
Totale (A+B) 31/12/2020	31,177,174	(170,177)	1,844,346	(4,183)	83,266	-	-	-	36,201	(9)
Totale (A+B) 31/12/2019	26,374,442	(855,205)	1,764,820	(1,134)	36,472	-	-	-		

B.3 Geographical distribution of on- and “off-balance-sheet” loan exposures to banks

Exposures/Geographic areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICAS		ASIA		REST OF WORLD	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. On-balance-sheet loan exposures										
A.1 Bad loans	-	-	-	-	-	-	-	-	-	-
A.2 Probable defaults	-	-	-	-	-	-	-	-	-	-
A.3 Impaired past-due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Non-impaired exposures	3,110,607	(373)	649,859	(1)	21,490	-	-	-	15,087	-
Total A	3,110,607	(373)	649,859	(1)	21,490	-	-	-	15,087	-
B. Off-balance-sheet loan exposures										
B.1 Impaired exposures	-	-	-	-	-	-	-	-	-	-
B.2 Non-impaired exposures	2,436,084	(2)	591,263	-	119,308	-	-	-	-	-
Total B	2,436,084	(2)	591,263	-	119,308	-	-	-	-	-
Totale (A+B) 31/12/2020	5,546,691	(375)	1,241,122	(1)	140,798	-	-	-	15,087	-
Totale (A+B) 31/12/2019	8,143,536	(580)	874,009	(3)	218,780	-	-	-	52,482	(2)

B. Distribution and concentration of loan exposures**B.4 Significant exposures**

Items/Balances	31 12 2020	31 12 2019
a) Amount (carrying amount)	41,697,526	45,986,148
b) Amount (weighted value)	1,045,082	982,868
c) Number	-	-

The Supervisory Regulations define a position as a “large exposure” on the basis of the unweighted exposure for credit risk. A position is considered a “large exposure” if of an amount equal to or greater than 10% of the regulatory capital.

As provided for in the aforementioned regulations, exposures in Government Securities were also considered. No positions exceed the risk concentration limit.

C. Securitisation transactions

Qualitative information

The Bank, through the work of the Credit Trading Desk of the Global Markets Department, performs the role of investor as well as market maker. In its activity the Desk pursues as its main objective that of providing liquidity and pricing to the transactions carried out by the Group and, at the same time, supports, again in terms of pricing, both the Parent Company and the customers that have invested in the securitisations. To this end ongoing and structured analyses are used on the underlying flows of these transactions, principally attributable to activities for the disbursement of residential and commercial mortgage loans, consumer credit and non-performing loans. In relation to deals originated outside the Group, the Desk's activities are oriented to seizing the various opportunities which the market offers, so as to maximise the earning returns of the portfolios as an investor in this segment.

In relation to credit risk, the Parent Company's Financial Risk Officer Area governs, at a centralised level for the whole Group, the process of assessing and measuring the risks connected with the positions in the portfolio. Activities for controlling and mitigating risks are mainly carried out with the study and daily analysis of the underlying flows, using for this purpose advanced modelling.

During 2020, in continuity with previous years, operations were carried out via trading on the secondary market.

The amount held in the trading book (item 20a of the Assets "*Financial assets held for trading*") was € 365 million (€ 410 million at 31 December 2019), of which around 68% allocated to the senior part of the capital structure. Senior securities are also present in the portfolio at amortised cost (for € 399 million) and in the portfolio at fair value through other comprehensive income (for € 18 million), as well as mezzanine and junior in the portfolio at obligatory fair value (for a total of € 41 million) deriving securitisation transactions involving NPEs.

The Bank holds only on-balance-sheet exposures and has not issued either guarantees or credit lines to securitisation vehicles.

Quantitative information

C.1 Exposures deriving from the main “own” securitisation transactions divided by type of asset securitised and type of exposure

Type of securitised assets/Exposure	On-balance-sheet exposure					
	Senior		Mezzanine		Junior	
	Carrying amount	Write-downs/ write-backs	Carrying amount	Write-downs/ write-backs	Carrying amount	Write-downs/ write-backs
A. Completely derecognised	61,595	13	1,470	(22)	6,860	(1,659)
Non-performing loans	61,595	13	1,470	(22)	243	(609)
Mortgage loans	-	-	-	-	525	(1,050)
Ship finance	-	-	-	-	6,092	-
B. Partially derecognised	-	-	-	-	-	-
C. Not derecognised	-	-	-	-	-	-
Total 31 12 2020	61,595	13	1,470	(22)	6,860	(1,659)
Total 31 12 2019	74,670	13	6,455	1,184	5,794	144

Note: there are no exposures serving as guarantees issued nor credit lines.

C.2 Exposures deriving from the main “third-party” securitisation transactions divided by type of asset securitised and type of exposure

Type of underlying assets/Exposure	On-balance-sheet exposures					
	Senior		Mezzanine		Junior	
	Carrying amount	Write-downs/ write-backs	Carrying amount	Write-downs/ write-backs	Carrying amount	Write-downs/ write-backs
Other assets	3,322	1	-	-	-	-
Consumer credit	78,098	(259)	23,511	(122)	-	-
Non-performing loans	384,847	(1,783)	9,261	(174)	1,327	(3,334)
Mortgage loans	-	-	-	-	1,256	(2,515)
Residential mortgage loans	105,686	(82)	60,210	20	9,806	(75)
Non-residential mortgage loans	31,934	(1,283)	17,298	(3,072)	3,747	(2,136)
Ship finance	-	-	-	-	22,133	(1)
Total 31 12 2020	603,887	(3,406)	110,280	(3,348)	38,269	(8,061)
Total 31 12 2019	655,554	(742)	148,240	2,093	67,603	(1,362)

Note: the table shows the exposures taken on the Bank with reference to each third party securitisation transaction, showing also the contractual technical forms associated with the assets disposed of. The value adjustments column shows any flows during the year in write-downs/write-backs as well as impairment losses and revaluations recognised in the income statement or directly to a shareholders' equity reserve in the case of securities in the portfolio “*Financial assets at fair value through other comprehensive income*”. There are no exposures serving as guarantees issued nor credit lines.

C.3 Special purpose vehicle for securitisation

Name of securitisation/special purpose vehicle	Registered office	Consolidation	31 12 2020					
			Assets			Liabilities		
			Receivables	Debt securities	Other	Senior	Mezzanine	Junior
2017 Popolare Bari RMBS S.r.l.	Via V.Alfieri, 1 Conegliano (TV)	NO	453,711		10,993	285,902	58,264	92,516
A-Best Fifteen S.r.l.	Via V.Alfieri, 1 Conegliano (TV)	NO	387,746		41,900	301,582	73,000	31,000
Argo Mortgage 2 S.r.l.	Via Cassa di Risparmio, 15 Genoa	NO	38,289		-	-	7,414	29,350
Arrow CMBS 2018 - 1	3 George's Dock IFSC Dublin 1	NO	270,181		71	-	125,083	140,432
Aurorus 2020 BV	Prins Bernhardplein 200, Amsterdam (1097 MG)	NO	323,685		2,748	220,800	111,637	-
AutoFlorence 1 S.r.l.	Via V.Alfieri, 1 Conegliano (TV)	NO	819,686		-	696,733	94,264	28,689
Autonomia 2019	1 Boulevard Haussmann, 75009 Paris	NO	837,612		-	594,704	201,027	41,881
Belvedere SPV	Via Vittorio Betteloni 2, Milan	NO	2,400,847		11,322	272,935	70,000	95,000
Berica ABS 3 S.r.l.	Via Battaglione Framarin, 18 Vicenza	NO	293,250		9,293	10,744	93,900	115,012
BP Mortgages S.r.l.	Via Gustavo Fara 26, 20100 Milan	NO	113,575		16,979	8,421	25,300	47,100
Brignole CO 2019-1 S.r.l.	Canada Square, Canary Wharf London, E14 5LB	NO	272,282		6,404	223,456	42,100	3,820
Brignole CQ 2019-1 S.r.l.	Canada Square, Canary Wharf London, E14 5LB	NO	141,060		1,726	105,438	61,600	18,620
Cartesian Residential Mortgages 5 SA	6, Rue Eugène Ruppert, Luxembourg (L-2453)	NO	297,776		4,800	271,411	26,400	4,850
Civitas SPV S.r.l.	Via Senatore Guglielmo Pelizzo 8-1, 33043 Cividale del Friuli	NO	252,219		15,148	91,921		122,300
Deco 2019 - Vivaldi S.r.l.	Via Vittorio Betteloni 2, Milan	NO	222,230			122,000	81,000	19,230
Delft 2020 BV	Prins Bernhardplein 200, Amsterdam (1097 MG)	NO	225,917		3,450	88	500	205,951
Domi 2020-2 BV	Stadsplateau 10, 3521 AZ Utrecht, Netherlands	NO	272,278		-	227,624	31,040	14,227
Dutch Property Finance 2020-2 BV	125 Old Broad Street, London EC2N 1AR	NO	322,594		-	268,939	46,311	16,254
E-Carat 10	1 Boulevard Haussmann, 75009 Paris	NO	790,193		-	700,111	82,180	15,756
Eridano II SPV	Via V.Alfieri, 1 Conegliano (TV)	NO	350,592		-	311,619	25,400	83,520
European Residential Loan Securitisation 2019 - NPL1 DAC	125 Old Broad Street, London EC2N 1AR	NO	446,534		12,826	196,262	102,579	151,587
European Residential Loan Securitisation 2018 - 1 Dac	Canada Square, Canary Wharf London, E14 5LB	NO	297,175		464	37,947	41,948	95,478
Fastnet Securities 12 Dac	3 George's Dock IFSC Dublin 1	NO	279,064		-	178,840	52,000	62,200
F-E Mortgages S.r.l.	Piazzetta Monte, 1 Verona	NO	76,302		-	-	43,162	7,630

Fino 1 Securitisation S.r.l.	Viale Luigi Majno, 45 Milan	NO	506,000	13,852	250,296	69,640	50,311	
Ft Santander Consumer Spain Auto 2020-1	c/Juan Ignacio Luca De Tena 13, 28027 Madrid	NO	498,009	5,200	426,920	66,410	4,680	
Futura 2019	Via San Prospero 4, Milan	NO	1,256	7,110	136,328	37,000	8,000	
Gedesco Trade Receivables 2020-1 DAC	C/Principe de Vergara, 131 planta 3º, 28002 Madrid	NO	247,509		208,188	60,000	15,000	
Grand Canal Securities 2 Dac	Kilmore House, Park Lane Dublin 1	NO	405,248	4,171	134,364	67,809	218,839	
Harmony French Home	3, Rue d'Antin, 75002 Paris	NO	670,025	6,700	574,500	46,900	48,600	
Heliconus S.r.l.	Piazzetta Monte, 1 Verona	NO	37,858	-	-	27,457	-	
InterMoney Titulizacion, SGTIF, S.A.	C/Principe de Vergara, 131 planta 3º, 28002 Madrid	NO	156,142	11,100	150,000	-	31,000	
Jepson Residential 2019 - 1 DAC	125 Old Broad Street, London EC2N 1AR	NO	580,100	6,185	307,741	217,500	65,185	
Lanterna Finance (2015) S.r.l.	Via Cassa di Risparmio, 15 Genoa	NO	213,855	12,566	165,563	-	-	
Mars 2006 S.r.l.	Via V.Alfieri, 1 Conegliano (TV)	NO	137,432	-	38,748	-	-	
Miravet S.à.r.l.	Rue Eugène Ruppert 6, L-2453 Luxembourg	NO	333,146	15,035	223,765	64,790	55,144	
Mulcair Securities Designated Activity Company	28 Fitzwilliam Place, Dublin 2, D02 P282, Ireland	NO	317,585	-	172,204	98,100	41,500	
Pearl Finance 2020	3, Rue d'Antin, 75002 Paris	NO	318,600	-	158,500	128,100	32,000	
Pepper Iberia Unsecured 2019 DAC	1-2 Victoria Building, Haddington Road, Dublin 4,	NO	195,392	3,665	166,900	42,500	14,000	
Pietra Nera Uno S.r.l.	Via V.Alfieri, 1 Conegliano (TV)	NO	399,002	3,710	207,500	171,533	19,969	
Sabadell Consumo 1 Fondo de Titulizacion	C/Lagasca 120, 28006 Madrid	NO	598,801	63,795	581,169	86,348	42,723	
Sestante Finance S.r.l.	Via M. Carucci 131, Rome	NO	257,097	2,786	130,077	89,502	8,610	
Sestante Finance 1 S.r.l.	Via M. Carucci 131, Rome	NO	86,140	7,207	34,451	40,080	20,997	
Sestante Finance 2 S.r.l.	Via G. Negri, 10 Milan	NO	152,067	1,495	57,916	50,648	6,253	
Sharmrock Residential 2019 - 1 DAC	125 Old Broad Street, London EC2N 1AR	NO	325,368	3,728	184,968	119,700	28,610	
Siena Mortgages 10-7 S.r.l.	Via V.Alfieri, 1 Conegliano (TV)	YES	1,180,709	61,740	357,630	817,600	67,218	
Siena Npl 2018 S.r.l.	Via Piemonte, 38 Rome	NO	3,513,260	-	1,888,632	865,638	758,990	
Silk Road Finance	5th Floor, Balloon Street, Manchester, M60 4EP	NO	763,942	-	679,434	100,307	13,066	
Sunrise SPV Z80 S.r.l.	Via Vittorio Betteloni 2, Milan	NO	1,103,459	27,586	749,678	298,100	66,300	
Tagus Sociedade de Titularizacao de Creditos S.A.	Rua Castilho, 20 Lisbon	NO	564,297	4,838	495,219	150	5,000	
Taurus 2018-1 II S.r.l.	Via V.Alfieri, 1 Conegliano (TV)	NO	310,771	-	195,134	115,647	-	
Norma Spv S.r.l.	Via V.Alfieri, 1 Conegliano (TV)	NO	66,063	-	6,128	59,935	-	
Total			24,123,934	-	400,593	13,809,431	5,237,503	3,064,398

Note: the liabilities for third party securitisation do not show the remaining items for financial instruments issued, including the accumulated profits (losses) for the year.



CAPITAL SERVICES
GRUPPOMONTEPASCHI

Financial statements at 31/12/2020

The securitisation Siena Mortgages 10-7 S.r.l., consolidated by the Parent Company, was carried out in 2010. Specifically, Banca MPS sold to the vehicle a portfolio of performing residential mortgage loans for approximately € 3.5 billion.

C.4 Special purpose vehicles for securitisation (non-consolidated)

The table shows the interests held by the Group in non-consolidated special purpose vehicles for securitisation used for the transactions in which the Group is originator or investor.

Accounting items / Type of structured entity	Asset accounting portfolios				Total assets (A)	Liability accounting portfolios	Total liabilities (B)	Net book value (C=A-B)	Maximum exposure to risk of loss (D)	Difference between exposure to risk of loss and book value (E=D-C)
	Financial assets held for trading	Financial assets obligatorily measured at fair value	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income		Financial liabilities held for trading				
2017 Popolare Bari RMBS S.r.l.	23,002,578	-	-	-	23,002,578	-	-	23,002,578	23,002,578	-
A-Best Fifteen S.r.l.	3,754,793	-	-	-	3,754,793	-	-	3,754,793	3,754,793	-
Argo Mortgage 2 S.r.l.	9,833,408	-	-	-	9,833,408	-	-	9,833,408	9,833,408	-
Arrow CMBS 2018 - 1	13,418,642	-	-	-	13,418,642	-	-	13,418,642	13,418,642	-
Aurorus 2020 BV	15,697,513	-	-	-	15,697,513	-	-	15,697,513	15,697,513	-
AutoFlorence 1 S.r.l.	1,121,753	-	-	-	1,121,753	-	-	1,121,753	1,121,753	-
Autonoria 2019	23,631,491	-	-	-	23,631,491	-	-	23,631,491	23,631,491	-
Belvedere SPV	19,937,033	-	-	7,974,813	27,911,846	-	-	27,911,846	27,911,846	-
Berica ABS 3 S.r.l.	9,090,000	-	-	-	9,090,000	-	-	9,090,000	9,090,000	-
BP Mortgages S.r.l.	6,467,500	-	-	-	6,467,500	-	-	6,467,500	6,467,500	-
Brignole CO 2019-1 S.r.l.	6,603,758	-	-	-	6,603,758	-	-	6,603,758	6,603,758	-
Brignole CQ 2019-1 S.r.l.	5,797,919	-	-	-	5,797,919	-	-	5,797,919	5,797,919	-
Cartesian Residential Mortgages 5 SA	1,692,566	-	-	-	1,692,566	-	-	1,692,566	1,692,566	-
Civitas SPV S.r.l.	238,436	-	-	-	238,436	-	-	238,436	238,436	-
Deco 2015-Harp Limited Dac	-	-	-	-	-	-	-	-	-	-
Deco 2019 - Vivaldi S.r.l.	13,909,114	-	-	-	13,909,114	-	-	13,909,114	13,909,114	-
Delft 2020 BV	3,493,278	-	-	-	3,493,278	-	-	3,493,278	3,493,278	-
Domi 2020-2 BV	3,000,000	-	-	-	3,000,000	-	-	3,000,000	3,000,000	-
Dutch Property Finance 2020-2 BV	7,940,000	-	-	-	7,940,000	-	-	7,940,000	7,940,000	-
Delft 2019 B.V.	-	-	-	-	-	-	-	-	-	-
Dilosk RMBS 1 Dac	-	-	-	-	-	-	-	-	-	-
E-Carat 10	16,613,167	-	-	-	16,613,167	-	-	16,613,167	16,613,167	-
Eridano II SPV	8,637,522	-	-	-	8,637,522	-	-	8,637,522	8,637,522	-
European Residential Loan Securitisation 2019 - NPL1 DAC	8,753,771	-	-	-	8,753,771	-	-	8,753,771	8,753,771	-

European Residential Loan Securitisation									
2018 - 1 Dac	880,146	-	-	-	880,146	-	880,146	880,146	-
Fastnet Securities 12 Dac	3,603,952	-	-	-	3,603,952	-	3,603,952	3,603,952	-
F-E Mortgages S.r.l.	2,122,902	-	-	-	2,122,902	-	2,122,902	2,122,902	-
Fino 1 Securitisation S.r.l.	8,678,818	-	-	-	8,678,818	-	8,678,818	8,678,818	-
Ft Santander Consumer Spain Auto 2020-1	2,081,641	-	-	-	2,081,641	-	2,081,641	2,081,641	-
Futura 2019	4,147,556	-	-	4,147,556	8,295,112	-	8,295,112	8,295,112	-
Gedesco Trade Receivables 2020-1 DAC	4,603,792	-	-	-	4,603,792	-	4,603,792	4,603,792	-
First Swiss Mobility 2017 2 Ag	-	-	-	-	-	-	-	-	-
Grand Canal Securities 2 Dac	1,212,005	-	-	-	1,212,005	-	1,212,005	1,212,005	-
Harmony French Home	17,128,003	-	-	-	17,128,003	-	17,128,003	17,128,003	-
Heliconus S.r.l.	6,293,731	-	-	-	6,293,731	-	6,293,731	6,293,731	-
InterMoney Titulizacion, SGTF, S.A.	4,900,000	-	-	-	4,900,000	-	4,900,000	4,900,000	-
Jepson Residential 2019 - 1 DAC	6,937,920	-	-	-	6,937,920	-	6,937,920	6,937,920	-
Lanterna Finance (2015) S.r.l.	3,322,103	-	-	-	3,322,103	-	3,322,103	3,322,103	-
Madeleine SPV S.r.l.	-	-	-	-	-	-	-	-	-
Mars 2006 S.r.l.	80,839	-	-	-	80,839	-	80,839	80,839	-
Miravet Sà.r.l.	4,611,445	-	-	5,866,502	10,477,947	-	10,477,947	10,477,947	-
Mulclair Securities Designated Activity Company	7,325,652	-	-	-	7,325,652	-	7,325,652	7,325,652	-
Norma Spv S.r.l.	-	30,005,984	-	-	30,005,984	-	30,005,984	30,005,984	-
Pearl Finance 2020	500,992	-	-	-	500,992	-	500,992	500,992	-
Pepper Iberia Unsecured 2019 DAC	3,000,282	-	-	-	3,000,282	-	3,000,282	3,000,282	-
Pietra Nera Uno S.r.l.	23,426,154	-	-	-	23,426,154	-	23,426,154	23,426,154	-
Quarzo S.r.l. 2019	-	-	-	-	-	-	-	-	-
Sabadell Consumo 1 Fondo de Titulizacion	2,058,570	-	-	-	2,058,570	-	2,058,570	2,058,570	-
Sestante Finance S.r.l.	775,428	-	-	-	775,428	-	775,428	775,428	-
Sestante Finance 1 S.r.l.	7,127,500	-	-	-	7,127,500	-	7,127,500	7,127,500	-
Sestante Finance 2 S.r.l.	92,873	-	-	-	92,873	-	92,873	92,873	-

Sharmrock Residential 2019 - 1 DAC	27,266,111	-	-	-	27,266,111	-	27,266,111	27,266,111	-
Siena Npl 2018 S.r.l.	-	11,089,596	398,738,391	-	409,827,987	-	409,827,987	409,827,987	-
Silk Road Finance	1,254,340	-	-	-	1,254,340	-	1,254,340	1,254,340	-
Storm 2016-I B.V.	-	-	-	-	-	-	-	-	-
Sunrise SPV Z80 S.r.l.	870,735	-	-	-	870,735	-	870,735	870,735	-
Tagus Sociedade de Titularizacao de Creditos S.A.	2,235,290	-	-	-	2,235,290	-	2,235,290	2,235,290	-
Taurus 2015-1 IT S.r.l.	-	-	-	-	-	-	-	-	-
Taurus 2018-1 IT S.r.l.	1,725,036	-	-	-	1,725,036	-	1,725,036	1,725,036	-
Titulisation de Activos	-	-	-	-	-	-	-	-	-
Towers CQ S.r.l.	-	-	-	-	-	-	-	-	-
Total	350,898,059	41,095,580	398,738,391	17,988,872	808,720,902	-	-	808,720,902	808,720,902

In the role of investor, we can note the interests in securitisation vehicles of the Italian banking system with underlying performing and impaired residential mortgage loans as well as those in vehicles with underlying consumer loans.

The interests held by the Bank and the Parent Company, as originator, are related to the following vehicles:

Norma SPV: in the context of a transaction to securitise non-performing loans originating in part from banks external to the MPS Group, on 1 July 2017 Banca MPS and MPS Capital Services arranged for the sale of a portfolio of non-performing loans disbursed in the real estate and shipping sectors. The portfolio sold to the vehicle Norma SPV S.r.l. consisted, as of the disposal date, of 54 loans, of which 19 loans totalling € 284.9 million, disbursed by the Montepaschi Group, of which:

no. 12 loans disbursed by the Parent Company totalling € 24.0 million in the real estate sector and € 145.3 million in the shipping sector;

no. 7 loans disbursed by the subsidiary MPS Capital Services totalling € 28.8 million in the real estate sector and € 86.8 million in the shipping sector.

To finance the purchase of this portfolio, on 21 July 2017 the vehicle issued ABS securities (the "securities") in classes A1, B, C and D for the real estate sector and ABS securities in classes A1, B, C1, C2 and D for the shipping sector. The senior classes of both the real estate and shipping operations were placed with institutional investors, while the mezzanine and junior classes were subscribed by each of the transferring banks in proportion to the loans transferred. Specifically, the Bank subscribed the following classes:

- Real Estate: Class B for a nominal amount of € 19.6 million; Class C for a nominal amount of € 1.8 million; Class D for a nominal amount of € 6.6 million.
- Shipping: Class B for a nominal amount of USD 33.6 million; Class C1 for a nominal amount of USD 13.8 million; Class C2 for a nominal amount of USD 4.4 million; Class D for a nominal amount of USD 44.6 million.

During the first quarter of 2020, the Bank and the Parent Company derecognised the receivables underlying the securitisation and recognised the notes issued by the vehicle Norma SPV, because, following the endorsement of the RBD Armatori SpA bankruptcy arrangement there was the assignment (in *datio in solutum* that is without debt) of the Norma SPV ships to Norma Reoco Srl and the consequent settlement of the original receivable relationship between Norma SPV and RBD, fulfilling therefore the conditions for the cancellation of the receivables from RBD that the Group had recognised in its capital assets.

As of 31 December 2020, the amortised nominal value of the classes subscribed by the MPS Group is the following:

- Real Estate: Class B € 10.63 million; Class C € 4.21 million; Class D € 15.83 million.
- Shipping: Class B € 70.63 million; Class C1 € 30.64 million; Class C2 € 9.75 million; Class D € 98.88 million.

Siena NPL 2018 S.r.l. During 2017, the Parent Company, together with other Group companies, completed a securitisation transaction involving a portfolio of loans classified as bad. The portfolio was sold, on 20 December 2017, to the Vehicle named Siena NPL 2018 S.r.l, set up for the purpose. The vehicle company financed the purchase of the portfolio through the issue of the following asset backed securities (the "Securities") with limited recourse:

- (i) Senior A1 for € 2,683.5 million;
- (ii) Senior A2 per € 412.1 million;
- (iii) Mezzanine per € 847.6 million;
- (iv) Junior for € 565.0 million;

centralised in dematerialised form at Monte Titoli S.p.A. and initially not listed on any Italian and/or foreign regulated market.

On 9 January 2018 the sale was completed of 95% of the mezzanine securities to Quaestio Capital SGR on behalf of Italian Recovery Fund (formerly Fondo Atlante II). In May 2018, at the end of the rating attribution process, the senior Notes were restructured into a single class obtaining an investment grade rating from the 3 rating agencies involved. The securities issued by the vehicle company following the restructuring are the following:

- (i) Senior A for € 2,918 million, initial rating A3/BBB+/BBB (Moody's/Scope Ratings/DBRS). The outstanding amount at 31 December 2020 was € 1,888 million. The rating at 31 December 2020 was A3/BBB+/BB high (Moody's/Scope Ratings/DBRS);
- (iii) Mezzanine B for € 847.6 million, with no rating and sold to the Italian Recovery Fund for a proportion of 95% of the issue. The outstanding amount at 31 December 2020, as a result of the capitalisation of interest, amounted to € approximately € 865 million;
- (iv) Junior for € 565.0 million, with no rating.

In June 2018, the sale of 95% of the junior securities made it possible to achieve, in addition to the sale already made of the mezzanine notes, the deconsolidation of the entire securitised portfolio. The remaining 5% of the junior and mezzanine notes were kept in order to observe the "retention rule".

In July 2018, finally, the MEF granted with a decree, the State guarantee (GACS) on the senior tranche of the securitisation. With the obtainment of the GACS the entire securitisation process was completed.

The maximum exposure to risk of loss was determined as an amount equal to the book value.

C.5 Servicer activity – own securitisations: collections of securitised receivables and reimbursement of securities issued by the special purpose vehicle for the securitisation

The bank does not act as a servicer for own securitisation transactions.

D. Disclosure on structured entities not consolidated in the accounts (other than special purpose vehicles for securitisation)

Qualitative information/Quantitative information

									31 12 2020
Accounting item / Type of structured entity	Asset accounting portfolios			Total assets (A)	Liability accounting portfolios	Total liabilities (B)	Net book value (C=A-B)	Maximum exposure to risk of loss (D)	Difference between exposure to risk of loss and carrying amount (E=D-C)
	Financial assets held for trading	Financial assets obligatorily measured at fair value	Financial assets measured at amortised cost		Financial liabilities held for trading				
1. Special purpose vehicles	-	-	-	-	-	-	-	-	-
2. UCITS	985,031	36,184	9,695	1,030,910	278,013	278,013	752,897	1,175,558	422,661
3. Other	-	-	-	-	-	-	-	-	-
Total	985,031	36,184	9,695	1,030,910	278,013	278,013	752,897	1,175,558	422,661

The aggregate includes, in correspondence to the column “*Financial assets held for trading*”:

- € 50.6 million (€ 92.8 million at 31 December 2019) related to interests held by the Bank in units of Open-ended Investment Funds and Exchange Traded Funds that invest in equities, bonds and derivatives. These units are purchased for the purpose of hedging the risks generated by structured bonds issued and funds placed through the Parent Company’s network or for the purpose of repurchase on the secondary market of structured funds of which the original structuring has been handled;
- € 934.4 million (€ 1,032.3 million at 31.12.2019) related to exposures in credit and financial derivatives with positive fair value with the following counterparties: Rainbow for € 136.5 million (€ 227.7 million at 31.12.2019) Anima for € 687.6 million (€ 619.8 million at 31.12.2019) Quaestio for € 10.0 million (€ 13.3 million at 31.12.2019) and with the Axa Im Deis investment funds for € 100.4 million (€ 171.5 million at 31.12.2019). Rainbow, Anima and Axa Im Deis are Irish-law funds managed respectively by Anima Asset Management and AXA Investment Managers. These funds are divided into segments that are purchased by MPS AXA Financial Limited and represent the funds to which are linked the performance of the Unit-Linked policies placed with its customers with the name “AXA MPS Valore Performance”. The Quaestio funds operate under Luxembourg law, are managed by Questio Capital and sold on the MPS network. The Bank operates with Rainbow, Anima, Axa Im Deis and Quaestio as the counterparty with which the derivatives included in the Funds’ assets are traded.

The column “*Other financial assets obligatorily measured at fair value*” includes:

- € 0.2 million related to the units of a closed-end real estate fund reserved for qualified investors (Fondo Cosimo I), held by the Bank. The fund’s objective is to maximise the returns for its investors through both a growing dividend yield and enhancing the value of the assets in the portfolio;
- € 3.2 million related to units of closed-end multi-segment Italian alternative mutual investment funds (Idea CCR I and II). First Italian DIP (Debtor-in-possession) Financing funds, which pursue the purpose of contributing to relaunching medium-sized Italian businesses in financial difficulty, but with solid fundamentals;
- € 2.6 million related to units of a private contribution closed-end real estate investment fund (Athens RE Fund B) reserved for qualified investors. The fund, managed by Unipol Sai Investimenti SGR, holds prestigious tourist complexes located in a number of Italian regions;
- € 15.7 million related to units of a reserved closed-end Italian alternative investment fund (Back2Bonis Fund). The Fund, managed by Prelios SGR, was established to improve the recovery performance and value of the loans acquired, by improving the value of the mortgaged assets;
- € 14.5 million related to the Efesto Fund (Efesto DIS NM). This is a reserved, closed-end, Italian, alternative investment fund, set up and managed by Finanziaria Internazionale Investments SGR S.p.A.

The Fund was established with the objective of improving the recovery performance and value of the receivables through active management of the positions that have been sold;

The column “*Financial assets measured at amortised cost*” includes loans granted to the counterparty Athens RE Fund B for € 9.7 million.

The column “*Financial liabilities held for trading*” comprises:

- € 278.0 million (€ 326.8 million at 31.12.2019) related to the negative fair value of credit and financial derivatives with the following counterparties: Rainbow for € 16.6 million (€ 42.3 million at 31.12.2019), Anima for € 247.5 million (€ 257.4 million at 31.12.2019), Quaestio for € 3.6 million (€ 6.0 million at 31.12.2019) and with the AXA IM DEIS investment funds managed by AXA Investment Managers for € 10.3 million (€ 21.0 million at 31.12.2019).

The entities in question finance themselves by issuing units.

The maximum exposure to risk of loss was indicated as an amount equal to the book value for exposures in units in collective investment undertakings other than financial and credit derivatives, for which the reference is to the positive fair value plus the add-on (calculated taking into account also the positions with negative fair value).

During the year of reference, the Bank did not provide and has no intention of providing financial or any other type of support to the unconsolidated structured entities indicated above.

There are no non-consolidated structured entities sponsored by the Bank.

E. Sale transactions

A. Financial assets sold but not fully derecognised

Qualitative information

The assets indicated in the following tables for the portfolios “*Financial assets held for trading*” and “*Financial assets measured at fair value through other comprehensive income*” are debt and equity securities and were sold in the context of repurchase agreements with repurchase obligations at maturity.

Repurchase agreements, as for similar securities lending operations described in paragraph 8 of the Notes to the Financial Statements - part B - Other transactions, are carried out, largely, to cover similar operations in the other direction in the context of the dynamic and complex management of Global Markets business.

Considering SFTs (Securities Financing Transactions) as a whole, there emerges a net total funding position, related to the financing of long positions in securities. The underlying assets of the repurchase agreements are mainly Italian government securities, mostly BTPs. The bank-owned securities used for repurchase agreements are posted among assets in the balance sheet under item 20. “*Financial assets measured at fair value through profit or loss*” and under item 30 “*Financial assets measured at fair value through other comprehensive income*”, and in item 40 “Financial assets measured at amortised cost” the related benefits and risks remain, in any case, with the Bank.

Securities transferred are shown as “committed” but this status does not exclude the possibility of selling them, after covering the momentary lack of availability of the security through securities lending or reverse repurchase agreements.

Multi-originator sales of loan portfolios classified as “unlikely to pay”

In September 2019, the Bank participated in a multi-originator sales transaction for a portfolio of loans classified as “unlikely to pay” and held with industrial and services companies located in Italy, with turnover of no less than € 50 million, to a Fund managed by Clessidra SGR S.p.A. Settlement of the price occurred through offsetting of the receivable due from the Fund, with the simultaneous subscription of the units of the Fund freed up.

At the date of sale, the portfolio was made up of receivables due to the MPS Group and to other banking groups from 13 target companies for a total gross exposure of € 272.2 million, to which the Bank contributed with receivables for a gross amount of € 8.9 million (the related net book value at the date of sale was 8.1 million). We must also specify that in November 2019 the Bank completed the sale of another position, which had already been transferred by the Parent Company, in the amount of around € 1.8 million in terms of gross exposure, with a sale value of € 1.3 million.

The Fund was established with the aim of improving the collection performance for the acquired receivables, by improving the value of the target companies by:

- managerial actions, possible based on the Fund’s high level of involvement in the net financial position of the companies, as well as possible transactions to convert the receivables acquired into equity instruments for the companies in question;
- contribution of financial resources functional to improved industrial and financial turnaround processes.

The Fund has issued four categories of units, with different economic rights:

- category A units reserved for the banks involved;
- category B and C units intended for two categories of institutional investors contributing “new financing”;
- category D units reserved for the Fund management team.

The category A units subscribed by the MPS Group total 39.8% of the total and express, in terms of credit risk, very significant exposure with respect to the receivables transferred. Given the high percentage of retained risks/benefits associated with the transaction, the Group has not derecognised the receivables transferred, which will therefore continue to be recognised in the Group’s assets in their entirety and consequently, the Group has also not recognised the Fund units.

Quantitative information

E.1 Financial assets sold fully recognised and associated financial liabilities: carrying amounts

	Financial assets sold fully recognised				Associated financial liabilities		
	Carrying amount	of which: subject of securitisation transactions	of which: involved in sale contracts with agreement to repurchase	of which impaired	Carrying amount	of which: subject of securitisation transactions	of which: involved in sale contracts with agreement to repurchase
Financial assets held for trading	4,770,901	-	4,770,901	X	4,697,548	-	4,697,548
1. Debt securities	4,770,901	-	4,770,901	X	4,697,548	-	4,697,548
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	X	-	-	-
4. Derivatives	-	-	-	X	-	-	-
Other financial assets obligatorily measured at fair value	-	-	-	-	-	-	-
1. Debt securities	-	-	-	-	-	-	-
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
Financial assets designated at fair value	-	-	-	-	-	-	-
1. Debt securities	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-
Financial assets measured at fair value through other comprehensive income	91,213	-	91,213	-	82,002	-	82,002
1. Debt securities	91,213	-	91,213	-	82,002	-	82,002
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
Financial assets measured at amortised cost	423,562	-	415,738	7,824	363,109	-	363,109
1. Debt securities	415,738	-	415,738	-	363,109	-	363,109
2. Loans	7,824	-	-	7,824	-	-	-
Total 31 12 2020	5,285,676	-	5,277,852	7,824	5,142,659	-	5,142,659
Total 31 12 2019	5,802,441	43,585	5,750,665	51,776	5,693,454	2,608	5,690,846

Note: repurchase agreements carried out using own securities "sold and not derecognised" were entered into for approximately 23% with the Parent Company MPS and for approximately 73% with Cassa Compensazione e Garanzia.

E.2 Financial assets sold partially recognised and associated financial liabilities: carrying amounts

This schedule was not completed because during the year in question the Bank did not have any of these assets.

E.3 Sale transactions with liabilities with recourse only on assets sold but not fully derecognised: fair value

	Fully recognised	Partially recognised	Total	
			31 12 2020	31 12 2019
Financial assets held for trading	-	-	-	-
1. Debt securities	-	-	-	-
2. Equity securities	-	-	-	-
3. Loans	-	-	-	-
4. Derivatives	-	-	-	-
Other financial assets obligatorily measured at fair value	-	-	-	43,585
1. Debt securities	-	-	-	-
2. Equity securities	-	-	-	-
3. Loans	-	-	-	43,585
Financial assets designated at fair value	-	-	-	-
1. Debt securities	-	-	-	-
2. Loans	-	-	-	-
Financial assets measured at fair value through other comprehensive income	-	-	-	-
1. Debt securities	-	-	-	-
2. Equity securities	-	-	-	-
3. Loans	-	-	-	-
Financial assets measured at amortised cost	7,824	-	7,824	8,191
1. Debt securities	-	-	-	-
2. Loans	7,824	-	7,824	8,191
Total financial assets	7,824	-	7,824	51,776
Total associated financial liabilities	-	-	X	X
Net value 31 12 2020	7,824	-	7,824	X
Net value 31 12 2019	49,168	-	X	51,776

B. Financial assets sold and fully derecognised with recognition of continuing involvement**Qualitative information/Quantitative information**

At 31 December 2020 none of these assets existed.

C. Financial assets sold and fully derecognised

The multi-originator sale transactions involving loan portfolios, to mutual investment funds, with attribution of the related units to the seller intermediaries, are illustrated below. The transactions noted below entailed the derecognition of the receivables sold under the terms of IFRS9, because the Group did not retain substantially the risks and benefits of the assets transferred and, also, did not retain any substantial control over these assets which was instead assumed by the Fund Management Company (hereinafter also FMC). In particular, the risks and benefits that the Group may obtain from the units held in exchange for conferment of the receivables, are not anchored in the *an*, or in the *quantum*, or in the timing, to the events that affect the receivables transferred, given that the economic and financial trends connected with the single receivables will not automatically and directly affect the returns of the single unit holders which instead will depend on the general performance of the fund managed by the FMC.

Qualitative/quantitative information

At 31 December 2020, the Group holds units in mutual investment funds acquired in the context of multi-originator sale transactions involving loan portfolios:

Efesto Fund

In November 2020, the MPS Group carried out a multi-originator sale transaction for a portfolio of loans and SFPs classified as “unlikely to pay”, held with industrial and services companies located in Italy, with average turnover in the last three years of € 20 million, to a Fund managed by Finanziaria Internazionale Investments S.G.R. S.p.A. Settlement of the price occurred through offsetting of the receivable due from the Fund, with the simultaneous subscription of the units of the Fund freed up.

At the date of sale, the portfolio was made up of receivables due to the MPS Group and to other banking groups from 51 target companies (for the MPS Group 11 debtors) for a total gross exposure of € 432.5 million, to which the Bank contributed for € 59.5 million. The sale of the receivables was made at a price of approximately € 24.7 million, compared to a net book value of € 16.3 million.

The receivables sold were fully derecognised from the assets of the Bank’s financial statements and the units were recognised for an amount of € 22.6 million. Part of the value of the units held was then transferred in the context of the “Hydra” operation; consequently the book value recognised in the financial statements at 31 December 2020 amounted to € 14.5 million. For more details on determination of the fair value of the units, please see part A of these Notes to the Consolidated Financial Statements.

Back2Bonis Fund

On 27 December 2019, the MPS Group, UBI Banca and Banco BPM signed with AMCO and the Prelios Group the contract for the transaction known as Cuvée, which provided for the creation of a multi-originator platform to manage Unlikely to Pay (UTP) receivables linked to loans from € 3 million to € 30 million to businesses in the real estate sector in the process of restructuring or suffering financial difficulties.

More specifically, the transaction involved the following steps:

- a) sale of UTP loans by the seller banks to a securitisation company established pursuant to Law 130/1999 (SPV 130), not controlled by AMCO; with the sale of the loans, each seller bank acquired a receivable due from SPV 130 equal to the sale price;

- b) sale by the seller banks to AMCO of the contractual relationships underlying the loans sold to SPV 130, involving residual commitments to disburse funds (a case which in the first phase did not apply to MPS Group);
- c) contribution/sale to the Fund of the receivable dues to the transferor banks from SPV 130 for the sale transaction pursuant to point a). The transferor banks in exchange for the contribution/sale received units of the Fund for an amount equal to the selling price;
- d) subsequent issue by SPV 130 of untranching notes, entirely subscribed by the Fund.

AMCO serves as the Master and Special Servicer for the securitisation, while Prelios Group serves as the Real Estate partner and manager of the Fund through Prelios SGR. This partnership made it possible to unite financial management skills with specific real estate sector skills, creating synergies and greater possibilities for recovering the loans. It is also possible for the Fund to issue new financing to support the turnaround of the companies and to complete worthy real estate projects.

During the initial phase of the transaction which ended in December 2019, 46 debtor positions were transferred to the Fund (7 debtor positions for MPS Group), for an overall total of around € 453 million (of which € 54.9 million for the Bank) at a price of around € 242 million (€ 21.3 million for the Bank). As payment for the sale, and as a consequence of the steps outlined above, the seller banks received units of the Fund. The Bank holds 8.8%. The receivables sold were fully derecognised from the assets of the Bank's financial statements already at 31 December 2019 and the units were recognised for € 16 million.

At 31 December 2020 the book value of these units was € 31.6 million. For more details on determination of the fair value of the units, please see part A of these Notes to the Consolidated Financial Statements.

Idea I and Idea II Funds

Respectively in 2016 and 2017, the Group carried out two multi-originator transactions for the sale of loan portfolios (with full derecognition from the financial statements) to a mutual investment fund with assignment of the related units to the seller intermediaries. This was the project of Idea Capital Funds S.g.r., a management company which established two multi-segment mutual investment funds named Fondo Idea CRR I (2016) and Fondo Idea CRR II (2017). These funds are classified as closed end mutual funds, reserved for qualified investors, and intended to maximise the recovery rate for the impaired loans acquired and the new financing granted through industrial and financial restructuring of medium-size enterprises.

As regards the Idea CRR I Fund, the net book value at the date of sale of the receivables sold by the Bank was € 1.1 million. The pool of seller banks received as payment for the sale units of Fondo Idea CRR I of which Banks holds 1%.

As regards the Idea CRR II Fund, the net book value at the date of sale of the receivables sold by the Bank was € 5.9 million. The pool of seller banks received as payment for the sale units of Fondo Idea CRR II of which Banks holds 2.4%.

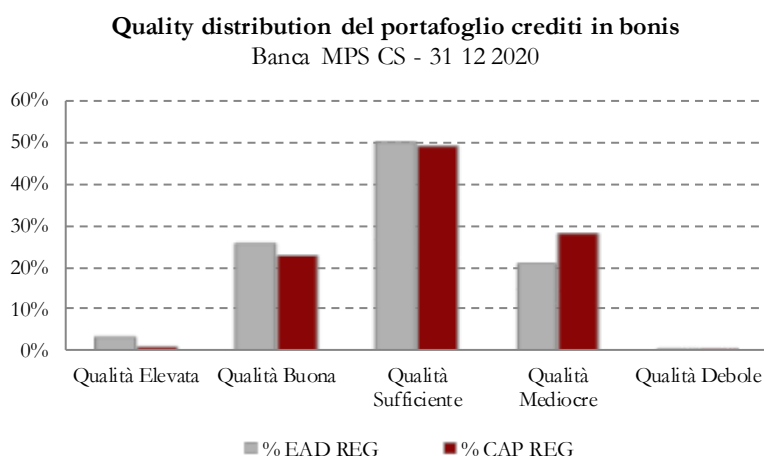
At 31 December 2020, the book value of these units was, respectively, € 0.5 million for Fondo Idea CRR I and € 2.7 million for Fondo Idea CRR II. For more details on determination of the fair value of the units, please see part A of these Notes to the Consolidated Financial Statements.

E.4 Covered bond transactions

The Bank issued no covered bank bonds.

F. Credit risk measurement models

For the purposes of the quantitative disclosure on credit risk, the distribution of the credit quality of the Bank's portfolio at 31 December 2020 for risk exposure (EAD REG) and Regulatory Capital (CAP REG) is presented below. The chart below shows that 29.3% of the exposures at risk are granted to high- and good-quality customers (positions in financial assets are excluded), while 70.4% are granted to customers of sufficient or mediocre quality. The grading indicated below also includes the exposures to unsupervised banks, government bodies and financial and banking entities, not included in the AIRB models. For these counterparties, a credit standing assessment is any case attributed, using official ratings when available, or appropriate internally computed values.

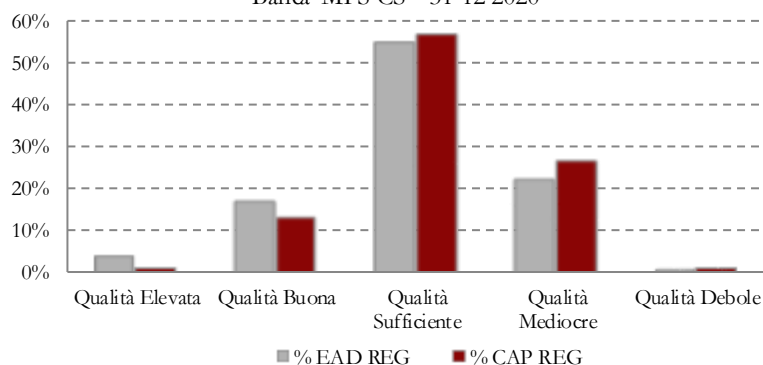


Quality distribution del portafoglio crediti in bonis	Quality distribution of performing loan portfolio
Banca MPS CS – 31 12 2020	Banca MPS CS – 31 12 2020
Qualità Elevata	High Quality
Qualità Buona	Good Quality
Qualità Sufficiente	Sufficient Quality
Qualità Mediocre	Mediocre Quality
Qualità Debole	Weak quality
EAD REG	REG EAD
CAP REG	REG CAP

The following chart, by contrast, shows the distribution of the loan quality only in relation to the Corporate portfolio (mostly validated by the Supervisory Authority for use of the internal models relating to the PD and LGD parameters). We can note that the proportion of exposures with high and good quality at 31 December 2020 is 21.6% of total exposures, compared to 77.5% of exposures to borrowers with sufficient or mediocre quality.

Quality distribution del portafoglio crediti in bonis
Segmento Corporate

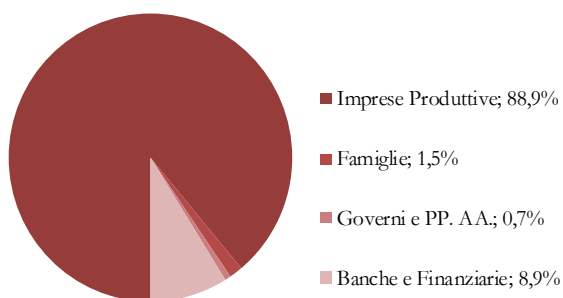
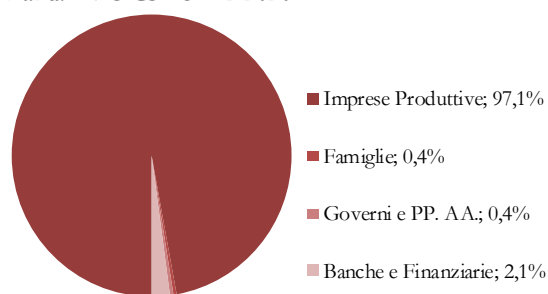
Banca MPS CS - 31 12 2020



Quality distribution del portafoglio crediti in bonis	Quality distribution of performing loan portfolio
Segmenti Corporate	Corporate Segments
Banca MPS CS – 31 12 2020	Banca MPS CS – 31 12 2020
Qualità Elevata	High Quality
Qualità Buona	Good Quality
Qualità Sufficiente	Sufficient Quality
Qualità Mediocre	Mediocre Quality
Qualità Debole	Weak quality
EAD REG	REG EAD
CAP REG	REG CAP

The findings obtained at the end of 2020, indicate that the exposures at risk are mainly related to the sectors “Production Companies” (88.9% of total disbursements) and “Banks and Financial Firms” (8.9%). The remaining portion is divided between the “Family” and “Governments and Public Administration” sectors, with 1.5% and 0.7%, respectively.

In terms of Regulatory Capital, this is absorbed for 97.1% by the segment of “Production Company” customers. These are followed by “Banks and Financial Firms” with 2.1%, and “Governments and Public Administration” and “Households” both with 0.4%.

Esposizione a Rischio
Banca MPS CS - 31 12 2020

Capitale Regolamentare
Banca MPS CS - 31 12 2020


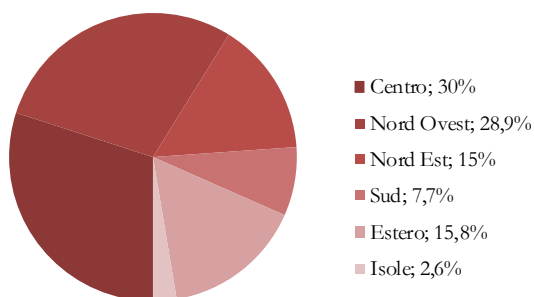
Esposizione a Rischio	Risk Exposure
Banca MPS CS – 31.12.2020	Banca MPS CS 31.12.2020
Imprese Produttive	Production Companies
Famiglie	Households

Governi e PP. AA.	Governments and Public Administration
Banche e Finanziarie	Banks and Financial
Capitale Regolamentare	Regulatory capital

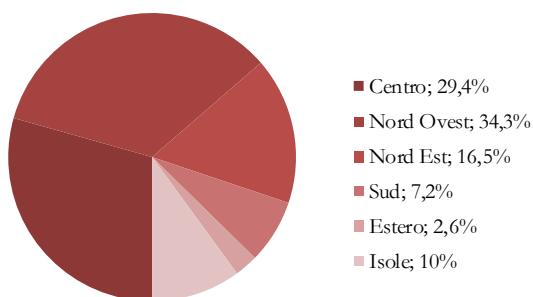
Analysis of the geographic distribution of the Bank's customers shows that risk exposures are mainly concentrated in the regions of the Centre (30%) and the North West (28.9%), followed by Foreign Countries (15.8%), the North East (15%), the South (7.7%) and the Islands (2.6%).

The absorption of Regulatory Capital is mostly explained by the breakdown of loans more present in the Nord West (34.4%) and in the Centre (29.4%), followed by the North East (16.5%), the Islands (10%), the South (7.2%) and Foreign Countries (2.6%).

Esposizione a Rischio
Banca MPS CS - 31 12 2020



Capitale Regolamentare
Banca MPS CS - 31 12 2020



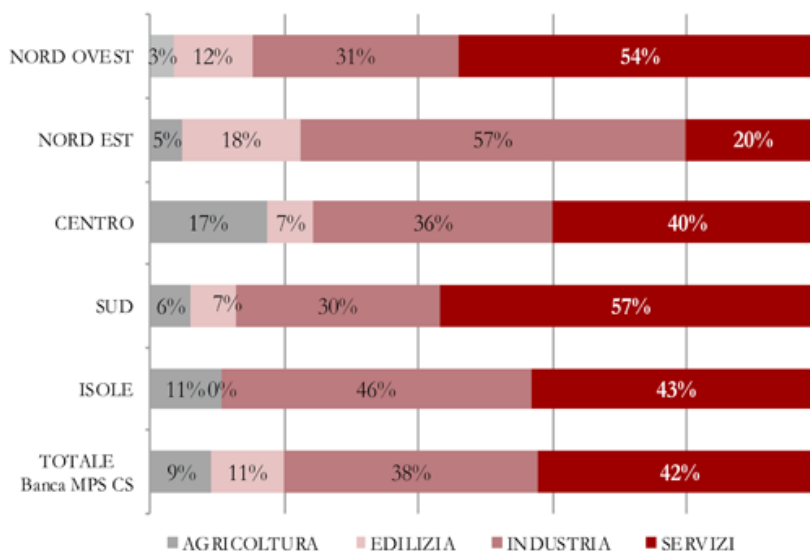
Esposizione a Rischio	Risk Exposure
Banca MPS CS – 31.12.2020	Banca MPS CS 31.12.2020
Centro	Central
Nord Ovest	Northwest
Nord Est	North East
Sud	South
Estero	Abroad
Isole	Islands
Capitale Regolamentare	Regulatory capital

The charts below, finally, show only for Corporate customers in Italy, the percentage distribution by individual Geographical Area of the exposure to Default and of the absorption of Regulatory Capital by business segment.

The highest portion of Exposure to Default of Companies is concentrated in the Services segment in all Geographical Areas, except in the North-East and the Islands, where Industry prevails with 57% and 46% respectively. Out of the total, the concentration on Services is 42% and is followed by that on Industry (38%), on Building with 11% and finally on Agriculture (9%).

Banca MPS CS - Clientela Corporate Italia in bonis al 31 12 2020

Distribuzione dell'Esposizione al Default (EAD REG) per area geografica e per ramo di attività

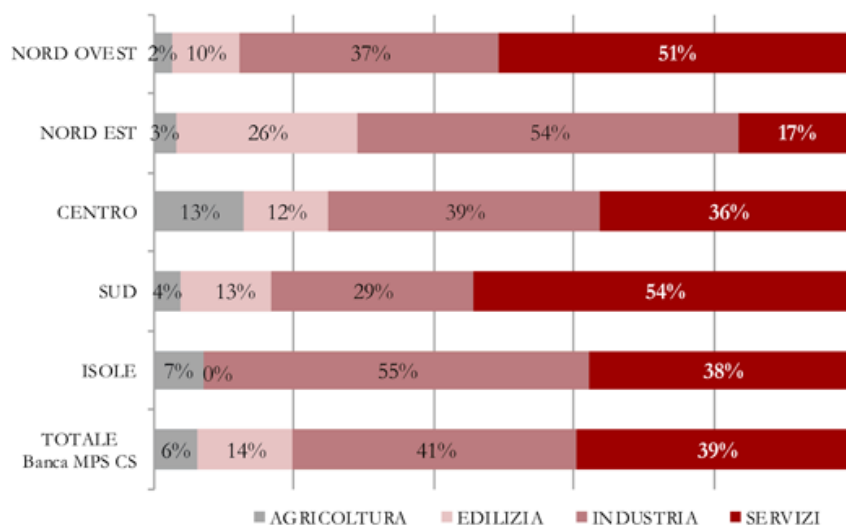


Banca MPS CS - Clientela Corporate Italia in Bonis al 31 12 2020	Banca MPS CS - Performing Italian Corporate Customers at 31 12 2020
Distribuzione dell'Esposizione al Default (EAD REG) per area geografica e per ramo di attività	Distribution of Exposure at Default (EAD REG) by geographical area and business
Nord Ovest	Northwest
Nord Est	North East
Centro	Central
Sud	South
Isole	Islands
Totale Banca MPS CS	Total Banca MPS CS
Agricoltura	Agriculture
Edilizia	Construction
Industria	Industry
Servizi	Services

As regards Regulatory Capital (CAP), the largest concentration is related to the Industry sector. Only in the North-West and the South does the Services sector dominate (51% and 54%, respectively).

Banca MPS CS - Clientela Corporate Italia in Bonis al 31 12 2020

Distribuzione del Capitale Regolamentare per area geografica e per ramo di attività



Banca MPS CS - Clientela Corporate Italia in Bonis al 31 12 2020	Banca MPS CS - Performing Italian Corporate Customers at 31 12 2020
Distribuzione del Capitale Regolamentare per area geografica e per ramo di attività	Distribution of Regulatory Capital by geographical area and business
Nord Ovest	Northwest
Nord Est	North East
Centro	Central
Sud	South
Isole	Islands
Totale Banca MPS CS	Total Banca MPS CS
Agricoltura	Agriculture
Edilizia	Construction
Industria	Industry
Servizi	Services

Section 2 – Market risks

2.1 Interest rate risk and price risk – supervisory trading book

Market risks related to the Trading Book

The risk management model for market risks related to the Trading Book

The MPS Group's Regulatory Trading Book (RTB) is made up of the set of Regulatory Trading Books managed by the Banking Parent Company (BMPS) and by MPSCS. The RTBs of the other subsidiaries are closed to market risks. Transactions in derivatives, also brokered on behalf of the same customers, are centralised and the risk is monitored by MPSCS.

The market risks of the trading book are monitored for operating purposes in terms of Value-at-Risk (VaR). The Group Finance and Liquidity Committee is tasked with directing and coordinating the overall process for management of the Group's proprietary finance, ensuring consistency between the management actions of the different business units.

The Group's Trading Book is subject to daily monitoring and reporting by the Parent Company's Financial Risk Officer Area, on the basis of proprietary systems. Operational VaR is calculated independently with respect to the operating departments, using the internal risk measurement model implemented by the Risk Management Unit itself, in line with the leading international best practices. Solely for reporting purposes, on the subject of Market Risks the Group employs in any case the standardised methodology.

The operating limits on trading activities are expressed for each level of authority in terms of VaR diversified between risk factors and portfolios and monthly and annual Stop Loss and Stress. In addition, the credit risk of the trading book, besides being included in the VaR calculations and in the respective limits for the credit spread risk part, is also subject to specific operating limits with regard to bond issuer and concentration risk, which envisage notional ceilings for types of guarantor and rating classes.

The VaR is calculated with a confidence interval of 99% and a holding period of the positions of one business day. The method used is that of historic simulation with daily full revaluation of all the elementary positions, on a window of 500 historic readings of the risk factors (lookback period) with daily flow. The VaR calculated in this manner makes it possible to take into account all the effects of diversification between risk factors, portfolios and type of instruments traded. It is not necessary to hypothesise up front any functional form in the distributions of the returns of the activities and also the correlations between different financial instruments are implicitly captured in the VaR on the basis of the historic joint performance of the risk factors. The historical scenarios used in the model are constructed as the daily change, in terms of ratio, of the single risk factors; the shock created is applied to the current market level making the VaR measurement reactive to the changing market conditions.

Periodically, the daily management reporting flow on market risks is forwarded to the Risk Management Committee, to the Managing Director, to the Chairperson and to the Board of Directors of the Parent Company in the Risk Management Report, the instrument through which the Top Management and the Governing Bodies are informed about the Group's overall risk profile.

The macro-types of risk factors considered within the Internal Markets Risks Model are as follows:

- IR: interest rates on all the relevant curves, inflation curves and related volatility;
- EQ: equity prices, indexes and related volatility;
- CO: commodity prices;
- FX: exchange rates and related volatility;
- CS: credit spread levels.

The VaR (or diversified VaR, or Net VaR) is calculated and separated daily for internal management purposes, also with respect to other analysis dimensions:

- organisation/management of the Portfolios;
- for Financial Instruments;

- for Risk Families.

It is then possible to assess the VaR in relation to each combination of these dimensions so as to be able to facilitate very detailed analyses of the phenomena which affect the portfolios.

With reference in particular to the risk factors, the following are identified: the Interest Rate VaR (IR VaR), the Equity VaR (EQ VaR), the Commodity VaR (CO VaR), the Forex VaR (FX VaR) and the Credit Spread VaR (CS VaR). The algebraic sum of these components gives the Gross VaR (or non-diversified VaR) which, compared with the diversified VaR, makes it possible to quantify the benefit of diversification between risk factors deriving from holding portfolios allocated on asset classes and risk factors that are not perfectly correlated. This information too can be analysed along all the aforesaid dimensions.

The model makes it possible to produce diversified VaR metrics for the entire Group, in order to be able to appreciate in an integrated manner all the diversification effects that can be generated among the banks of the Group, by virtue of the joint specific positioning implemented by the different business units.

Additionally, scenario analyses and stress tests are regularly conducted on the various risk factors with differentiated granularity levels for the entire structure of the Group portfolio tree and for all analysed categories of instruments.

Stress tests make it possible to assess the ability of the Group to absorb sizeable potential losses upon the occurrence of extreme market events, in order to identify the measures to take to reduce the risk profile and preserve the capital.

Stress tests are developed on the basis of historical and discretionary scenarios. Historical scenarios are defined on the basis of actual disruptions historically recorded on the markets. These scenarios are identified on the basis of a time interval in which the risk factors were subjected to stress. No particular hypotheses are necessary with respect to the correlation between risk factors, observing what happened historically in the identified stress period.

Stress tests based on discretionary scenarios consist of hypothesising the occurrence of extreme variations in some market parameters (interest and exchange rates, stock market indexes, credit spreads and volatility) and of measuring the corresponding impact on the value of the portfolios, irrespective of their actual historical occurrence. The discretionary stress scenarios currently examined are simple (only one risk factor changes) and joint (several risk factors change simultaneously). Simple discretionary scenarios are calibrated to hit independently one category of risk factors at a time, hypothesising that the shocks will not propagate to the other factors. Joint discretionary scenarios instead are aimed at evaluating the impact of global shocks that simultaneously hit all types of risk factors.

We must specify that the VaR methodology described above is also applied for internal operating purposes to the portion of the Banking Book consisting of financial instruments which can be classified as held for trading, or securities held in this portfolio and classified for accounting purposes among *“financial assets obligatorily measured at fair value”*, *“financial assets measured at fair value through other comprehensive income”* and *“financial assets measured at amortised cost”*. The measurements and tables below refer only to the Regulatory Trading Book.

During 2020 the market risks of the Regulatory Trading Book of the Bank showed, in terms of VaR, a trend influenced mainly by the proprietary trading activity in the CS-IR segment (operations in Italian Government Securities and Long Futures) and, to a lesser extent, for Client Driven activities in the EQ segment (options and equity futures on the main market indices).

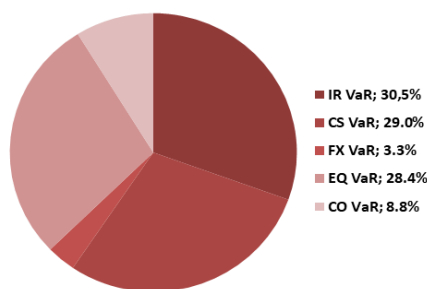
Inevitably, the volatility of the Bank's VaR during the year was strongly conditioned by the crisis on the markets triggered by the explosion of the COVID-19 pandemic; a particular effect on the VaR model was noted for the extremes changes recorded on the generality of the market parameters during March, with main impact on the primary dealer activity on Italian government securities.

In particular, the increase of the Italian Credit Spread recorded in March caused a considerable increase in the VaR measure with incorporation in the model of tail events represented by violent and sharp increases on a daily basis of the yields of Italian government securities, thus generating a significant effect in the short-term stretch of the curve.

In the following months, thanks to the ECB's intervention with the "Pandemic Emergency Purchase Program" (PEPP) to counter the risks associated with the pandemic, the tensions on the market parameters were attenuated and the Bank' exposure to Italian credit spread risk was gradually reduced with contraction of the VaR to pre-crisis levels starting from the end of the first half of the year. The sliding of the time window of the historical scenarios underlying the model also contributed, to the stabilisation of the VaR at lower levels, with an exit from the tail events of Italian credit spread risk of May-June of 2018 triggered by the political crisis for the formation of the government.

In the second half of the year, and in particular from the beginning of September, despite some temporary increase in exposure at the time of the auctions for the aforementioned primary dealer activity on Italian government securities, the average holding of Italian Sovereign securities in the Bank's trading portfolios decreased considerably compared to the first half of the year (from € 5 billion to € 3.4 billion in terms of nominal values), arriving in December at minimum levels from the beginning of the year, with contraction of the contribution of the CS factor to the total VaR, which came out at the end of 2020 on the average levels of the previous year.

VaR MPS Capital Services
Portafoglio di Negoziazione di Vigilanza
VaR Breakdown per Risk Factor: 31/12/2020



In terms of breakdown of the VaR by risk factors, at 31 December 2020 the portfolio of MPSCS is absorbed almost equally by risk factors of the interest rate type (IR VaR, 30.5%), by the risk factor of the credit spread type (CS VaR, 29.0%) and by the risk factor of the equity type (EQ VaR, 28.4%). These are followed by the risk factor of the commodity type (CO VaR, 8.8%) and the risk factor of the forex type (FX VaR 3.3%).

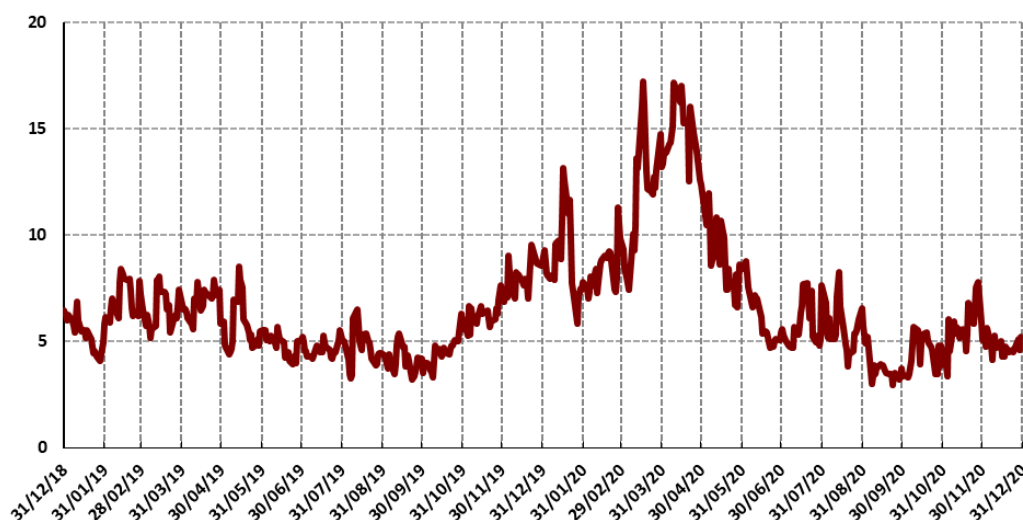
VaR MPS Capital Services Portafoglio di Negoziazione di Vigilanza	VaR MPS Capital Services Supervisory Trading Book
Var Breakdown per Risk Factor: 31/12/2020	VaR Breakdown per Risk Factor: 31 December 2020

■ **MPS Capital Services**
VaR PNV 99% 1 day in EUR/mln

	VaR	Date
Period End	5.07	31 December 2020
Minimum	2.95	23 September 2020
Maximum	17.20	23 December 2010
Average	7.37	

During 2020, the Bank's RTB VaR oscillated between a minimum of € 2.95 million at 23 September 2020 and a maximum of € 17.20 million at 17 March 2020, recording an average value of € 7.37 million. The RTB VaR at 31 December 2020 was € 5.07 million.

MPS Capital Services: Portafoglio di Negoziazione di Vigilanza
- VaR 99% 1 day in EUR/mln -



MPS Capital Services: Portafoglio di Negoziazione di Vigilanza	MPS Capital Services: Supervisory trading book
- VaR 99% 1 day in EUR/min	VaR 99% 1 day in EUR/mln

VaR model backtesting

The MPS Group has implemented a structure of retrospective tests in compliance with the current regulations for Market Risks within its risk management system.

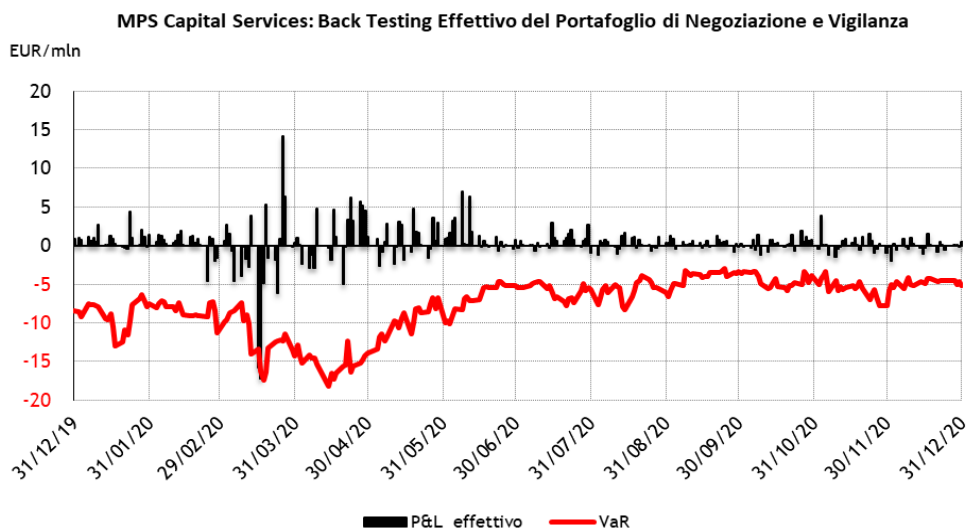
Backtesting involves checks carried out on the results of the VaR model with respect to the daily change in the portfolio value, in order to evaluate the predictive ability of the model in terms of the accuracy of the risk measurements calculated. If the model is robust, then the periodic comparison of the daily estimate of the VaR at t-1 with the daily results of trading activity on t should show that the effective losses are higher than the VaR with a frequency in line with that defined by the confidence level.

In the light of the current regulatory provisions, the Financial Risk Officer Area has found it appropriate to carry out the test using effective backtesting, and to integrate it within the Group's management reporting systems.

The Effective Backtesting answers the need to verify the predictive reliability of the VaR model in reference to the actual operations of the Bank (daily trading losses and gains), net of the effects of interest maturing between day t-1 and t for bonds and the effect of fees.

These "net" P&L results are compared with the VaR of the previous day. If the losses are greater than those predicted by the model, an "exception" is recorded.

The graph below shows the results of the Effective Backtesting of the internal Market Risk Model, in relation to the Bank's Regulatory Trading Book for 2020:



EUR/mlin	EUR/mlin
MPS Capital Services: Back Testing Effettivo del Portafoglio di Negoziazione di Vigilanza	MPS Capital Services Effective Back Testing of Supervisory Trading Book
P&L effettivo	effective P&L
VAR	VAR

From the beginning of the year there were 2 marginal exceptions in the first quarter of 2020. These exceptions were recorded in the days of 16 and 17 March, as a consequence of the extreme increase in volatility on the markets following the health emergency linked to the spread of the COVID-19 pandemic. The over-the-limit days recorded scenarios of simultaneous tension on all the main risk factors, with particular pressure in terms of Profit & Loss on positions in Italian government securities (temporary widening of the short-term Italian credit spread, which mostly came back down at the end of the first quarter as a result of the ECB's action with the new "Quantitative Easing", aimed at tackling the economic emergency triggered by the pandemic) and on corporate and financial securities.

Qualitative information

A. General aspects

Impacts deriving from the COVID-19 pandemic

As stated in the paragraph “The risk management model for market risks related to the Trading Book” above (to which you are referred for a detailed description of the effects of the pandemic on the metric and on the backtesting) the significant change in the market parameters consequent to the COVID-19 pandemic had a notable impact of the volatility of the VaR. In the next section of the backtesting, in addition, evidence was provided that the two marginal exceptions, which occurred during the first quarter of 2020, are in effect to be put in relation to this extreme increase in volatility, with particular significance in terms of Profit & Loss on the positions in Italian government securities.

All this determined a temporary overrunning of the Bank’s operating limits on the market risk metrics (in terms of VaR and P&L), without affecting the framework underlying the risk monitoring on the subject of measurement and control systems.

In response to the effects of the pandemic for the Group, in terms of earnings objectives and capital impacts, a review of the 2020 Risk Appetite Statement was carried out during the third quarter, with subsequent updating of the operating limits on market risks deriving from the RAS for all the Group entities.

A.1 Interest Rate Risk

The Bank’s trading activity is carried out by the Global Markets Department. The Bank manages a portfolio of its own which contains trading positions on rates and on credit. In general, interest rate positions are taken on through the purchase or sale of bonds, as well as through the construction of positions in listed derivatives (for example futures) and OTC instruments (for example IRSs, swaptions). The activity is carried out exclusively on the Bank’s own behalf, with absolute return targets, in compliance with the delegated limits in terms of VaR and monthly and annual Stop Loss.

As regards the credit risk present in the trading book, in general the positions on securities are managed both by purchase or sale of bonds issued by companies, and through the construction of synthetic positions in derivative instruments. The activity aims to obtain long or short positions on single issuers, or a long or short exposure on particular market sectors. The activity is carried out exclusively on the Bank’s own behalf, with absolute return targets, and in compliance with the further specific issuer and concentration risk limits.

A.2 Price Risk

With reference to the price risk factor the Bank manages an owned portfolio and assumes trading positions on equities, indexes and commodities. In general, equity security positions are taken on through the purchase or sale of shares, as well as through the construction of positions in listed derivatives (for example futures) and OTC instruments (for example options). The activity is carried out exclusively on the Bank’s own behalf, with absolute return targets, in compliance with the delegated limits of VaR and monthly and annual Stop Loss. The trading is carried out by the Global Markets Department.

B. Interest rate risk and price risk: management processes and measurement methods

With regard to the market risk management process pertaining to management and the methods for gauging the interest rate risk and the price risk, reference should be made to the matters already described in the section “The risk management model for market risks inherent to the trading portfolio”.

Impacts deriving from the Covid-19 pandemic

As indicated above, the pandemic did not impact the management processes and the risk measurement and control methods.

In response to the effects of the pandemic for the Group, in terms of earnings objectives and capital impacts, a review of the 2020 Risk Appetite Statement was carried out during the third quarter, with subsequent updating of the operating limits on market risks deriving from the RAS.

Quantitative information

1. Regulatory trading book: breakdown by residual life (repricing date) of the on-balance-sheet financial assets and liabilities and financial derivatives

This table is not provided in that a sensitivity analysis is provided for interest rate and price risk for the regulatory trading book on the basis of internal models.

2. Regulatory trading book: breakdown of exposures for equity securities and stock indices for the main stock market countries

This table is not provided in that a sensitivity analysis is provided for interest rate and price risk for the regulatory trading book on the basis of internal models.

3. Regulatory trading book - internal models and other methods for sensitivity analysis

The interest rate and price risk of the Trading Book is monitored in terms of VaR and scenario analysis.

3.1 Interest Rate Risk

The positions are managed by special desks, each with its own specific operating limits. Each desk adopts an integrated risk management approach (also for risks other than interest rate risk, when permitted) in order to benefit from the natural hedges deriving from simultaneously holding positions whose risk factors are not perfectly correlated.

The simulated interest rate scenarios are:

- parallel shift of 100 bps on all the interest rate curves and inflation curves;
- parallel shift -100 bps on all the interest rate curves and inflation curves;
- parallel shift of 1 point on all the volatility surfaces of all the interest rate curves.

The positions pertaining to the Trading Portfolio are all classified, for accounting purposes, as “*financial assets measured at fair value through profit or loss*”; market value changes are recorded directly in the income statement. The overall effect of the scenario analyses is presented below.

■ MPS Capital Services Trading Portfolio

Figures in € millions

Risk Family	Scenario	Total Effect
Interest Rate	+ 100 bps on all curves	11.17
Interest Rate	- 100 bps on all curves	1.70
Interest Rate	+1 point interest rate volatility	0.14

To complete the interest rate risk analysis, the sensitivity analysis of the MPSCS Trading Book credit spread risk linked to the volatility of issuers' credit spreads is reported below. The simulated scenario for the sensitivity analysis is:

- parallel shift of 1bp on all credit spreads.

■ MPS Capital Services Trading Portfolio

Figures in € millions

Risk Family	Scenario	Total Effect
Credit Spread	+ 1bp on all curves	(0.09)

3.2 Price Risk

The positions are managed by special desks, each with its own specific operating limits. Each desk adopts an integrated risk management approach (also for risks other than price risk, when permitted) in order to benefit from the natural hedges deriving from simultaneously holding positions whose risk factors are not perfectly correlated.

The simulated price scenarios are:

- 1% of each equity, commodity, index price;
- -1% of each equity, commodity, index price;
- 1 point on all the volatility surfaces of all the equity and commodity risk factors.

The positions pertaining to the Trading Portfolio are all classified, for accounting purposes, as “*financial assets measured at fair value through profit or loss*”; market value changes are recorded directly in the income statement. The overall effect of the scenario analyses for the Equity and Commodity segments is presented below:

■ MPS Capital Services Trading Portfolio

Figures in € millions

Risk Family	Scenario	Total Effect
Equity	+1% Equity Prices (prices, indexes)	(0.35)
Equity	-1% Equity Prices (prices, indexes)	0.33
Equity	+1 point Equity Volatility	0.53

■ MPS Capital Services Trading Portfolio

Figures in € millions

Risk Family	Scenario	Total Effect
Commodity	+1% commodity prices	0.03
Commodity	-1% commodity prices	(0.03)
Commodity	+1 point commodity volatility	0.00

2.2 Interest Rate Risk and Price Risk - Banking Book

Qualitative information

A. General aspects, management processes and gauging methods of the interest rate risk and price risk

A.1 Interest Rate Risk

In accordance with the international best practices, the Banking Book contains the Bank's commercial operations connected with the transformation of the maturities of accounting assets and liabilities, of the Treasury, of foreign branches and of hedging derivatives.

The definition of the perimeter of the Banking Book (aligned with that of the regulatory banking book) and the process of centralising the Asset and Liability Management (ALM) is governed by the Parent Company's Board of Directors in line with the instructions provided in the supervisory regulations (Circular 285 issued by the Bank of Italy). The framework involves the centralisation of ALM in the Parent Company's Finance, Treasury and Capital Management Area (FTCMA) and the definition and monitoring of the operating limits in view of the interest rate risk of the Montepaschi Group's Banking Book.

The operating and strategic choices of the Banking Book, adopted by the Finance and Liquidity Committee and monitored by the Parent Company's Risk Management Committee, are based first of all on exposure to the interest rate risk for a change in the economic value of the assets and liabilities of the Banking Book, applying a parallel shift of 25 bps, 100 bps and 200 bps, the latter in accordance with the provisions of the "second pillar" of the Basel Regulations. Sensitivity analyses of the Interest Margin are also regularly carried out for different interest rate change assumptions. The ALM model of the Montepaschi Group, incorporates in the measurements of the exchange rate risk a behavioural model which takes into account the phenomenon of early repayments of mortgage loans (prepayment risk). The economic value sensitivity measurements are carried out excluding the development of the cash flows from the components not directly related to interest rate risk.

The Group is engaged in the continual updating of the risk measurement methods, through a gradual refinement of the estimation models, in order to include the main phenomena that over time modify the interest-rate risk profile of the banking book.

The Group has adopted a system for governing and managing interest rate risk which, in accordance with the provisions of the Supervisory Authority, employs:

- a quantitative model, on the basis of which the exposure of the Group and of its individual companies/structures to interest rate risk is calculated, in terms of risk indicators;
- risk monitoring processes, aimed at verifying compliance with the operating limits assigned to the Group as a whole and to individual business units;
- risk control and management processes, aimed at carrying out adequate initiatives to optimise the risk profile and to activate any necessary corrective actions.

Within the aforesaid system, the Parent Company centralises the following responsibilities:

- definition of the policies for managing the Group's Banking Book and controlling the related interest rate risk;
- coordination of the implementation of the aforesaid policies within the companies included in the reference perimeter;
- governing the Group's short, medium and long term interest rate risk, both overall and in terms of each individual company, through the centralised operating management.

In its governing function, therefore, the Parent Company defines criteria, policies, responsibilities, processes, limits and instruments for managing the interest rate risk.

The Group companies, among which the Bank, included in the application perimeter are responsible for complying with the interest rate policies and risk limits defined by the Parent Company and with the capital requirements set by the competent Supervisory Authorities.

Within the defined model, the Parent Company's Finance, Cash and Capital Management Department is responsible for the operating management of the interest rate and liquidity risk of the Group as a whole.

Specifically, within the FTCMA, the Strategic Risk Governance Service handles the short-term interest rate risk and the structural interest rate risk. The Area also monitors and manages hedges in accordance with the accounting policies, single monitoring for the formation of the internal interest rates of the "network" (BMPS and other Group companies) for the Euro and currency transactions with maturities beyond the short-term.

A.2 Price Risk

The Bank's Banking Book subject to price risk consists of equity investments, equity securities and UCITS units measured at fair value. In particular, equity securities classified among "financial assets at fair value through other comprehensive income" include € 15.4 million in parent company shares acquired in 2017 due to "burden sharing", which are netted at the consolidated level. Activities involving UCITS are carried out solely through direct purchases of funds/SICAVS and without using derivative contracts. Banking Book exposure to commodities is nil.

Gauging of price risk is carried out on equity positions held for mainly strategic or institutional/instrumental purposes.

The tool used to measure price risk for equity securities and UCITS other than equity investments is Value-at-Risk (VaR). The methodology is described in Section 2 – "Market Risks" in this Part E of the Notes to the Financial Statements.

As part of price risk governance strategies for the banking book, stress tests are regularly performed to determine the Group's ability to absorb potential losses in the case of extreme events.

With reference to the component consisting of equity investments, the internal measurement system uses a measure derived from the regulatory approach, using the standardised method, to determine internal capital. This method entails the exposures in equity instruments being assigned a risk-weighting factor of 100% or 150% if at high risk, unless they have to be deducted from Own Funds. The mechanisms of deduction from Own Funds were innovated by the new supervisory rules (CRD4/CRR), which further widened the perimeter including also investments in non-significant financial sector subjects (<10%), and which introduced excesses on the deduction.

Quantitative information

1. Banking book: breakdown by residual life (repricing date) of the financial assets and liabilities

This table is not provided in that a sensitivity analysis is provided for interest rate and price risk for the regulatory trading book on the basis of internal models.

2 Banking book: internal models and other methods for sensitivity analysis

2.1 Interest Rate Risk

The Bank's sensitivity, at 31 December 2020, presented a risk exposure profile due to a rise in interest rates. The economic value at risk for a 100 bps parallel shift of the rates curves at year end amounted to € -21.31 million and € 3.17 million for a shift of -100 bps.

2.2 Price Risk

Below is the scenario analysis which includes all the management positions taken on by the bank in equity securities and UCITS measured at fair value (e.g. securities classified among "*financial assets measured at fair value through other comprehensive income*" and "*financial assets obligatorily measured at fair value*"):

■ MPS Capital Services Bank Book

Figures in € millions

Risk Family	Scenario	Effect on operating income and economic result	Effect on Shareholders' Equity	Total Effect
Equity	+1% Equity Prices (prices, indexes)	0.37	0.15	0.52
Equity	-1% Equity Prices (prices, indexes)	(0.37)	(0.15)	(0.52)
Equity	+1 point Equity Volatility	0.00	0.00	0.00

The effect of Parent Company actions on the sensitivity analyses reported above, representing almost the entirety of securities classified as "*financial assets measured at fair value through other comprehensive income*" is netted at the consolidated level.

2.3 Exchange risk

Qualitative information

A. Exchange rate risk: general aspects, management processes and measurement methods

A.1 Regulatory trading book

Exposure to exchange rate risk is of a limited amount and derives mainly from the role played by the Bank in the activity of:

- trading of structured products and of the related hedges put in place, which, owing to their characteristics, entail exposure in non-euro currencies;
- market maker for derivatives carried out for the purpose of hedging the MPS Group's corporate customers.

Operations are in fact concentrated mainly on the crosses of the main G7 currencies.

The activity is essentially based on trading and on the aggregate management of risks with a short-term view and with a substantial hedging of the risks originated from commercial transactions.

As a risk mitigation strategy, the Bank obtains funding in the same currency as the assets, through deposits with the Parent Company (when necessary) or through the synthetic transformation of funding into Euro. The main financial instruments used in this segment are spot forwards, options and futures.

The risks are measured and monitored, as in the other segments, via sensitivity tests and VaR; consequently reference should be made to the description provided above. Management of this risk takes place by aggregating all the risk factors indicated above using the Risk Management system of the Murex3 application.

The activity is carried out mainly by the Global Markets Department, through its own desks that manage their own exposure individually within the delegated limits and in keeping with the trading strategy.

A.2 Banking book

With regard to this type of portfolio, the exchange rate risk is represented by losses which the Bank could incur due to sudden fluctuations in the exchange rates should foreign currency loans and deposits not be balanced. Typically, foreign currency investments are financed by deposits expressed in the same currency without incurring any significant exchange rate risk. At the reporting date of these financial statements the Bank had an essentially balanced foreign exchange position for the banking book.

B. Exchange rate risk hedging activities

Quantitative information

1. Distribution by currency of assets, liabilities and derivatives

Items	Currencies					
	US Dollar	British Pound	Yen	Canadian Dollar	Swiss Franc	Other currencies
A. Financial assets	485,152	5,249	7,485	3,772	18,599	20,129
A.1 Debt securities	296,311	2,386	-	-	-	4
A.2 Equity securities	33,543	783	129	178	863	542
A.3 Loans to banks	59,517	1,937	7,229	3,594	17,736	19,583
A.4 Loans to customers	95,781	143	127	-	-	-
A.5 Other financial assets	-	-	-	-	-	-
B. Other Assets	2	-	-	-	-	-
C. Financial liabilities	484,789	52,271	-	-	-	25,373
C.1 Due to banks	457,003	52,271	-	-	-	25,373
C.2 Due to customers	27,786	-	-	-	-	-
C.3 Debt securities	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	-	-	-	-	-	-
E. Financial derivatives						
- Options						
+ long positions	50,731	7,438	1,585	-	466	1,425
+ short positions	102,218	-	4,165	-	-	99,632
- Other						
+ long positions	1,113,180	53,089	4,751	175	2,770	129,171
+ short positions	1,048,039	19,991	19,408	-	264	42,459
Total assets	485,154	5,249	7,485	3,772	18,599	20,129
Total liabilities	484,789	52,271	-	-	-	25,373
Differences (+/-)	365	(47,022)	7,485	3,772	18,599	(5,244)

2. Internal models and other sensitivity analysis methods

The exchange risk is monitored in terms of VaR and analysis scenarios (for the methodology, please refer to the paragraph “The risk management model for market risks related to the trading book”).

The simulated scenarios on exchange rates are:

- 1% of all exchange rates against EUR;
- -1% of all exchange rates against EUR;
- 1 point on all volatility surfaces of all exchange rates.

The effect on the operating income and on the income for the year was estimated considering positions classified as “*financial assets held for trading*” and “*financial assets obligatorily measured at fair value*”; changes in market value are recorded directly in the income statement. The effect on shareholders’ equity is instead estimated with reference to positions classified as “*financial assets measured at fair value through other comprehensive income*” and the related hedges under the fair value hedge (FVH) regime. The total effect is reflected by the algebraic sum of the two components. A summary of the scenario analysis follows:

■ **MPS Capital Services**

Figures in € millions

Risk Family	Scenario	Effect on operating income and economic result	Effect on Shareholders' Equity	Total Effect
Forex	+1% exchange rates against EUR	0.07	0.02	0.09
Forex	-1% exchange rates against EUR	(0.04)	(0.02)	(0.06)
Forex	+1 point Forex volatility	0.13	0.00	0.13

The Bank does not have in place Fair Value Hedges on securities classified among “*financial assets measured at fair value through other comprehensive income*”.

Section 3 – Derivative instruments and hedging policies

3.1 Derivative instruments held for trading

A. Financial derivatives

A.1 Financial derivatives held for trading: period-end notional values

Underlying assets/Type of derivatives	Totale 31 12 2020				Totale 31 12 2019			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterpart ies	Without central counterparties			Central counterparties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Debt securities and interest rates	-	235,088,704	4,660,123	-	-	373,622,607	3,744,410	25,026
a) Options	-	11,144,747	906,500	-	-	17,544,950	1,110,572	-
b) Swaps	-	221,912,092	1,970,511	-	-	353,727,499	1,842,889	-
c) Forwards	-	-	1,783,112	-	-	-	790,949	25,026
d) Futures	-	2,031,865	-	-	-	2,350,158	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity securities and stock market indices	-	8,139,960	1,189	172,992	-	8,978,361	6,095	197,327
a) Options	-	5,880,530	1,189	148,316	-	6,853,139	6,095	177,737
b) Swaps	-	1,892,934	-	-	-	1,718,315	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	366,496	-	24,676	-	406,907	-	19,590
e) Other	-	-	-	-	-	-	-	-
3. Currencies and gold	-	2,771,881	28,545	-	-	3,148,548	29,533	-
a) Options	-	574,152	-	-	-	720,049	7,080	-
b) Swaps	-	815,033	-	-	-	1,097,508	-	-
c) Forwards	-	1,382,696	28,545	-	-	1,330,991	22,453	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	-	511,247	-	-	-	450,608	10,249	-
5. Other	-	-	-	-	-	-	-	-
Total	-	246,511,792	4,689,857	172,992	-	386,200,124	3,790,287	222,353

Note: for completeness, we can inform you that complex contracts such as collar, strangle, straddle, etc. are presented breaking the instruments down into the elementary options.

A.2 Financial derivatives held for trading: positive and negative gross fair value – breakdown by products

Underlying assets/Type of derivatives	Totale 31 12 2020				Totale 31 12 2019			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Positive fair value								
a) Options	-	190,854	8,192	9,626	-	128,433	14,124	10,087
b) Interest rate swaps	-	6,435,523	85,462	-	-	5,454,612	78,323	-
c) Cross currency swaps	-	8,758	-	-	-	4,552	-	-
d) Equity swaps	-	29,333	-	-	-	32,384	-	-
e) Forwards	-	34,698	20,381	-	-	15,623	12,478	-
f) Futures	-	4,206	-	-	-	1,507	-	-
g) Other	-	28,843	-	-	-	25,178	11	-
Total	-	6,732,215	114,035	9,626	-	5,662,289	104,936	10,087
2. negative fair value								
a) Options	-	219,143	38	3,842	-	227,655	566	2,079
b) Interest rate swaps	-	4,969,591	-	-	-	3,873,945	889	-
c) Cross currency swaps	-	34,523	-	-	-	50,442	-	-
d) Equity swaps	-	30,468	-	-	-	42,467	-	-
e) Forwards	-	25,755	9,950	-	-	12,878	533	5
f) Futures	-	1,971	-	-	-	448	-	-
g) Other	-	31,144	-	-	-	20,475	40	-
Total	-	5,312,595	9,988	3,842	-	4,228,310	2,028	2,084

A.3 OTC financial derivatives held for trading: notional values, positive and negative gross fair value by counterparties

Underlying assets	Central counterparties	Banks	Other financial companies	Others
Contracts not included in netting agreements				
1) Debt securities and interest rates				
- notional value	X	1,208,139	456,689	2,995,296
- positive fair value	X	9,018	800	102,453
- negative fair value	X	-	9,938	18
2) Equity securities and stock market indices				
- notional value	X	-	1,188	-
- positive fair value	X	-	1,620	-
- negative fair value	X	-	-	-
3) Currencies and gold				
- notional value	X	28,545	-	-
- positive fair value	X	144	-	-
- negative fair value	X	32	-	-
4) Commodities				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other				
Contracts included in netting agreements				
1) Debt securities and interest rates				
- notional value	-	92,099,565	141,953,239	1,035,899
- positive fair value	-	2,436,200	3,813,039	239,591
- negative fair value	-	2,100,945	2,903,950	-
2) Equity securities and stock market indices				
- notional value	-	1,307,664	6,832,296	-
- positive fair value	-	27,472	131,111	-
- negative fair value	-	52,832	153,560	-
3) Currencies and gold				
- notional value	-	2,588,099	183,783	-
- positive fair value	-	51,189	143	-
- negative fair value	-	62,968	5,216	-
4) Commodities				
- notional value	-	186,093	324,904	250
- positive fair value	-	13,307	20,165	-
- negative fair value	-	19,325	13,764	35
5) Other				

A.4 Residual life of OTC financial derivatives held for trading: notional values

Underlying elements / Residual life	Up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	78,967,998	94,589,289	66,191,540	239,748,827
A.2 Financial derivatives on equity securities and stock indices	4,270,134	3,723,261	147,754	8,141,149
A.3 Financial derivatives on foreign currencies and gold	2,531,711	268,716	-	2,800,427
A.4 Financial derivatives on commodities	483,953	27,294	-	511,247
A.5 Other financial derivatives	-	-	-	-
Totale 31 12 2020	86,253,796	98,608,560	66,339,294	251,201,650
Totale 31 12 2019	197,727,493	134,466,902	57,796,015	389,990,410

Note: in this table the remaining life is determined with reference to the contractual maturity of the derivatives in question, except for the interest rate swaps (IRSs) with variable notional capital, for which the remaining life has been calculated with reference to the single IRSs into which they can be broken down.

B. Credit derivatives

B.1 Credit derivatives held for trading: period-end notional values

Transaction categories	Derivatives held for trading	
	on one item	on several items (basket)
1. Protection purchases		
a) Credit default products	194,194	150,000
b) Credit spread products	-	-
c) Total rate of return swaps	-	-
d) Other	-	-
Totale 31 12 2020	194,194	150,000
Totale 31 12 2019	531,558	250,000
2. Protection sales		
a) Credit default products	3,535,442	95,000
b) Credit spread products	-	-
c) Total rate of return swaps	-	-
d) Other	-	-
Totale 31 12 2020	3,535,442	95,000
Totale 31 12 2019	3,631,888	230,000

B.2 Credit derivatives held for trading: positive and negative gross fair value – breakdown by products

Portfolio / Type of derivative	Positive fair value	
	Totale 31 12 2020	Totale 31 12 2019
1. Positive fair value		
a) Credit default products	3,258	8,171
b) Credit spread products	-	-
c) Total rate of return swaps	-	-
d) Other	-	-
Total	3,258	8,171
2. negative fair value		
a) Credit default products	131,856	130,209
b) Credit spread products	-	-
c) Total rate of return swaps	-	-
d) Other	-	-
Total	131,856	130,209

B.3 OTC credit derivatives held for trading: notional values, positive and negative gross fair value by counterparties

Underlying assets	Central counterparties	Banks	Other financial companies	Others
Contracts not included in netting agreements				
1) Protection purchase				
2) Protection sale				
Contracts included in netting agreements				
1) Protection purchase				
- notional value	-	171,970	172,224	-
- positive fair value	-	-	-	-
- negative fair value	-	3,903	8,587	-
2) Protection sale				
- notional value	-	41,136	3,589,306	-
- positive fair value	-	130	3,128	-
- negative fair value	-	-	119,366	-

B.4 Residual life of OTC credit derivatives held for trading: notional values

Underlying elements / Residual life	Up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total
1. Protection sales	108,733	1,361,557	2,160,151	3,630,441
2. Protection purchases	26,078	218,117	100,000	344,195
Totale 31 12 2020	134,811	1,579,674	2,260,151	3,974,636
Totale 31 12 2019	701,442	2,299,712	1,642,292	4,643,446

B.5 Credit derivatives connected with the fair value option: annual changes

Not present in the financial statements.

3.2 Accounting hedges

Qualitative information

A. Fair value hedging activities

Interest rate hedging is intended to immunise the banking book against fair value changes in deposits and loans caused by changes in the interest rate curve or to reduce the variability of cash flows linked to a specific asset/liability.

The Bank holds a position which covers the interest rate risk of a debt security with a fair value hedge, for a nominal amount of € 19 million of an interest rate swap (IRS) traded at Clearing.

The Bank's fair value hedging has the form of a specific hedge for a specifically identified asset, represented by a bond held in the portfolio.

B. Cash flow hedging activities

The Bank does not have in place this type of hedging activity.

C. Foreign investment hedging activities

The Bank does not have in place this type of hedging activity.

D. Hedging instruments

The sources of ineffectiveness in a hedging relationship can generally be attributed to the following aspects:

- derivative trading using non-market parameters;
- mistakes in estimating the hedging percentage;
- notional amortisation plan not aligned with that seen in the hedged instrument.

The ineffectiveness of the hedge is recognised in the income statement and evaluated to determine the possibility of continuing to apply hedge accounting rules.

E. Elements covered

The element covered with the hedge accounting operation is a fixed rate bond, partially covered, with the risk covered being "interest rate risk".

The Dollar Offset Method is used to determine the effectiveness of the hedge. This method is based on the ratio between cumulative fair value changes in the hedging instrument (from the start of the hedge), attributable to the risk covered and past fair value changes in the hedged element.

Other information

The Bank, in relation to the recent reform of the IBOR, availed itself of early application of the changes provided for in IAS 39. Below, as required by IFRS 7.24H, a table is provided containing the details for nominal values of the accounting hedges in the portfolio according to the benchmark index of the interest rates.

Interest rate parameter	Current nominal hedge value	
	FVH - micro hedge	Totals by Generator
EURIBOR 6M	18.985	18.985
Totals	18.985	18.985

The table shows the notional value of the hedging derivative gross of the netting made under the terms of IAS 32. The Bank has no accounting hedges indexed to the *Eonia/Libor*, therefore:

- as the *Euribor* is the benchmark index relevant for the accounting hedges in the portfolio, the reform of the indices is not material;
- the Bank has an internal regulatory document which describes the actions to be taken in the event of substantial change and/or cessation of an index;
- the Bank has provided for specific planning activity on the subject of reform of the financial indices and transition to the new risk-free rates and follows the continual regulatory evolutions;
- with a view to the transition to the new risk-free rates the Bank adjusted during 2020 the hedging derivative intermediated through the Clearing House to the new Euro short-term rate (€str) curve.

Quantitative information

A. Financial hedging derivatives

A.1 Financial hedging derivatives: period-end notional values

Underlying assets/Type of derivatives	Totale 31 12 2020				Totale 31 12 2019			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Debt securities and interest rates	-	19,861	-	-	-	18,985	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	19,861	-	-	-	18,985	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity securities and stock market indices	-	-	-	-	-	-	-	-
3. Currencies and gold	-	-	-	-	-	-	-	-
4. Commodities	-	-	-	-	-	-	-	-
5. Other	-	-	-	-	-	-	-	-
Total	-	19,861	-	-	-	18,985	-	-

A.2 Financial hedging derivatives: positive and negative gross fair value – breakdown by products

Underlying assets /Type of derivatives	Totale 31 12 2020				Totale 31 12 2019			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Positive fair value								
a) Options	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	-	-	-	-	1,547	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	1,547	-	-
2. negative fair value								
a) Options	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	4,220	-	-	-	-	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	-	4,220	-	-	-	-	-	-

A.3 OTC financial hedging derivatives: notional values, positive and negative gross fair value by counterparties

31 12 2020

Underlying assets	Central counterparties	Banks	Other financial companies	Others
Contracts not included in netting agreements				
1) Debt securities and interest rates				
2) Equity securities and stock market indices				
3) Currencies and gold				
4) Commodities				
5) Other				
Contracts included in netting agreements				
1) Debt securities and interest rates				
- notional value	-	-	19,861	-
- positive fair value	-	-	-	-
- negative fair value	-	-	4,220	-
2) Equity securities and stock market indices				
3) Currencies and gold				
4) Commodities				
5) Other				

A.4 Residual life of OTC financial hedging derivatives: notional values

Underlying elements / Residual life	Up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	-	-	19,861	19,861
A.2 Financial derivatives on equity securities and stock indices	-	-	-	-
A.3 Financial derivatives on foreign currencies and gold	-	-	-	-
A.4 Financial derivatives on commodities	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Totale 31 12 2020	-	-	19,861	19,861
Totale 31 12 2019	-	-	18,985	18,985

B. Credit hedging derivatives

The schedules in this section are not completed because in both the current year and the comparison year the Bank did not hold credit hedging derivatives.

C. Non-derivative hedging instruments

D. Instruments hedged

E. Effects of hedging transactions on shareholders' equity

The tables in Sections C, D and E are not completed because the Bank made use of the option, offered at first time application of IFRS 9, to continue to use what is established under international accounting standard IAS 39 for hedge accounting of all types of hedges, both micro and macro.

3.3 Other information on derivative instruments held for trading and for hedging

A. Financial and credit derivatives

A.1 OTC financial and credit derivatives: net fair value by counterparty

Underlying assets	Central counterparties	Banks	Other financial companies	Others
A. Financial derivatives				
1) Debt securities and interest rates				
- notional value	-	68,583,744	122,562,849	-
- positive fair value	-	-	16,637	-
- negative fair value	-	235,312	100,498	-
2) Equity securities and stock market indices				
- notional value	-	-	4,048,782	-
- positive fair value	-	-	63,886	-
- negative fair value	-	-	-	-
3) Currencies and gold				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4) Commodities				
- notional value	-	-	217,123	-
- positive fair value	-	-	2,236	-
- negative fair value	-	-	-	-
5) Other				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
B. Credit derivatives				
1) Protection purchase				
- notional value	-	-	160,000	-
- positive fair value	-	-	-	-
- negative fair value	-	-	8,445	-
2) Protection sale				
- notional value	-	-	45,000	-
- positive fair value	-	-	2,984	-
- negative fair value	-	-	-	-

Section 4 – Liquidity risk

Qualitative information

A. Generals aspects, management procedures and gauging methods for liquidity risk

During 2020 the Group continued to strengthen and make more efficient the strategic and operating processes for managing liquidity risk, paying particular attention to the integration of the metrics on concentration risk in the context of the corporate decision-making processes and to the regulatory developments that involved the Liquidity Coverage Ratio.

Group Liquidity Risk Framework

Several years ago the Group adopted a Liquidity Risk Framework, understood as the set of tools, methods, organisational and governance systems which ensures both compliance with national and international regulations and adequate management of the liquidity risk in the short (Operating Liquidity) and medium/long term (Structural Liquidity), under normal business conditions and in the event of turbulence. The Montepaschi Group's liquidity risk reference model is a "centralised" type, which involves management of short-term liquidity reserves and medium/long-term financial balance at the parent company level, guaranteeing solvency on an individual and consolidated basis for the subsidiaries.

Internal assessment of liquidity adequacy is a process that falls within the more general Risk Management macro-process, in direct connection with the Risk Appetite Framework (RAF), part of the annual creation of the Risk Appetite Statement (RAS) and its relative thresholds.

Overall internal assessment of liquidity is carried out periodically as part of the strategic Internal Liquidity Adequacy Assessment Process (ILAAP), consisting mainly of:

- ILAAP Outcomes, that is assessments of a quantitative type (inherent risk) and qualitative type (risk management and controls) on the risk positioning prepared by the Risk Control Unit and submitted to the Board of Directors. This document is accompanied by the Liquidity Adequacy Statement (LAS), a summary statement issued by the Board of Directors that expresses its vision and knowledge with regard to liquidity adequacy management;
- Ongoing ILAAP, which involves periodic analysis of liquidity adequacy, made concrete through reports submitted to the company bodies.

Liquidity Risk Management

Management of the Group's Operating Liquidity pursues the purpose of ensuring the Group's capacity to satisfy the short-term cash payment commitments. The essential condition for normal operational continuity of the banking activity is to maintain a sustainable difference between the incoming and outgoing cash flows in the short term. From an operating point of view, the measure of reference in this sphere is the difference between the accumulated net cash flow and the Counterbalancing Capacity, i.e. the liquidity reserve which allows for dealing with stress conditions in the short term, as well as the regulatory liquidity coverage ratio (LCR) - delegated regulation. From the point of view of the very short term, the Group has adopted the system of analysis and monitoring of the intraday liquidity with the objective of guaranteeing the normal development of the treasury day and its ability to meet its intra-day payment commitments.

Management of the Group's Structural Liquidity aims to ensure the financial balance of the structure according to due dates over a period of time of more than one year, at both Group level and at that of the single companies. Maintaining an adequate dynamic ratio between medium/long term liabilities and assets is aimed at avoiding pressure in respect of both present and future short term collections. Gap ratios serve as the reference metric, measuring the ratio between total funding and loans maturing after 12 months and 5 years, as well as the ratio between funding and commercial loans, in addition to the regulatory net stable funding ratio (NSFR), based on the BCBS (Basel Committee on Banking Supervision) definition. The Group has also defined and formalised the Asset Encumbrance management and monitoring framework with the objective of analysing:

- the overall degree of commitment for total assets;
- the existence of a sufficient quantity of assets that can be committed but are free;
- the Group's ability to transform bank assets into eligible assets (or equivalently to commit non-eligible assets in bilateral operations);

and the Concentration Risk monitoring framework, with the objective of analysing:

- concentration in terms of funding sources, both in terms of counterparty and channel;
- concentration in terms of the assets which make up the Group's liquidity reserves.

The liquidity position is monitored both under normal conditions in the course of business and in Stress Scenarios of a specific and/or combined nature (with adverse and extreme intensity) based on the Liquidity Stress Test Framework. These exercises are intended to:

- promptly identify the Bank's main vulnerabilities relative to liquidity risk;
- calculate Group survival time under stress conditions;
- allow for surveillance levels to be prudentially determined, then applied to Liquidity Risk measurement matrices as part of the annual Risk Appetite Statement.

In the context of the Risk Appetite Framework, the Liquidity Risk Framework contemplates the identification of the liquidity risk tolerance thresholds, understood as maximum exposure to risk deemed sustainable under normal business conditions and incorporating situations of stress. The short term and medium/long term limits for liquidity risk are based on the definition of these Risk Appetite thresholds.

The operating limits system, known as Liquidity Risk Limits, is defined so as to promptly identify any nearing of the risk tolerance threshold defined in the annual process to develop the Risk Appetite Statement.

For immediate warning of possible vulnerability of the liquidity position, the Group has set up Early Warnings, distinguishing them as generic or specific according to whether the purpose of the single indicator is to warn of possible critical aspects regarding the entire economic contest, or specifically to the Group.

Group liquidity management

Management of operating and structural liquidity is governed by the parent company's Liquidity Management Department, which is responsible for defining and implementing short and medium/long-term funding strategies.

With reference to management of operating liquidity, the department manages the Group's liquidity reserves, in order to guarantee the Bank's ability to face planned and unplanned outflows, making use of the various instruments available on the interbank market (unsecured deposits, collateralised deposits, repos), as well as operations with the Central Bank.

With reference to management of structural liquidity, the Liquidity Management Department pursues the objectives detailed in the annual Funding Plan which outlines the medium/long-term strategies in operational terms defined in the Liquidity and Funding Strategy. In this latter document the Group defines guidelines for funding activities in terms of risk appetite, with a three year time horizon, in compliance with the multi-year risk tolerance thresholds relative to operating and structural liquidity, both internal and regulatory, as defined in the Group's Risk Appetite Statement (RAS).

Additionally, the Liquidity Management Department, in support of the Funding Plan, prepares the *Contingency Funding Plan*, the operating tool to manage liquidity risk that defines action strategies in the case of extreme liquidity tensions, establishing procedures and actions that can be readily put into place to obtain financing sources in the case of emergency. The strategies to be applied are defined on a case by case basis by the Executive Committee during the Liquidity Stress/Crisis session, in consideration of the type, duration and intensity of the crisis and the reference scenario at the time the crisis occurs.

Impacts deriving from the COVID-19 pandemic

We can note that the Bank did not have repercussions on the structural and operational liquidity following the stress caused by the COVID-19 pandemic.

Quantitative information

1.A Breakdown by contractual residual maturity of financial assets and liabilities - Euro

Items/Maturities	On demand	From over 1 day to 7 days	From over 7 days to 15 days	From over 15 days to 1 month	From over 1 month to 3 months	From over 3 months to 6 months	From over 6 months to 1 year	From over 1 year to 5 years	Over 5 years	Unspecified duration
Cash assets	2,085,790	5,976,551	767,128	1,189,185	806,300	1,395,815	1,572,882	5,938,638	3,323,873	9,663
A.1 Government securities	143	-	191	18,360	108,723	120,415	894,897	1,998,543	761,353	-
A.2 Other debt securities	29,318	265	2,857	21,803	12,064	91,974	18,452	198,502	1,146,338	-
A.3 UCITS units	59,890	-	-	-	-	-	-	-	-	-
A.4 Loans	1,996,439	5,976,286	764,080	1,149,022	685,513	1,183,426	659,533	3,741,593	1,416,182	9,663
- Banks	699,045	629,573	293,129	46,947	163,247	69,674	15,353	1,230,959	-	6,355
- Customers	1,297,394	5,346,714	470,951	1,102,075	522,266	1,113,752	644,180	2,510,634	1,416,182	3,308
On-balance-sheet liabilities	5,286,049	9,349,617	551,563	1,459,089	288,146	1,114,531	220,712	4,352,990	1,309,816	-
B.1 Current accounts and deposits	11,492	199,973	119,963	754,214	249,982	548,993	206,926	3,261,138	1,048,078	-
- Banks	8,315	199,973	119,963	754,214	249,982	548,993	206,926	3,261,138	1,048,078	-
- Customers	3,177	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	3,344	6,121	-	9,465	450,000	-	-
B.3 Other liabilities	5,274,557	9,149,644	431,600	701,531	32,043	565,538	4,321	641,852	261,738	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of principal										
- Long positions	56,644	420,357	125,946	212,696	655,041	733,201	435,918	884,048	980,151	-
- Short positions	84,595	864,539	416,357	290,561	1,538,091	527,613	937,415	357,371	284,006	-
C.2 Financial derivatives without exchange of principal										
- Long positions	6,260,594	-	-	265	-	-	-	-	-	-
- Short positions	4,795,278	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans										
- Long positions	-	5,476,734	-	-	50,000	-	-	-	-	-
- Short positions	-	5,476,734	-	-	50,000	-	-	-	-	-
C.4 Irrevocable commitments to grant finance										
- Long positions	3,378	1,869,406	-	-	-	1,163,158	1,549,872	1,298,916	214,138	-
- Short positions	619,249	3,001,122	-	29,961	14,979	904,824	1,066,349	462,384	-	-
C.5 Financial guarantees given	104	-	-	-	-	-	-	7	195	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal										
- Long positions	-	-	-	-	-	-	42,597	1,395,557	2,260,151	-
- Short positions	-	-	-	-	-	-	42,597	1,395,557	2,260,151	-
C.8 Credit derivatives without exchange of principal										
- Long positions	757	-	-	-	-	-	-	-	-	-
- Short positions	4,576	-	-	-	-	-	-	-	-	-

1.B Breakdown by contractual residual maturity of financial assets and liabilities - Other currencies

Items/Maturities	On demand	From over 1 day to 7 days	From over 7 days to 15 days	From over 15 days to 1 month	From over 1 month to 3 months	From over 3 months to 6 months	From over 6 months to 1 year	From over 1 year to 5 years	Over 5 years	Unspecified duration
Cash assets	119,882	-	13,103	18,478	145,555	129,114	915,802	2,176,878	900,389	-
A.1 Government securities	5	-	191	18,360	108,723	120,415	894,897	1,998,543	761,353	-
A.2 Other debt securities	2,380	-	9	118	24,395	2,013	7,720	117,727	128,849	-
A.3 UCITS units	26,906	-	-	-	-	-	-	-	-	-
A.4 Loans	90,591	-	12,903	-	12,437	6,686	13,185	60,608	10,187	-
- Banks	84,205	-	12,903	-	7,308	-	504	4,677	-	-
- Customers	6,386	-	-	-	5,129	6,686	12,682	55,931	10,187	-
On-balance-sheet liabilities	240,999	-	44,768	133,860	87,076	38,998	-	16,751	-	-
B.1 Current accounts and deposits	210,589	-	-	-	61,640	38,998	-	-	-	-
- Banks	210,589	-	-	-	61,640	38,998	-	-	-	-
- Customers	-	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	30,410	-	44,768	133,860	25,436	-	-	16,751	-	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of principal										
- Long positions	3,912	58,411	236,275	177,782	363,657	308,887	162,906	57,598	8	-
- Short positions	3,691	25,074	14,235	93,999	353,806	423,724	222,803	64,250	-	-
C.2 Financial derivatives without exchange of principal										
- Long positions	388,364	-	-	-	-	-	-	-	-	-
- Short positions	279,183	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to grant finance										
- Long positions	-	-	-	-	-	-	202	868	-	-
- Short positions	1,069	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal										
- Long positions	-	-	-	-	-	12,876	29,337	39,117	-	-
- Short positions	-	-	-	-	-	12,876	29,337	39,117	-	-
C.8 Credit derivatives without exchange of principal										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

1.2. Self-securitisation transactions

Nothing to report at 31 December 2020.

Section 5 – Operational risks

Qualitative information

A. General aspects, management procedures and gauging methods for operational risks

General aspects and Framework Structure

With an administrative provision issued on 12 June 2008, the Montepaschi Group was authorised by the Bank of Italy to use internal models for determining the capital requirements to cover credit and operational risks.

The adoption of the advanced model (AMA) requires banks to:

- develop an internal organisation which defines the roles of the corporate bodies and departments involved in the operational risk management process;
- develop a control department for gathering and storage of data, calculation of the requirement, assessment of the risk profile and reporting;
- check on the quality of the management system and compliance with the legislative prescriptions on an ongoing basis;
- delegate the Internal Auditing Body to make periodic checks on the Operational Risk management system;
- guarantee over time that the system is effectively used in the corporate operations (use tests).

For this purpose, the Montepaschi Group has developed an integrated system for the management of operational risk, an internal framework built on a governance model which sees all the companies in the scope of application of the AMA model involved. The approach defines the standards, methods and instruments which make it possible to assess the exposure to risk and the effects of the mitigation for each business area.

The advanced approach is conceived in such a way as to combine all the main disclosure sources in a standardised manner (information or data), both qualitative and quantitative (mixed Loss Distribution Approach - Scenario Model).

The quantitative component, of the Loss Distribution Approach (LDA) type, is based on the gathering, analysis and statistical modelling of the historical figures on internal and external loss (provided by the DIPO Consortium – Italian Database of Operating Losses).

The qualitative component is focused on the valuation of the risk profile of each unit and is based on the identification of relevant scenarios. In this context, the involvement of the companies in the AMA scope takes place through the identification of the processes and risks to be assessed, the assessment of the risks by the individuals responsible for the process, the identification of possible mitigation plans, discussions with the relevant units of the priorities and technical-economic feasibility of the mitigation measures.

This is followed by the monitoring of the implementation of the planned measures and of compliance with targets and deadlines.

The Framework identifies the operational risk control unit as the Group Operational Risk Management (ORM) Department (within the parent company's Chief Risk Officer Department).

The Group ORM calculates the capital requirement for covering the operational risks by means of the use of various components of the model (internal data, external data, context and control factors, qualitative analysis) supports the Top Management's decision making process with a view to creating value by retaining, mitigating and transferring the detected risks and it collects, also for the other companies in the perimeter, the internal loss data and identifies the risks to be assessed in qualitative analyses.

All the main domestic banking and financial components come within the perimeter of the advanced approach (AMA), while for the remaining components and for the foreign companies the basic approaches are instead

adopted. At 31 December 2020 the coverage of the internal model, in terms of the relevant indicator, was more than 95%.

The ORM has also set up a reporting system that provides timely information about operational risks to the Top Management, which translates the strategic principles of the management system into specific management policies. The reports are regularly submitted to the Risk Management Committee and the decision-making bodies.

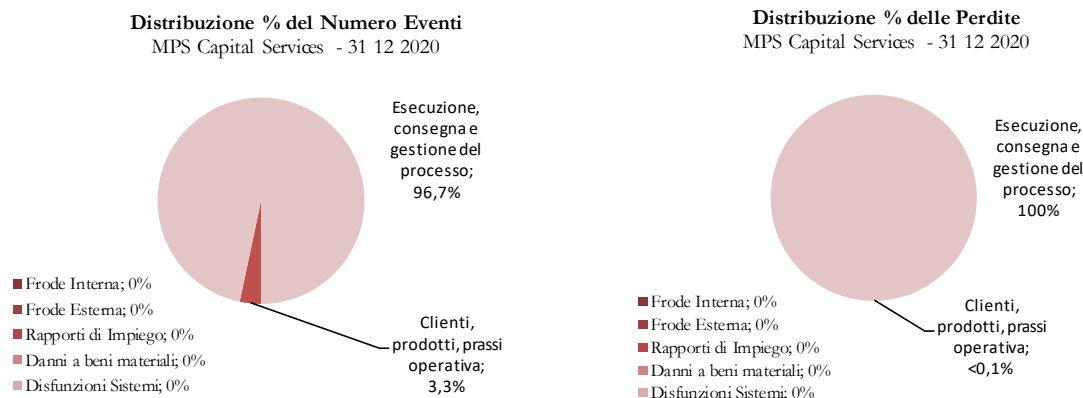
The adoption of the AMA model has assured, over time, a more knowledgeable management of operational risk, guaranteeing in practice a progressive reduction in the operational risk of the Bank and the Group.

As of 30 June 2017, the Advanced Measurement Model underwent a change involving an increase in the historical depth of internal loss data, going from 5 to 10 years, as well as the introduction of a scaling mechanism for external data, in order to prevent unexpected oscillations in the requirement.

Quantitative information

The percentage distribution of the number of events and of the operating losses recorded in 2020 is given below, divided into the various risk classes mainly linked to the Bank's business, represented in practice by the offer of solutions to a wide range of financial and credit problems (medium and long-term credit products and those of a specialist type, corporate finance assets, capital market products and structured loans):

- **customers, products and operating procedures:** losses deriving from breaches relating to professional obligations vis-à-vis customers or from the nature or features of the product or service provided;
- **process execution, delivery and handling:** losses due to shortfalls in the finalization of the transactions or the handling of the processes, as well as losses due to relations with commercial counterparties, sellers and suppliers.



Distribuzione % del Numero Eventi	% Distribution of Number of Events
Clienti, prodotti, prassi operativa	Customers, products and operating procedures
Esecuzione, consegna e gestione del processo	Execution, delivery and process management
Frode interna	Internal Fraud
Frode esterna	External fraud
Rapporti di impiego	Lending Ratios
Danni a beni materiali	Damages to property, plant and equipment
Disfunzioni sistemi	System malfunctions
Distribuzione % delle perdite	% Distribution of Losses

At 31 December 2020 the numbers of operational risk events were substantially stable while operating losses were down compared to 2019.

The types of events with impact on the income statement are almost exclusively due to shortcomings in the completion of operations or in the management of processes ("Execution, delivery and management of the process" class: approximately 100% of the total).

Impacts deriving from the Covid-19 pandemic

The health emergency deriving from the COVID-19 pandemic required, in order to guarantee business continuity and to support the country and protect its productive fabric in keeping with the legislative provisions, a prompt revision and/or extension by the Group of a number of existing processes, namely those related to digital services, web collaboration tools, smart working and the provision of "exceptional" methods, such as for the contractual formalisation process.

Operating in this context could entail inevitably an increase in exposure to the operational risks to which the Group is potentially exposed following possible legal disputes, potential fraud, cyber attacks owing also to the increased dependence on infrastructures and network devices to guarantee the access of users to the information system and business continuity.

Therefore, the Group, among other things, during the year revised a number of objectives of the risk strategy and adopted numerous measures to mitigate the associated risks providing for the strengthening of the system for IT access authentication and identification of customers and of the system of controls and monitoring as regards cyber attacks.

Contingent liabilities related to legal actions

The risks inherent in or related to legal disputes – understood as such those involving judicial bodies and arbitrators – are subject to specific and careful examination by the Bank. In the case of disputes for which the outflow of economic resources to fulfil the implicit legal obligation is estimated as “*probable*”, and it also seems possible to make a reliable estimate of the related amount, Provisions for Risk and Charges are set aside with statistical or analytical criteria. If an outflow of economic resources is possible, or when, although it is probable, it is not possible to make a reliable estimate of the financial expense, the contingent liability must be described in the Notes to the Financial Statements. As provided for in paragraph 92 of IAS 37, in extremely rare cases the indication of some or all the information required by the said standard on the subject of disclosure could have a serious adverse effect on the company’s position in a dispute with third parties. In these cases the company does not have the obligation to provide the detailed information, but can limit itself to indicating the general nature of the dispute, explaining in any case the reasons that underlie the simplified disclosure.

At 31 December 2020, there were legal disputes pending with a total *petitum*, when quantified, of € 1,026,199 million.

Specifically:

- € 31,552 thousand as the *petitum* related to disputes classified as having a “probable” risk of loss, for which provisions of € 13,106 thousand have been allocated, of which € 519 thousand for a dispute associated with credit recovery and € 12,568 thousand related to other legal disputes, mainly for usury and compound interest;
- € 140,716 thousand as the *petitum* related to disputes classified as having a “possible” risk of loss;
- € 853,931 thousand as the *petitum* related to disputes classified as having a “remote” risk of loss.

For legal actions with the greatest significance, for macro-category or individually, the main characteristics are illustrated below:

Dispute regarding breach of Italian Law 108/1996 on the subject of usury

The notion that the interest conventionally established constitutes usury is the subject of numerous legal actions following, mainly, a judgement of the Court of Cassation (no. 350 of 2013) which, placing itself apparently in contrast with the indications of the Bank of Italy (whose latest clarifications were issued in July 2013), ruled that “*for the purposes of application of art. 644 of the Italian Criminal Code, and of art. 1815 of the Italian Civil Code, paragraph 2, usury is understood as interest that exceeds the limit established by law at the moment in which it is promised or at least agreed, for any reason, therefore also as default interest*”. From the enunciation of this legal principle, we have seen the affirmation of a theory that leads to free loans if the current threshold interest rate is exceeded at the moment of signing, with a simplistic operation of adding together the standard and default interest rates (adding together the interest charged on the loan and interest on arrears). This position has been rejected by the majority of jurisprudence which has considered the addition of standard and default interest rates a logical not to mention a legal error.

In view of the prevailing orientation of the jurisprudence there has been a subsequent diversification of disputes on the subject of usury. In particular we have seen a growing number of actions in which, for the purposes of counting the threshold rate, any expenses (such as fees for early settlement or fees for contractual termination) are also added to the standard interest, expenses and charges received by the Bank under the terms of the contract.

MPS Capital Services Banca per le Imprese S.p.A./Etika Esco S.p.A. dispute

The joint stock company Etika Esco (hereafter, for the sake of brevity, hereinafter “Plaintiff” or “Company”) launched a legal action against the Bank with the Court of Florence, alleging the illegitimacy of the Bank’s conduct as, after approving a loan of € 20,000,000.00 in favour of a company being set up (hereinafter “Newco Sviluppo Marina Velca”) which was to have been wholly controlled by the Plaintiff, did not proceed with the signing of the contract and the consequent disbursements.

It must first be noted that the operation, the subject of an enquiry completed with the resolution of 7 September 2016, was structured to enable the Newco Sviluppo Marina Velca to complete a project for construction of a

property complex of approximately 300 houses, and the renovation and expansion of a golf course, in an area owned by Sviluppo Marina Velca S.r.l., situated in the Municipality of Tarquinia (hereinafter “Property Project”).

The Property Project involved an Italian closed-end investment fund which, through a Luxembourg-law special purpose vehicle, held 100% of the capital of Sviluppo Marina Velca S.r.l.

The Bank had already intervened in support of the said project granting, in 2012, to Sviluppo Marina Velca S.r.l. a loan of € 9,400,000.00 (hereinafter the “2012 Loan”), which fell due on 31 July 2014 and of which there remained at September 2016, the period of approval of the loan involved in the legal action, approximately € 11,000,000.00 for principal, past-due interest, default and ancillary charges.

The Company taking over in the Property Project required the acquisition by Etika Esco of a special purpose vehicle (identified as Rell's Risorse s.r.l.) which was to have purchased the shares of Sviluppo Marina Velca S.r.l. before proceeding to a merger by incorporation. The purchase of the shares of Sviluppo Marina Velca S.r.l. would have required the intervention of the Bank, as guaranteed creditor, in order to authorise the transfer of the shares subject to pledge guaranteeing the 2012 Loan.

Having explained the context of the operation planned by the Company, we can now illustrate briefly the allegations formulated in relation to the Bank's conduct.

The Plaintiff complains in fact that, after an appointment had been fixed with a notary for transfer of the shares of Sviluppo Marina Velca S.r.l., the Bank communicated only the day before that it could not attend owing to what it claimed were internal delays.

Having missed this appointment for no reason, the Bank was then said to have assumed an attitude of closure in relation to the Plaintiff, no longer answering the many requests to carry out the loan operation up to 15 March 2017, when the Bank communicated, with arguments and justifications said by the Company to be wholly insufficient, the expiry and/or revocation of the resolution of 7 September 2016.

The Plaintiff asserts that the conditions set by the Bank for the effectiveness of the resolution of 7 September 2016 were all met and, for those not fulfilled, should be considered as fulfilled under the terms of art. 1359 of the Italian Civil Code due to the actions and negligence of the Bank.

The non-completion of the operation to acquire the shares of Sviluppo Marina Velca s.r.l., first, and then of the loan contract with consequent non-disbursement of the amounts, was said to have caused enormous damage to the Company which was quantified at approximately € 96,000,000.00 of which: i) approximately € 46,000,000.00 as lost profit as it had not been able to achieve, in the role of General Contractor, the revenue deriving from construction of the Property Project and emerging damage consequent to the requests for payment of the penalties provided for in the construction contracts signed with a view to the aforesaid activity and ii) € 50,000,000.00 as further damage that will accrue while awaiting the amount that will be considered just.

The Bank joined the case regularly replying that none of the conditions detailed in the letter communicating that the loan had been resolved was fulfilled. It was also stressed that a few days after the operation was approved (17 October 2016) the Company had asked the Bank for an advance on the first disbursement of € 2,600,000.00 to be guaranteed with a mortgage to be granted by the said incorporating company Sviluppo Marina Velca S.r.l., a request from which there emerged a worrying lack of liquidity in the Company which, instead, was supposed to invest, during the construction of the Property Project much more of its own funds.

The changes in creditworthiness that emerged following the aforementioned request for pre-financing, had not only led the Bank to deny the said new disbursement, but also to re-examine, in view of the Company's manifest lack of liquidity, the operation already resolved arriving at a final decision not to confirm and, therefore, to revoke the said resolution granting the loan also in the light, besides, of the non-observance of the conditions to arrive at the signing of the loan contract.

During the further investigation carried out by the Bank it emerged that the hidden promoter of the operation was also a person with a seriously unfavourable previous record to whom the Bank had previously refused a loan for the same project.

Concluding its arguments the Bank made a counterclaim asking for the Plaintiff to be found guilty of vexatious litigation under the terms of art. 96 of the Italian Code of Civil Procedure.

The parties filed the briefs granted by the investigating Judge, pursuant to article 183, paragraph VI, Italian Code of Civil Procedure.

With the rejoinder pursuant to art. 183, paragraph 6, no. 1 of the Italian Code of Civil Procedure filed by Etika Esco on 21 February 2019 it was specified that the total petitem is not € 96,000,000.00 because the damage suffered as a consequence of the facts described in the pleading amounts to € 46,188,000.00 *“or in any case to a sum of not less than € 50,000,000.00 or more, due for the further damage that in the meantime will accrue for these reasons to the plaintiff, or, subordinatedly, to the payment of the different amount, also lower, which will be arrived at during the case and/or at which the Judge arrives for the purpose as an equitable amount”*.

At the hearing to discuss the evidence, pursuant to article 184, Italian Code of Civil Procedure, the investigating Judge to the parties' requests under advisement. With an order of 26 January 2020, the Judge held that *“The evidence presented, with reference to the claims, exceptions made by the parties and the documentation offered by them, are superfluous with regards to the decision. Therefore, a hearing must be set to specify the findings.”*

The hearing was postponed to 16 November 2021 for the specification of the findings.

Risk associated with representations and warranties issued in operations for the sale and separation of impaired receivables

The signing of contracts for the sale en bloc of impaired receivables entailed, as well as the primary advantages at which they are aimed, also the consequent assumption of specific contractual commitments among which worthy of particular attention are the representations and warranties (“reps and warranties” or “R&W”), binding for a pre-set period of time, the breach of which entails for the Bank and for the other Group companies (Transferors) the obligation of indemnifying the transferees for the prejudice suffered by paying out sums.

The indemnity, that is the financial award made to compensate a subject following a prejudice suffered, constitutes an essential part of all sale contracts because it is the instrument with which the purchaser protects itself with respect to certain events and, above all, with respect to the possible defects that may be present on the credit lines purchased.

The Rs&Ws, the breach of which triggers the obligation for the Transferors to indemnify, always have a pre-set duration (between a minimum of 12 months and a maximum of 36 months) in order to prevent the Transferors being excessively exposed to demands for indemnity and to the associated risk of outgoings. In standard contracts the Rs&Ws protect the transferees with respect to the minimum requisites that it is considered a transferred receivable must have such as, by way of example: the existence of the same, its principal amount, the presence of the minimum documentation functional to its enforceability, that is whatever is necessary so that the transferees can carry out all the necessary recovery activities both in-court and out-of-court.

In exceptional cases, on the basis of the negotiating context or the price agreed, particularly detailed rules on the Rs&Ws issued by the Transferors have been agreed: for example, in relation to the transfer of the portfolio of bad loans in the context of the loan securitisation transaction carried out by the Group in favour of Siena NPL S.r.l. in December 2017 (“Valentine” transaction) a specific annex was drawn up which presents 62 Rs&Ws that govern in a very detailed way numerous characteristics of the receivables being transferred that the Transferors have declared as truthful and existing when the contracts were signed.

The indemnifiable damage, however, may never be more than the purchase price of the defective receivable increased by any expenses incurred and interest at a rate provided for in the contract; in any case, overall, a maximum amount (cap) is set above which the Transferors cannot be required to make payments even in the presence of ascertained breaches. The cap is generically determined as a percentage of the price paid for a certain portfolio (28% in the case of Siena NPL).

As regards the expiries of the Rs&Ws, the terms related to the sales of ISMEA and Race bad loans are set respectively at 31 March 2021 and 1 September 2021 and provide for caps on the payment of 15% of the selling

price of the single portfolios; the terms related to the transactions for the sale of probable defaults made over the last few years, have a maximum expiry that falls due in May 2023.

In relation to the “Hydra” transaction (cf. specific paragraph in Part A.2, point 15, letter c) of the Notes to the Statements), the breach of the Rs&Ws can be pursued by the beneficiary company AMCO against the transferor Banca MPS by 30 November 2022 and a cap is provided for at approximately 10% of the total assets of the separated compendium net of the related capital endowment; an analogous commitment was assumed by the Bank in favour of the transferee Banca MPS in relation to the loans transferred to the Parent Company.

Part F - Information on Equity

Section 1 - The Bank's capital

A. Qualitative information

The Group pursues strategic objectives focused on the quantitative and qualitative strengthening of the capital, on structural rebalancing of the liquidity and on achieving sustainable levels of profitability, compatible with the risks assumed.

With this in view the capital management, planning and allocation activities are of fundamental importance for guaranteeing observance over time both of the minimum capital requirements established by the regulations and by the supervisory authorities and of the degree of risk appetite approved by the Group's strategic supervisory body.

To this end, in the context of the Risk Appetite Framework (RAF), every year the target levels of capitalisation are estimated and the capital is allocated to the business units according to the development expectations and the estimated risk and return levels, verifying that the capital endowment is sufficient to guarantee observance of the minimum requirements: in the context of the RAF prospective capital adequacy assessments are carried out on a multi-annual time horizon, in both normal and stressful conditions. The analyses are carried out both at the Group level and at the level of all the single legal entities subject to regulatory capital requirements. The Group uses methods to measure proper profitability relative to risk also within the RAF, monitoring and managing the overall expected risk/return profile.

Achievement of the targets and compliance with the minimum regulatory requirements are monitored, in any case, also during the year.

The formal corporate processes in which the RAF is applied on at least an annual basis are the budget, the Risk Appetite Statement and the ICAAP. These processes are also consistent with the Recovery Plan, in particular guaranteeing that the recovery indicators (RPI) are included among the Key Risk Indicators (KRI) and that the related alert thresholds are consistent.

The concepts of capital used are the regulatory supervisory ones: Common Equity Tier 1, Tier 1 and Own Funds; in addition in the context of the RAPM metrics the Invested Capital is also used; this consists of the amount of own capital pertaining to the shareholders (equity) needed to achieve the Common Equity Tier 1 figures, both established in advance as target levels and achieved afterwards as final results.

The risk capital concepts used are the regulatory requirements and correspond to risk weighted assets (RWA), determined on the basis of the rules established in the regulatory provisions, and internal capital, defined by the Group in compliance with the so-called *Economic Outlook* required under the related ECB guidelines. In the context of the RAPM metrics both measurements are used.

B. Quantitative information

B.1 The Bank's capital: breakdown

Shareholders' equity items	Totale 31 12 2020	Totale 31 12 2019
1. Share capital	1,517,076	1,669,516
2. Share premiums	-	-
3. Reserves	(294,461)	(326,600)
- of profits	(294,461)	(326,600)
a) legal	-	-
b) statutory	-	-
c) treasury shares	-	-
d) other	(294,461)	(326,600)
-other	-	-
4. Equity instruments	-	-
5. Treasury shares (-)	-	-
6. Valuation reserves	(102,975)	(141,063)
- Equity securities designated at fair value through other comprehensive income	(101,466)	(138,539)
- Equity security hedges designated at fair value through other comprehensive income	-	-
- Financial assets (other than equity securities) measured at fair value through other comprehensive income	1,359	273
- Foreign investment hedging	-	-
- Cash flow hedging	-	-
- Hedging instruments (undesignated elements)	-	-
- Exchange differences	-	-
- Non-current assets and asset disposal groups held for sale	-	-
- Financial liabilities designated at fair value through profit or loss (changes in own creditworthiness)	-	-
- Actuarial gains (losses) relating to defined-benefit pension plans	(2,868)	(2,797)
- Special revaluation laws	-	-
Profit (Loss) for the year (+/-)	43,664	36,562
Total	1,163,304	1,238,415

B.2 Valuation reserves of financial assets measured at fair value through other comprehensive income: breakdown

Assets / Balances	Totale 31 12 2020		Totale 31 12 2019	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	2,594	(720)	1,030	(653)
2. Equity securities	-	(101,466)	-	(138,539)
4 Loans	-	-	-	-
Total	2,594	(102,186)	1,030	(139,192)

Note: the values indicated are gross of tax effects.

B.3 Valuation reserves of financial assets measured at fair value through other comprehensive income: annual changes

	Debt securities	Equity securities	Loans
1. Opening balances	377	(138,539)	-
2. Positive changes	2,443	-	-
2.1 Fair value increases	1,933	-	-
2.2 Credit risk write-downs	510	-	-
2.3 Transfer to income statement of negative reserves from realisation	-	-	-
2.4 Transfers to other shareholder's equity components (equity securities)	-	-	-
2.5 Other changes	-	-	-
3. Negative changes	946	(37,073)	-
3.1 Fair value decreases	577	5,333	-
3.2 Write-backs for credit risk	-	-	-
3.3 Transfer to income statement of positive reserves from realisation	369	-	-
3.4 Transfers to other shareholder's equity components (equity securities)	-	(42,406)	-
3.5 Other changes	-	-	-
4. Closing balances	1,874	(101,466)	-

Note: the values indicated are gross of tax effects.

B.4 Valuation reserves for defined benefit plans: yearly changes

	INTERNAL FUNDS	EXTERNAL FUNDS	Severance indemnity provisions	Tax effect	31 12 2020
Opening balances	(2,326)	-	(1,276)	806	(2,796)
Revaluation of the net liability/asset for defined benefits	(69)	-	(29)	26	(72)
Yield of plan assets net of interest	-	-	-	-	-
Actuarial gains/losses deriving from changes in demographic assumptions	(6)	-	(1)	2	(5)
Actuarial gains/losses deriving from past experience	(20)	-	18	-	(2)
Actuarial gains/losses deriving from changes in financial assumptions	(43)	-	(46)	24	(65)
Changes in the effect of limitations on the availability of a net asset for defined benefit plans	-	-	-	-	-
Gains/losses from fund discharges envisaged in the terms of the plan	-	-	-	-	-
Other changes	-	-	-	-	-
Closing balances	(2,395)	-	(1,305)	832	(2,868)

Section 2 - Own funds and capital ratios

For information on own funds and capital ratios, please see the Report on Operations and the disclosure on own funds and capital adequacy contained in the disclosure to the public (“Third Pillar”) provided at the consolidated level, as provided for in Bank of Italy Circular 262 of 22 December 2005 – 6th update.

Part G - Business Combinations regarding companies or business units**Section 1 – Transactions carried out during the year**

During the year, no business combination transactions were carried out regarding companies or business segments.

Section 2 – Transactions carried out after the end of the year

Nothing to report.

Section 3 – Retrospective corrections

No correction to report.

Part H - Transactions with related parties

In accordance with IAS 24 “key management personnel” includes the following: Directors, Statutory Auditors, General Manager, Assistant General Managers, Heads of Departments who are assigned autonomous decision-making powers.

1. Information about the remuneration of key management personnel

Items/Balances	Total 31 12 2020	Total 31 12 2019
Short-term benefits	1,474	832
Indemnity for the termination of the employment relationship	-	-
Total	1,474	832

2. Information on transactions with related parties

In accordance with the accounting standard IAS 24 the Bank has identified its related parties and has complied with the consequent disclosure obligations. The following tables show the accounting effects of transactions carried out with related parties.

On 19 December 2019, Banca Monte dei Paschi di Siena S.p.A. issued the new “Group Directive on management of regulatory requirements relative to related parties, associated companies and obligations for bank representatives” which contains, in a single document, the Group governing conflicts of interest on the subject of transactions with related parties under the terms of CONSOB Regulation no. 17221/2010, with associated subjects under the terms of Bank of Italy Circular no. 263/2006 in Title V, chapter 5, and those on obligations of bank representatives under the terms of art. 136 of the CLB.

In particular, the Directive sets forth the principles and rules to be followed to oversee the risk deriving from situations of possible conflict of interest with certain subjects close to the Parent Company's decision-making centres. The Directive is addressed to the Parent Bank and to all the subsidiaries, including MPS Capital Services S.p.A., which adopted it with a resolution of its Board of Directors on 05 February 2020.

The Directive was published on the Bank's website and the full version can be consulted at the following web address:

https://www.gruppomps.it/static/upload/ope/operazioni_con_parti_collegate_e_soggetti_collegati.pdf

2.a Transactions with the Parent Company and with companies of the MPS Banking Group

	Valori al 31 12 2020			
	Parent Company	MPS Group Companies	Total	% of financial statement item
Total financial assets	2,934,524	14,831	2,949,355	10.63%
Financial assets held for trading	877,354	13,910	891,264	10.22%
Financial assets at fair value through other comprehensive income			-	
Loans to banks	2,052,918	71	2,052,989	63.46%
Other assets	4,252	850	5,102	3.52%
Total financial liabilities	9,695,073	2,353	9,697,426	36.69%
Financial liabilities measured at amortised cost	9,362,770	106	9,362,876	46.99%
Financial liabilities held for trading	324,296		324,296	5.02%
Other liabilities	8,007	2,247	10,254	22.07%
Guarantees issued and commitments	96,141		96,141	1.40%
Income statement				
Interest and similar income	58,292		58,292	20.08%
Interest expense and similar charges	(82,426)	(39)	(82,465)	52.65%
Fee income	403		403	0.69%
Fee expense	(13,935)		(13,935)	49.06%
Net value adjustments for credit risk	438	4	442	(1.01%)
Operating costs and other expenses and income	(4,169)	(6,113)	(10,282)	13.65%

2.b Transactions with key management personnel and other related parties

	Valori al 31 12 2020					% of financial statement item
	Associates	Key management personnel	Other related parties	MEF Scope	Total	
Total financial assets	-	1,053	3,918	5,476,625	5,481,596	19.76%
Financial assets held for trading			3,618	4,475,473	4,479,091	51.34%
Financial assets at fair value through other comprehensive income					-	
Loans to customers		1,053	300	1,001,152	1,002,505	6.75%
Total financial liabilities	-	-	-	276,084	276,084	1.05%
Financial liabilities measured at amortised cost	-	-		276,009	276,009	1.39%
Financial liabilities held for trading	-	-	-	-	-	
Other liabilities	-	-	-	75	75	0.16%
Guarantees issued and commitments	-	-	-	62,521	62,521	0.94%
Income statement						
Interest and similar income			23	20,452	20,475	7.05%
Interest expense and similar charges				(2,060)	(2,060)	1.32%
Fee income			524	9,521	10,045	17.06%
Dividends and similar income			3	171	174	11.24%
Net write-downs (-)/write-backs (+) for impairment	(14)			530	516	(1.83%)

2.d Fees paid to the independent auditing firm and the bodies belonging to its network (pursuant to art. 149 duodecies of CONSOB Resolution No. 15915 of 3 May 2007)

Type of services	Party providing service	Fees
Independent auditing	PriceWaterhouseCoopers S.p.A.	151
Certification services	PriceWaterhouseCoopers S.p.A.	3
Management consulting/other services	PriceWaterhouseCoopers S.p.A.	-
Total		154

Note: the amounts indicated above are net of VAT and ancillary expenses.

GROUP PARENT COMPANY OR EU PARENT BANK

The Bank belongs to the MPS Group and is controlled by Banca Monte dei Paschi di Siena S.p.A., which exercises management and coordination activities.

The basic data of the most recent financial statements (2019) approved by the parent company are provided below.

2.1 Corporate Name: **BANCA MONTE DEI PASCHI DI SIENA S.p.A.**

2.2 Headquarters: Piazza Salimbeni, 3 – Siena, Italy

Other details: Share capital € 10,328,618,260.14
Siena Companies Registry Registration Number,
Tax Code: 00884060526 – MPS VAT Group – VAT number 01483500524
Banking Register No. 325 Code No. 1030.6
Register of Banking Groups Code No. 1030.6
Enrolled in the Banking Register of the Bank of Italy no. 5274
Member of the Interbank Deposit Protection Fund and
the National Guarantee Fund

**FINANCIAL STATEMENTS OF THE PARENT COMPANY BANCA MONTE DEI PASCHI DI SIENA
AS OF 31.12.2019**
Balance Sheet
(amounts in € millions)

Assets		Liabilities and Shareholders' Equity	
Cash and cash equivalents	830	Financial liabilities measured at amortised cost	111,362
Financial assets measured at fair value through profit or loss	1,344	Financial liabilities held for trading	584
Financial assets measured at fair value through other comprehensive income	6,564	Financial liabilities designated at fair value	373
Financial assets measured at amortised cost	107,037	Hedging derivatives	1,316
Hedging derivatives	71	Value adjustments to financial liabilities subject to macro-hedging	31
Value adjustment to financial assets subject to macro hedging	617	Tax liabilities	
Equity investments	2,763	Other liabilities	3,042
Property, plant and equipment	2,531	Employee severance indemnities	173
Intangible assets	3	Provisions for risks and charges	1,118
Tax assets	2,102		
Non-current assets	75	Total liabilities	117,999
Other assets	1,639	Shareholders' equity	7,577
Total Assets	125,576	Total Liabilities and Shareholders' Equity	125,576

Income Statement	(amounts in € millions)
Interest and similar income	1,940
Interest expense and similar charges	(698)
Net interest income	1,242
Fee income	1,578
Fee expense	(189)
Net fee and commission income	1,389
Dividends and similar income	69
Net trading gains (losses)	52
Net hedging gains (losses)	(6)
Gains (losses) on disposal or repurchase of:	117
Net gains/(losses) on financial assets and liabilities measured at fair value	50
Operating income	2,913
Net value adjustments for credit risk	(623)
Gains (losses) on contractual changes without cancellations	(4)
Net income from financial management	2,286
Administrative expenses	(2,375)
Net provisions for risks and charges	(69)
Net value adjustments on property, plant and equipment	(144)
Net value adjustments on intangible assets	(11)
Other operating income/charges	216
Operating costs	(2,383)
Profit (loss) from equity investments	(52)
Goodwill value adjustments	-
Gains (losses) on disposal of investments	2
Profit (Loss) from continuing operations before tax	(147)
Income taxes for the year on current operations	(1,027)
Profit (Loss) from current operations net of taxes	(1,174)
Gain (Loss) on discontinued operations, net of taxation	-
Profit (Loss) for the period	(1,174)

Part I - Share-based Payments

Qualitative information

Description of share-based payment agreements

In order to pursue the objective of increasing alignment of management's interests with those of shareholders, the Regulatory Provisions of remuneration and incentive policies and practices establish that at least 50% of variable remuneration disbursed to the "most significant personnel" is attributed through the assignment of shares or financial instruments linked to shares, paid out over a minimum time horizon of 3-5 years. "Variable remuneration" means variable components linked to performance or other parameters as well as amounts paid as incentives for the early termination of employment relationships for the portion which exceeds that due under the law ("severance").

In line with the cited regulatory provisions, the MPS Group has adopted annual Performance Shares Plans since 2017. As had already occurred in 2019, at its meeting on 18 May 2020, the Shareholders' Meeting of the parent company approved, for financial year 2020, a *Treasury Share* Plan exclusively destined for the payment of any severance due to personnel of the MPS Group. The contents and operating methods for these plans are found in the "Remuneration Policies" published on the parent company's website at <https://www.gruppomps.it/corporate-governance/remunerazione.html>.

Payment of performance shares for Plans through 2017, which did not provide for the material assignment of shares but rather the payment of an amount indexed to the value of the shares identified at the time, can be classified for accounting purposes as "cash settled share based payments", pursuant to accounting standard IFRS 2 Share-based payments. The payable corresponding to the sums to be paid will be paid in cash and recognised at the end of the year of service; the total amount will depend on the price of the performance shares, which will be measured at fair value, calculated as the best estimate of the amount due in consideration of the various conditions established under the plans, measured with reference to the fair value of the shares assigned each year and the value of the parent company's shares. When estimating the fair value of the shares on the measurement date, any vesting conditions established are not taken into consideration (e.g. time in service or conditions regarding achievement of results), with the exception of market conditions. Vesting conditions must be considered by adjusting the number of assignments included when measuring the liability deriving from the operation; market conditions (as well as any non-accrual conditions) must instead be considered when estimating the fair value of the liability deriving from the operation and the relative cost recognised in the income statement.

The 2018, 2019 and 2020 plans, which provided for the assignment of parent company shares when the vesting conditions were met, fall under the scope of the accounting standard IFRS 2 as equity-settled share-based payments, in the context of which instruments representing equity are attributed as a counter-entry to a shareholders' equity reserve. In this context, the cost of severance established in the Plans and the corresponding increase in shareholders' equity are measured at the fair value of the shares which will be assigned; when estimating the fair value of the shares as of the measurement date any vesting conditions established are not considered (e.g. time in service or conditions regarding achievement of results), with the exception of market conditions. Vesting conditions must be considered by adjusting the number of financial instruments included when measuring the amount of the operation, so that the value recognised in the financial statements for services received as the fee for the financial instruments will be based on the number of these which will effectively have accrued at the end; market conditions must instead be considered when estimating the fair value of the shares assigned.

The fair value of the Performance Shares and treasury shares assigned is determined, pursuant to article 9, paragraph 4 of the Consolidated Income Tax Law (TUIR), on the basis of the arithmetic average of the prices for the MPS stock recorded in the thirty days prior to the assignment date.

Quantitative information

The Bank's Shareholders' Meeting, on 2 October 2020, approved the 2020 Remuneration Report, compliant in its contents with the analogous Report approved by the Shareholders' Meeting of Banca Monte dei Paschi di Siena on 18 May 2020 under the terms of Art. 123-ter of the Consolidated Finance Act.

As occurred for the Treasury Share Plans approved for 2017, 2018 and 2019, there were no utilisations during the year for the Plan approved in 2020.

Part L – Segment Reporting

The segment reporting is prepared by the Parent Company Banca Monte dei Paschi di Siena S.p.A. in part L of the Notes to the Financial Statements to its consolidated financial statements as of 31 December 2020.

Part M – Disclosure on leasing

Section 1 – Lessee

Qualitative information

As lessee, the Bank enters into real estate leasing contracts, covering buildings for business use. These are, therefore, properties destined to house internal offices.

The signing of leasing contracts related to real estate for residential use also falls under leasing activities; these properties are used for employees while seconded to other offices. The apartments are then involved in sub-lease contracts between the Bank and the employees, considered to be out of the scope of the standard at first time application.

At 31 December 2020 there were 1 leases payable for business use and 20 contracts for employee use. During the year 7 contracts were terminated.

With regards to contracts for vehicles, these are for the most part long-term leases involving structural and fringe benefit vehicles for employees. In consideration of the marginal nature of vehicle leasing contracts in relation to the value of the assets, corresponding to the rights of use, recognised as a whole in the financial statements pursuant to IFRS 16, no additional disclosure is made with regards to this type of contract.

The Bank is not exposed to outgoing cash flows which are not already reflected in the measurement of leasing liabilities. More specifically, any exposures deriving from extension options are included in the leasing liabilities recognised in the financial statements, in that the bank considers initial renewal to be certain. The other cases referenced in the standard (variable payments linked to leasing, residual value guarantees, leasing commitments not yet operational) are not contained in contracts stipulated as the lessee.

In line with the structure adopted by the MPS Group, the Bank recognises as costs:

- short-term leases in the case of assets such as properties and technology (in particular the mainframe hardware module), when the related contracts have a maximum duration of twelve months and do not contain any extension options.
- leases of modest value, that is with a value at start of less than € 5,000, mainly for mobile telephony.

Quantitative information

The table below provides information about depreciation/amortisation expense for assets consisting of rights of use, broken down by the underlying asset class.

1. Assets / Income components

Assets / Balances	Total	
	31 12 2020	31 12 2019
A. Amortisation/depreciation expense on assets consisting of rights of use acquired through leasing	1,798	1,840
a) land	-	-
b) buildings	1,757	1,753
c) furniture	-	-
d) electronic systems	-	-
e) other	41	87
B. Outgoing cash flows not included in measurement of leasing liabilities	-	-
a) variable payments due for leasing	-	-
b) amounts deriving from extension options	-	-
b) amounts deriving from termination options	-	-
d) amounts guaranteeing residual values, not expected to be paid	-	-
Total	1,798	1,840

ANNEXES TO THE NOTES TO THE FINANCIAL STATEMENTS

**PENSION FUND OF
MPS Capital Services
Banca per le Imprese S.p.A.**

**STATEMENT OF ACCOUNT
as of 31 DECEMBER 2020**

PENSION FUND OF MPS CAPITAL SERVICES BANCA PER LE IMPRESE S.P.A.**EXPLANATORY NOTE TO STATEMENT OF ACCOUNT AS OF 31 December 2020**
(amounts in Euro)

The "MPS Capital Services Banca per le Imprese S.p.A. Pension Fund", enrolled in the Special Section of the Covip Register, under No. 9134 is the result of the historic and legal continuation of the supplementary pension scheme set up on 1 January 1974.

The "Fund" is made up of two separate segments with specific endowments aimed at guaranteeing the two benefit systems, in detail:

- the "defined benefit" segment of the "Fund" contains provisions, payable by the company, aimed at adapting the assets of the segment to the actuarial reserve estimated annually by an independent actuary;
- the section of the "defined contribution" Fund has its own separate and autonomous capital. The following are paid into the said section, which does not have a separate legal identity:
 - contributions payable by the Bank and the fund Members;
 - the portion of the employee severance indemnity allocated by the members enrolled to increase the endowment; the assets and liabilities referring to the operations of the segment are recorded in the related items of the Bank's balance sheet, despite maintaining separate asset autonomy with respect to the Bank;
 - the economic results deriving from the financial management of the assets, carried out by parties qualified to perform collective management of savings;

The assets, liabilities, costs, revenues and commitments referring to the segment's operations are not recorded in the Bank's financial statements.

The "Fund" is managed by the Bank's Board of Directors, which avails itself of advisory opinions and the support of a Supervisory Committee; the management of the positions of the members and any other activities, necessary or useful for the "Fund", are carried out by a Manager appointed by the Bank's Board of Directors.

A) "DEFINED BENEFIT" ARRANGEMENT SECTION

The value of the mathematical reserve as of 31.12.2020 was € 3,629,422= and it is recorded under liability item **100b** in the liabilities of the Bank's balance sheet.

It is the value estimated so as to guarantee the periodic disbursement of the supplementary benefits of the legal pension to 35 members, all retired, of which 14 men and 10 women receiving a direct pension, along with 11 women receiving an indirect and survivor's pension.

The periodic benefits disbursed in 2020 amounted to € 488,671=.

During the year, it was necessary to increase the fund by € **79,059**= to adjust it to the value of the mathematical reserve as calculated by the actuary.

No other members may join the Segment, by effect of the changes made to the Fund Regulations as a result of the collective agreements, but also on the basis of current law provisions.

B) "DEFINED CONTRIBUTION" ARRANGEMENT SECTION

Total net assets as of 31 December 2020 amounted to € 52,959,111=.

During 2020, the Bank paid over the contributions payable by the Company to the "Fund", along with those payable by the members to their chosen extent; the portions of employee severance indemnity were also paid over to the extents indicated by the same employees in accordance with the Regulations and in compliance with the law.

From the segment there were capital outflows for "transfers and redemptions" of € 3,232,032 and disbursements in the form of capital of € 206,192.

The disbursements by way of advances on the total position accrued concerned requests for a total of € 597,840 in 2020.

A total of 541 persons are enrolled in the section of the "Fund" as of 31 December 2020. They are distributed as follows:

- **462** active;
- **16** enrolled in only the so-called "Guaranteed" line;
- **63** no longer active.

B.1) FINANCIAL MANAGEMENT INFORMATION

The resources of the "Fund" have been spread over seven different investment lines, of which one aimed at receiving the severance indemnity conferred tacitly, in accordance with Article 8, paragraph 9 of Italian Legislative Decree No. 252/2005 (hereinafter, for the sake of brevity, "Guaranteed Line").

The afore-mentioned investment lines correspond to as many asset management schemes open with the Parent Company and managed by the Asset Management Service, with the exception of the so-called Guaranteed Line managed through an AXA-MPS insurance product. The contributions to said investment lines were made on the basis of the individual choice expressed by each member.

The features of the investment lines are as follows:

Description	Line C001 GPM 386133	Line C002 GPM 386134	Line C003 GPM 386135	Line C004 GPM 386164	Line C005 GPM 386072	Line C006 GPM 386163	Guarantee d line
Time Horizon (years)	7-10	10-20	20-30	5	5		Collective policy
- Risk free (monetary)				60%	42%	100%	
- Bond component	73%	52%	35%	33%	44%		
- Equity component	27%	48%	65%	7%	14%		

2020 annual return and average returns during the period from asset management

	GPM 386133 (Line C001)	GPM 386134 (Line C002)	GPM 386135 (Line C003)	GPM 386164 (Line C004)	GPM 386072 (Line C005)	GPM 386163 (Line C006)	Guaranteed line
2020 Return	3.35%	2.23%	1.80%	1.86%	2.20%	0.66%	1.96%
Annual average return for five-year period 2016/2020	3.05%	3.49%	4.10%	1.26%	1.74%	0.07%	2.73%
Annual average return for three-year period 2018/2020	3.37%	3.38%	3.71%	1.41%	1.87%	0.03%	2.92%

N.B. The figures express only the performance of the asset management portfolios underlying the single segments

The values of the individual portions of the different lines during the five years 2016-2020 are as follows:

date	Line C001	Line C002	Line C003	Line C004	Line C005	Line C006	Guarantee d line
31 December 2016	1.636	1.827	2.010	1.247	1.346	1.070	(1)
31 December 2017	1.675	1.908	2.131	1.257	1.364	1.073	(1)
31 December 2018	1.640	1.839	2.029	1.246	1.345	1.062	(1)
31 December 2019	1.790	2.062	2.335	1.287	1.411	1.067	(1)
31 December 2020	1.850	2.108	2.377	1.311	1.442	1.074	(1)

(1) the insurance policy provides for the management of individual positions

With regard to the management policies of the GPM of the Pension Fund of MPS Capital Services Banca per le Imprese S.p.A., the details for financial year 2020 are as follows.

The monetary component of the portfolios was characterised by a positioning of substantial neutrality in terms of financial duration with respect to the benchmark index and by the investment in corporate issues of leading European issuers with high creditworthiness and maximum maturity at around one year, which were purchased after the significant widening of the spreads that occurred in the spring with the wave of risk aversion generated by the diffusion of the pandemic. The investment in securities issued by the Republic of Italy at a fixed and floating rate with average maturities of about six months accounts for most of the monetary portfolio. The significant shrinking of the BTP Bund spread during 2020, together with the good performance of corporate bonds, contributed to significant overperformance of the monetary component with respect to the benchmark, for all management lines.

The bond component of the portfolios was characterised by an underweight positioning relative to the reference index in terms of financial average duration for most of the year. The portfolio continued to maintain diversification in terms of exposures to core and peripheral countries, limiting the core component to solely German government securities, concentrated on the medium-long part of the curve, and differentiating between Italian and Spanish bonds for the periphery. This positioning contributed very positively to the absolute performance of the bond component; in particular, the latest purchases of ten-year BTPs, made in the autumn in proximity to the temporary widening of the spread with the Bund due to the uncertainty of the administrative elections, in part made it possible to offset the negative effect deriving from the underweight in duration. The generalised drop in yields, following the exceptional stimulation manoeuvres put into play by the Central Banks to counter the economic effects of the Pandemic, in the presence of an underweight in terms of duration, compromised in fact, although not to a significant extent, the relative performance of the bond component on the management Lines in which it is present.

The stock component was characterised by investment in ETFs, selected by geographic area, which allowed for a greater degree of diversification. During the year a moderate overweight of the equity component as a whole was preferred. This positioning produced a mixed result in absolute terms, given the different performance recorded in the different geographical areas. In particular, the European market, which is prevalent in the composition of the benchmark of the Lines, generated a negative absolute performance, while the global equity component, thanks to the magnitude of the rally recorded, made it possible to offset this effect, contributing to a positive management result on all the Lines. The relative performance of the equity component also turned out to be positive at the end of the year.

B.2) INFORMATION ON THE FINANCIAL STATEMENTS

The segment's financial statements are represented by a statement of account comprising a balance sheet and income statement, supplemented by the information contained in these explanatory notes. The income statement not only registers the profit or loss, but also the changes which derive from the gathering of the contributions and from the conversion of the individual positions into benefits under the form of capital or a life annuity.

The financial statements are drawn up by showing preference for the representation of substance over form; they are expressed in Euro.

B.2.1 Measurement of the investments and description of the portfolio

The securities have been valued at market value in observance of the accounting approach for financial instruments established by CONSOB.

As of 31 December 2020, there were no derivative contract transactions present in the portfolio.

B.2.2 Criteria for estimating the expenses and income

The charges and income have been recorded on an accrual basis, irrespective of the date of collection or payment.

Interest on benefits and redemptions is calculated at the performance index known as of the date of leaving the Fund, net of taxation.

The tax regime of the defined contribution segment of the pension fund is disciplined by Article 17 of Italian Legislative Decree No. 252/2005 and subsequent amendments and additions.

The Fund Manager

PENSION FUND OF MPS CAPITAL SERVICES BANCA PER LE IMPRESE S.P.A.
BENEFITS OF THE "DEFINED CONTRIBUTION" SEGMENT
STATEMENT OF ACCOUNT AS OF 31 December 2020

(amounts in Euro)

BALANCE SHEET

ACCUMULATION PHASE ASSETS	31 December 2020	31 December 2019
10 Direct investments	-	-
20 Assets under management	52,807,234	52,190,915
20-a) Bank deposits	261,595	863,287
20-b) Receivables for repurchase agreements	-	-
20-c) Securities issued by Governments or by international bodies	28,198,080	27,640,134
20-d) Listed debt securities	952,809	586,011
20-e) Listed equity securities	-	-
20-f) Unlisted debt securities	-	-
20-g) Unlisted equity securities	-	-
20-h) UCITS Units in collective investment undertakings	22,844,454	22,025,920
20-i) Options purchased	-	-
20-l) Accrued income and prepaid expenses	195,171	208,642
20-m) Result guarantees released to the Pension Fund	-	-
20-n) Other assets of financial operations	-	550,565
20-o) Investments in insurance operations	355,125	316,356
20-p) Margins and receivables on forward/future transactions	-	-
20-q) Deposit to guarantee securities lending	-	-
30 Result guarantees acquired on individual positions	-	-
40 Assets of administrative operations	675,421	588,702
40-a) Cash and bank deposits	669,155	583,150
40-b) Intangible fixed assets	-	-
40-c) Property, plant and equipment	-	-
40-d) Other assets of administrative operations	6,266	5,552
50 Tax credits	-	2,706
TOTAL ACCUMULATION PHASE ASSETS	53,482,655	52,782,323

ACCUMULATION PHASE LIABILITIES		31 December 2020	31 December 2019
10	Liabilities of welfare operations	214,036	1,186,796
	10-a) Payables of welfare operations	214,036	1,186,796
20	Liabilities of financial operations	9,170	9,156
	20-a) Payables for repurchase agreements	-	-
	20-b) Options issued	-	-
	20-c) Accrued expenses and deferred income	-	-
	20-d) Other liabilities of financial operations	9,170	9,156
	20-e) Payables on forward/future transactions	-	-
	20-q) Payable to guarantee securities lending	-	-
30	Result guarantees recognised on individual positions	-	-
40	Liabilities of administrative operations	129,968	64,573
	40-a) Employee severance indemnity	-	-
	40-b) Other liabilities of administrative operations	129,840	64,437
	40-c) Deferral of contributions for coverage of administrative charges	128	136
50	Tax payables	170,370	687,441
TOTAL ACCUMULATION PHASE LIABILITIES		523,544	1,947,966
100	Net assets destined for benefits	52,959,111	50,834,357

The item "Tax liabilities" represents the substitute tax applied to the results of financial operations.

INCOME STATEMENT

		31 December 2020	31 December 2019
10	Balance of welfare operations	916,761	300,256
	10-a) Contributions for benefits	5,021,345	5,645,801
	10-b) Advances	(597,840)	(925,692)
	10-c) Transfers and redemptions	(3,232,032)	(4,242,755)
	10-d) Transformations into annuities	-	-
	10-e) Disbursements under the form of principal	(206,192)	(207,191)
	10-f) Premiums for ancillary benefits	(68,520)	(61,665)
	10-g) Periodic benefits	-	-
	10-h) Other welfare outgoings	-	-
	10-i) Other welfare incomings	-	91,758
20	Result of financial operations	-	-
30	Result of indirect financial operations	1,415,868	6,022,352
	30-a) Dividends and interest	449,191	686,567
	30-b) Profits and losses from financial transactions	966,677	5,335,785
	30-c) Fees and commission on securities lending	-	-
	30-d) Income and charges for repurchase agreements	-	-
	30-e) Spread on result guarantees issued to the pension fund	-	-
40	Operating charges	(37,505)	(35,092)
	40-a) Management company	(37,505)	(35,092)
	40-b) Custodian bank	-	-
	40-c) Other operating expenses	-	-
50	Margin of financial operations (20)+(30)+(40)	1,378,363	5,987,260
60	Balance of administrative operations	-	-
	60-a) Contributions to cover administrative expenses	104	128
	60-g) Sundry expenses and income	24	8
	60-i) Deferral of contributions to cover administrative expenses	(128)	(136)
70	Change in net assets destined for benefits pre-substitute tax (10)+(50)+(60)	2,295,124	6,287,516
80	Substitute tax	(170,370)	(1,090,226)
100	Change in net assets destined for benefits (70)+(80)	2,124,754	5,197,290

STATEMENT OF ACCOUNT AT 31 December 2020 - BREAKDOWN BY INVESTMENT LINE

(amounts in Euro)

BALANCE SHEET

ACCUMULATION PHASE ASSETS	C001	C002	C003	C004	C005	C006	C007
10 Direct investments	-	-	-	-	-	-	-
20 Assets under management	9,458,353	16,663,642	16,813,471	2,701,701	4,772,806	2,042,136	355,125
20-a) Bank deposits	39,770	112,090	71,765	18,920	11,770	7,280	-
20-b) Receivables for repurchase agreements	-	-	-	-	-	-	-
20-c) Securities issued by Governments or by international bodies	6,724,458	8,259,319	5,651,888	2,227,163	3,676,742	1,658,510	-
20-d) Listed debt securities	-	-	-	253,370	324,289	375,150	-
20-e) Listed equity securities	-	-	-	-	-	-	-
20-f) Unlisted debt securities	-	-	-	-	-	-	-
20-g) Unlisted equity securities	-	-	-	-	-	-	-
20-h) UCITS Units in collective investment undertakings	2,639,471	8,225,105	11,043,345	194,448	742,085	-	-
20-i) Options purchased	-	-	-	-	-	-	-
20-l) Accrued income and prepaid expenses	54,654	67,128	46,473	7,800	17,920	1,196	-
20-m) Result guarantees released to the Pension Fund	-	-	-	-	-	-	-
20-n) Other assets of financial operations	-	-	-	-	-	-	-
20-o) Investments in insurance operations	-	-	-	-	-	-	355,125
20-p) Margins and receivables on forward/future transactions	-	-	-	-	-	-	-
20-q) Deposit to guarantee securities lending	-	-	-	-	-	-	-
30 Result guarantees acquired on individual positions	-	-	-	-	-	-	-

40	Assets of administrative operations	132,615	199,282	236,204	32,604	52,908	21,808	-
	40-a) Cash and bank deposits	131,801	198,404	235,213	31,723	52,379	21,645	(2,010)
	40-b) Intangible fixed assets	-	-	-	-	-	-	-
	40-c) Property, plant and equipment	-	-	-	-	-	-	-
	40-d) Other assets of administrative operations	814	878	991	881	529	163	2,010
50	Tax credits	-	-	-	-	-	-	-
TOTAL ACCUMULATION PHASE ASSETS		9,590,968	16,862,924	17,049,675	2,734,305	4,825,714	2,063,944	355,125
ACCUMULATION PHASE LIABILITIES		C001	C002	C003	C004	C005	C006	C007
10	Liabilities of welfare operations	7,947	102,960	87,905	2,269	4,007	8,948	-
	10-a) Payables of welfare operations	7,947	102,960	87,905	2,269	4,007	8,948	-
20	Liabilities of financial operations	1,486	3,013	3,377	359	674	261	-
	20-a) Payables for repurchase agreements	-	-	-	-	-	-	-
	20-b) Options issued	-	-	-	-	-	-	-
	20-c) Accrued expenses and deferred income	-	-	-	-	-	-	-
	20-d) Other liabilities of financial operations	1,486	3,013	3,377	359	674	261	-
	20-e) Payables on forward/future transactions	-	-	-	-	-	-	-
	20-q) Payable to guarantee securities lending	-	-	-	-	-	-	-
30	Result guarantees recognised on individual positions	-	-	-	-	-	-	-
40	Liabilities of administrative operations	24,118	40,169	42,070	8,648	9,411	5,552	-

	40-a) Employee severance indemnity	-	-	-	-	-	-	-
	40-b) Other liabilities of administrative operations	24,118	40,169	41,942	8,648	9,411	5,552	-
	40-c) Deferral of contributions for coverage of administrative charges	-	-	128	-	-	-	-
50	Tax payables	44,355	50,635	52,050	6,255	14,899	1,059	1,117
	TOTAL ACCUMULATION PHASE LIABILITIES	77,906	196,777	185,402	17,531	28,991	15,820	1,117
100	Net assets destined for benefits	9,513,062	16,666,147	16,864,273	2,716,774	4,796,723	2,048,124	354,008

INCOME STATEMENT

		C001	C002	C003	C004	C005	C006	C007
10	Balance of welfare operations	123,430	(11,467)	627,364	113,265	307,621	(238,780)	(4,672)
	10-a) Contributions for benefits	847,543	1,081,172	1,790,930	185,210	971,681	93,663	51,146
	10-b) Advances	(4,896)	(185,054)	(262,630)	(48,870)	(70,454)	(14,764)	(11,172)
	10-c) Transfers and redemptions	(561,473)	(884,794)	(832,465)	(4,883)	(588,582)	(315,189)	(44,646)
	10-d) Transformations into annuities	-	-	-	-	-	-	-
	10-e) Disbursements under the form of principal	(144,534)	(1,705)	(46,024)	(13,929)	-	-	-
	10-f) Premiums for ancillary benefits	(13,210)	(21,086)	(22,447)	(4,263)	(5,024)	(2,490)	-
	10-g) Periodic benefits	-	-	-	-	-	-	-
	10-h) Other welfare outgoings	-	-	-	-	-	-	-
	10-i) Other welfare incomings	-	-	-	-	-	-	-
20	Result of financial operations	-	-	-	-	-	-	-
30	Result of indirect financial operations	359,091	430,461	389,087	55,690	120,556	16,268	44,715
	30-a) Dividends and interest	110,600	148,857	119,445	20,753	40,799	8,737	-
	30-b) Profits and losses from financial transactions	248,491	281,604	269,642	34,937	79,757	7,531	44,715
	30-c) Fees and commission on securities lending	-	-	-	-	-	-	-
	30-d) Income and charges for repurchase agreements	-	-	-	-	-	-	-
	30-e) Spread on result guarantees issued to the pension fund	-	-	-	-	-	-	-
40	Operating charges	(5,769)	(11,576)	(12,819)	(1,402)	(2,611)	(3,328)	-
	40-a) Management company	(5,769)	(11,576)	(12,819)	(1,402)	(2,611)	(3,328)	-
	40-b) Custodian bank	-	-	-	-	-	-	-
	40-c) Other operating expenses	-	-	-	-	-	-	-

50	Margin of financial operations (20)+(30)+(40)	353,322	418,885	376,268	54,288	117,945	12,940	44,715
60	Balance of administrative operations	-	-	-	-	-	-	-
	60-a) Contributions to cover administrative expenses	(9)	(15)	136	(2)	(4)	(2)	-
	60-g) Sundry expenses and income	9	15	(8)	2	4	2	-
	60-i) Deferral of contributions to cover administrative expenses	-	-	(128)	-	-	-	-
70	Change in net assets destined for benefits pre-substitute tax (10)+(50)+(60)	476,752	407,418	1,003,632	167,553	425,566	(225,840)	40,043
80	Substitute tax	(44,355)	(50,635)	(52,050)	(6,255)	(14,899)	(1,059)	(1,117)
100	Change in net assets destined for benefits (70)+(80)	432,397	356,783	951,582	161,298	410,667	(226,899)	38,926

CERTIFICATION REPORT

**Relazione della società di revisione indipendente**

ai sensi dell'articolo 14 del DLgs 27 gennaio 2010, n° 39 e dell'articolo 10 del Regolamento (UE) n° 537/2014

All'Azionista unico della
MPS Capital Services Banca per le Imprese SpA

Relazione sulla revisione contabile del bilancio d'esercizio**Giudizio**

Abbiamo svolto la revisione contabile del bilancio d'esercizio della MPS Capital Services Banca per le Imprese SpA (la Banca), costituito dallo stato patrimoniale al 31 dicembre 2020, dal conto economico, dal prospetto della redditività complessiva, dal prospetto delle variazioni del patrimonio netto, dal rendiconto finanziario per l'esercizio chiuso a tale data e dalla nota integrativa che include anche la sintesi dei più significativi principi contabili applicati.

A nostro giudizio, il bilancio d'esercizio fornisce una rappresentazione veritiera e corretta della situazione patrimoniale e finanziaria della Banca al 31 dicembre 2020, del risultato economico e dei flussi di cassa per l'esercizio chiuso a tale data in conformità agli International Financial Reporting Standards adottati dall'Unione Europea nonché ai provvedimenti emanati in attuazione dell'articolo 43 del DLgs n° 136/15.

Elementi alla base del giudizio

Abbiamo svolto la revisione contabile in conformità ai principi di revisione internazionali (ISA Italia). Le nostre responsabilità ai sensi di tali principi sono ulteriormente descritte nella sezione *Responsabilità della società di revisione per la revisione contabile del bilancio d'esercizio* della presente relazione. Siamo indipendenti rispetto alla Banca in conformità alle norme e ai principi in materia di etica e di indipendenza applicabili nell'ordinamento italiano alla revisione contabile del bilancio. Riteniamo di aver acquisito elementi probativi sufficienti ed appropriati su cui basare il nostro giudizio.

Aspetti chiave della revisione contabile

Gli aspetti chiave della revisione contabile sono quegli aspetti che, secondo il nostro giudizio professionale, sono stati maggiormente significativi nell'ambito della revisione contabile del bilancio dell'esercizio in esame. Tali aspetti sono stati da noi affrontati nell'ambito della revisione contabile e nella formazione del nostro giudizio sul bilancio d'esercizio nel suo complesso; pertanto su tali aspetti non esprimiamo un giudizio separato.

PricewaterhouseCoopers SpA

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**Aspetti chiave****Procedure di revisione in risposta agli aspetti chiave****Valutazione dei crediti verso clientela per finanziamenti valutati al costo ammortizzato***Nota integrativa:**Parte A – Politiche Contabili;**Parte B – Informazioni sullo stato patrimoniale, Sezione 4 – Attività finanziarie valutate al costo ammortizzato;**Parte C – Informazioni sul conto economico, Sezione 8 – Le rettifiche/riprese di valore nette per rischio di credito;**Parte E – Informazioni sui rischi e sulle relative politiche di copertura, Sezione 1 – Rischio di credito.*

I crediti verso clientela per finanziamenti al 31 dicembre 2020 rappresentano la parte preponderante della voce 40 b) "Attività finanziarie valutate al costo ammortizzato – crediti verso la clientela" che mostra un saldo pari ad Euro 14.854 milioni, corrispondente al 54 per cento del totale attivo del bilancio.

Le rettifiche di valore nette dei crediti verso la clientela per finanziamenti rilevate nell'esercizio ammontano a Euro 43 milioni.

Alla valutazione dei suddetti crediti è stata dedicata particolare attenzione nell'ambito della revisione contabile sia per la significatività del valore dei crediti in relazione al bilancio nel suo complesso, sia perché le relative rettifiche di valore rappresentano stime determinate dagli amministratori che incorporano elementi di soggettività e complessità connesse agli articolati processi e metodologie di valutazione utilizzate.

Il ricorso a significative assunzioni nei processi di stima rileva, in particolare, oltre che per la verifica del significativo incremento del rischio di credito per l'allocazione dei portafogli ai vari stadi di rischio, per la determinazione delle ipotesi e dei dati alimentanti i modelli di determinazione della perdita attesa su base collettiva e, per i crediti oggetto di valutazione su base analitica, per la stima dei flussi di cassa futuri attesi, delle relative tempistiche e del valore di realizzo delle eventuali garanzie.

Nello svolgimento della revisione contabile abbiamo tenuto in considerazione il controllo interno rilevante per la redazione del bilancio al fine di definire le procedure di revisione appropriate nelle circostanze.

A tal proposito si è altresì tenuto conto degli adattamenti che si sono resi necessari nell'applicazione delle metodologie già in uso per la valutazione del portafoglio crediti al fine di meglio cogliere la specificità della situazione eccezionale derivante dalla diffusione della pandemia Covid-19.

Al fine di indirizzare questo aspetto chiave, sono state svolte le seguenti principali attività, anche con il supporto degli esperti appartenenti alla rete PwC:

- comprensione, valutazione e verifica dell'efficacia operativa dei controlli rilevanti a presidio dei sistemi e degli applicativi informatici utilizzati;
- comprensione e valutazione del disegno dei controlli rilevanti in ambito di monitoraggio, classificazione e valutazione del credito e verifica dell'efficacia operativa di tali controlli;
- comprensione e verifica della appropriatezza delle politiche, delle procedure e dei modelli utilizzati per la misurazione del significativo incremento del rischio di credito, per l'allocazione dei portafogli nei vari stadi di rischio e per la determinazione della perdita attesa, sia su base collettiva che su base analitica;
- comprensione e verifica delle modalità di determinazione dei principali parametri di stima nell'ambito dei modelli utilizzati per la determinazione della perdita attesa su base collettiva, tenuto conto delle modifiche e degli adattamenti introdotti nel corso dell'esercizio. In particolare, abbiamo verificato la ragionevolezza



Inoltre, per l'esercizio in corso, tali processi di stima sono risultati ancor più complessi, in seguito agli adattamenti che si sono resi necessari nell'applicazione delle metodologie già in uso per la valutazione del portafoglio crediti al fine di meglio cogliere la specificità della situazione eccezionale derivante dalla diffusione della pandemia Covid-19, nonché dalle connesse misure governative di sostegno all'economia, tra cui, in particolare, moratorie dei pagamenti ed erogazione o rinegoziazione di finanziamenti a fronte di garanzie pubbliche. Tali circostanze hanno richiesto, come anche richiamato nelle comunicazioni e raccomandazioni delle Autorità di Vigilanza e degli Organismi preposti all'emissione dei principi contabili internazionali, la rivisitazione dei processi e delle metodologie di valutazione dei crediti, sia con riferimento alla determinazione del significativo incremento del rischio di credito, sia alla determinazione delle principali variabili e dei parametri di stima della perdita attesa su base collettiva.

Infine, in data 26 novembre 2020, sono stati ceduti crediti deteriorati per un valore netto pari a Euro 634 milioni, mediante un'operazione straordinaria di scissione parziale proporzionale in favore della controllante Banca Monte dei Paschi di Siena SpA ("Operazione Hydra").

delle stime relative all'aggiornamento degli scenari macroeconomici attesi, nonché eventuali misure di sostegno in tale ambito rilevanti (tra cui, ad esempio, le garanzie pubbliche);

- verifica su base campionaria della ragionevolezza della classificazione tra i crediti non deteriorati (primo e secondo stadio) e i crediti deteriorati (terzo stadio) sulla base delle informazioni disponibili in merito allo stato del debitore e di altre evidenze informative disponibili, ivi incluse quelle esterne ed avendo particolare riguardo per i debitori interessati da misure di moratoria del debito;
- verifica della corretta applicazione dei criteri valutativi definiti per i crediti classificati come non deteriorati (primo e secondo stadio), della completezza ed accuratezza dei dati alimentanti il modello per la determinazione della perdita attesa su base collettiva;
- con specifico riferimento ai crediti deteriorati (terzo stadio), tenuto conto della classificazione in bilancio secondo le categorie previste dal quadro normativo sull'informazione finanziaria e regolamentare applicabile, per i crediti valutati analiticamente, abbiamo verificato su base campionaria la ragionevolezza delle assunzioni formulate con riferimento all'identificazione e quantificazione dei flussi di cassa futuri attesi dalle attività di recupero, alla valutazione delle garanzie che assistono tali esposizioni ed alla stima dei tempi di recupero;
- per i crediti deteriorati valutati su base collettiva, abbiamo verificato la corretta determinazione dei principali parametri di stima nell'ambito del modello utilizzato, nonché della completezza ed accuratezza dei dati alimentanti il modello;
- procedure di analisi comparativa del portafoglio dei crediti verso clientela e dei relativi livelli di copertura e analisi degli scostamenti maggiormente significativi, prendendo in considerazione previsioni di perdita sia



interne che esterne alla Banca (quali ad es. Bollettino Economico della Banca d'Italia) e discutendo le variazioni maggiormente significative con la Direzione;

- analisi dell'Operazione Hydra e dei relativi effetti contabili;
- verifica della completezza e dell'adeguatezza dell'informativa resa secondo quanto disposto dai principi contabili internazionali, dal quadro regolamentare applicabile, nonché dalle comunicazioni e raccomandazioni emanate dalle Autorità di Vigilanza e dagli Organismi preposti all'emissione dei principi contabili internazionali a seguito della pandemia Covid-19.

Recuperabilità delle imposte differite attive

Nota integrativa:

Parte A – Politiche Contabili;

Parte B – Informazioni sullo stato patrimoniale, Sezione 10 – Le attività fiscali e le passività fiscali;

Parte C – Informazioni sul conto economico, Sezione 19 – Le imposte sul reddito dell'esercizio dell'operatività corrente.

La Banca ha iscritto al 31 dicembre 2020 Euro 72 milioni nella voce 100 dell'attivo "Attività fiscali" per imposte differite attive ("DTA") ed Euro 123 milioni nella voce 120 dell'attivo "Altre attività" per crediti verso la consolidante fiscale, riconducibili a perdite fiscali non trasformabili in crediti d'imposta ed altre differenze temporanee deducibili, la cui recuperabilità dipende dalla disponibilità di redditi imponibili fiscali futuri.

La valutazione della recuperabilità di tali attività è un aspetto rilevante per la revisione contabile sia perché il loro valore è significativo per il bilancio nel suo complesso, sia perché la valutazione è basata su un processo di stima (cd. *probability test*) che prevede l'utilizzo di assunzioni e parametri che presentano un elevato grado di soggettività.

Nello svolgimento della revisione contabile abbiamo tenuto in considerazione il sistema di controllo interno rilevante per la redazione del bilancio al fine di definire le procedure di revisione appropriate nelle circostanze.

A tal proposito si è altresì tenuto conto dell'attuale contesto di incertezza derivante dalla diffusione della pandemia Covid-19.

In particolare, al fine di indirizzare questo aspetto chiave, sono state svolte le seguenti principali attività, anche con il supporto degli esperti appartenenti alla rete PwC:

- comprensione e valutazione del processo e della metodologia adottata dagli amministratori per lo svolgimento del *probability test*;
- verifica della coerenza della metodologia adottata con il disposto del principio contabile internazionale di riferimento, tenuto conto della prassi professionale, nonché delle recenti comunicazioni e raccomandazioni delle Autorità di Vigilanza e degli Organismi preposti all'emissione dei principi contabili internazionali emanate anche a seguito della diffusione della pandemia Covid-19;



In particolare, il suddetto processo di stima, è basato su proiezioni economico-patrimoniali prospettiche della Banca che contengono ipotesi valutative quali (i) la determinazione dei redditi imponibili che si presume si manifesteranno nell'arco temporale considerato per il recupero delle DTA, (ii) i tassi di crescita utilizzati per la proiezione dei redditi imponibili fiscali nel futuro e la probabilità di manifestazione degli stessi, (iii) l'ampiezza dell'arco temporale prevedibile per il recupero delle DTA; (iv) la corretta interpretazione della normativa fiscale applicabile.

Inoltre, per l'esercizio in corso, tale processo di stima è risultato ancor più complesso tenuto conto dell'attuale contesto di incertezza derivante dalla diffusione della pandemia Covid-19.

- valutazione, anche mediante riscontro con dati esterni laddove disponibili, della ragionevolezza delle principali assunzioni qualitative e quantitative (flussi reddituali, scenari macroeconomici alternativi, tasso di sconto e di crescita) e delle diverse fattispecie di differenze temporanee deducibili, sulla base della normativa fiscale applicabile, utilizzate per la predisposizione del *probability test*;
- analisi della ragionevolezza dell'utilizzo delle proiezioni economico-patrimoniali prospettiche della Banca;
- verifica dell'accuratezza dei calcoli matematici sottostanti il *probability test* e della correttezza dei calcoli elaborati;
- verifica della completezza e adeguatezza dell'informativa resa nella nota integrativa dagli amministratori secondo quanto disposto dai principi contabili internazionali e dal quadro regolamentare applicabile, nonché dalle comunicazioni e raccomandazioni emanate dalle Autorità di Vigilanza e dagli Organismi preposti all'emissione dei principi contabili internazionali a seguito della pandemia Covid-19.

Valutazione del presupposto della continuità aziendale

Nota integrativa:

Parte A – Politiche Contabili;

Sezione 4 – Altri aspetti, Continuità aziendale.

La valutazione sul presupposto della continuità aziendale, fatta dagli amministratori, si basa essenzialmente sull'evoluzione prospettica della posizione patrimoniale e della posizione di liquidità in un orizzonte di almeno 12 mesi.

La Banca ha, inoltre, considerato l'incertezza rilevante connessa al rafforzamento patrimoniale del Gruppo Montepaschi e, in particolare, della Capogruppo Banca Monte dei Paschi di Siena SpA

La comprensione e l'analisi delle valutazioni effettuate dagli amministratori in merito alla sussistenza del presupposto della continuità

Nell'ambito del processo di revisione abbiamo svolto le procedure finalizzate a comprendere le valutazioni effettuate dagli amministratori nonché ad acquisire ed esaminare i relativi elementi probativi disponibili, in merito alla sussistenza del presupposto della continuità aziendale utilizzato per la redazione del bilancio nell'orizzonte temporale considerato dagli stessi amministratori.

In particolare, al fine di indirizzare questo aspetto chiave, sono state svolte le seguenti principali attività, anche con il supporto degli esperti appartenenti alla rete PwC:

- comprensione e valutazione, anche attraverso colloqui con la Direzione della Banca, delle considerazioni relative ai



aziendale sono un aspetto rilevante per la revisione contabile, data l'elevata interconnessione dell'attività della Banca con quella della Capogruppo Banca Monte dei Paschi di Siena SpA ed i potenziali riflessi sulla continuità aziendale della Banca che l'incertezza sopra descritta potrebbe determinare.

- possibili riflessi, ritenuti non significativi, dell'incertezza relativa alla Capogruppo sulla continuità aziendale della Banca stessa;
- ottenimento ed esame delle proiezioni, utilizzate dagli amministratori a supporto delle considerazioni indicate nel punto precedente, relative all'evoluzione della posizione patrimoniale, economica e della posizione di liquidità della Banca, sviluppate in coerenza con il Piano Strategico 2021-2025 del Gruppo Montepaschi, ed analisi di ragionevolezza delle principali assunzioni adottate per la redazione delle stesse;
 - comprensione, attraverso confronto con il revisore della Capogruppo Banca Monte dei Paschi di Siena SpA, delle considerazioni e relative conclusioni degli amministratori della stessa in merito a come hanno ritenuto superabile l'incertezza connessa al rafforzamento patrimoniale;
 - lettura critica dei verbali degli Organi Sociali;
 - analisi degli eventi successivi alla data di chiusura del bilancio;
 - acquisizione di specifiche attestazioni scritte da parte della Direzione;
 - verifica dell'adeguatezza ed esaustività dell'informativa resa dagli amministratori in merito alla valutazione della capacità della Banca di continuare ad operare come un'entità in funzionamento.

**Altri aspetti**

Il bilancio d'esercizio della MPS Capital Services Banca per le Imprese SpA per l'esercizio chiuso al 31 dicembre 2019 è stato sottoposto a revisione contabile da parte di un altro revisore che, il 11 marzo 2020, ha espresso un giudizio senza modifica su tale bilancio.

La Banca, come richiesto dalla legge, ha inserito nella nota integrativa i dati essenziali dell'ultimo bilancio della società che esercita su di essa l'attività di direzione e coordinamento. Il giudizio sul bilancio di MPS Capital Services Banca per le Imprese SpA non si estende a tali dati.

Responsabilità degli amministratori e del collegio sindacale per il bilancio d'esercizio

Gli amministratori sono responsabili per la redazione del bilancio d'esercizio che fornisca una rappresentazione veritiera e corretta in conformità agli International Financial Reporting Standards adottati dall'Unione Europea nonché ai provvedimenti emanati in attuazione dell'articolo 43 del DLgs n° 136/15 e, nei termini previsti dalla legge, per quella parte del controllo interno dagli stessi ritenuta necessaria per consentire la redazione di un bilancio che non contenga errori significativi dovuti a frodi o a comportamenti o eventi non intenzionali.

Gli amministratori sono responsabili per la valutazione della capacità della Banca di continuare ad operare come un'entità in funzionamento e, nella redazione del bilancio d'esercizio, per l'appropriatezza dell'utilizzo del presupposto della continuità aziendale, nonché per una adeguata informativa in materia. Gli amministratori utilizzano il presupposto della continuità aziendale nella redazione del bilancio d'esercizio a meno che abbiano valutato che sussistono le condizioni per la liquidazione della Banca o per l'interruzione dell'attività o non abbiano alternative realistiche a tali scelte.

Il collegio sindacale ha la responsabilità della vigilanza, nei termini previsti dalla legge, sul processo di predisposizione dell'informativa finanziaria della Banca.

Responsabilità della società di revisione per la revisione contabile del bilancio d'esercizio

I nostri obiettivi sono l'acquisizione di una ragionevole sicurezza che il bilancio d'esercizio nel suo complesso non contenga errori significativi, dovuti a frodi o a comportamenti o eventi non intenzionali, e l'emissione di una relazione di revisione che includa il nostro giudizio. Per ragionevole sicurezza si intende un livello elevato di sicurezza che, tuttavia, non fornisce la garanzia che una revisione contabile svolta in conformità ai principi di revisione internazionali (ISA Italia) individui sempre un errore significativo, qualora esistente. Gli errori possono derivare da frodi o da comportamenti o eventi non intenzionali e sono considerati significativi qualora ci si possa ragionevolmente attendere che essi, singolarmente o nel loro insieme, siano in grado di influenzare le decisioni economiche prese dagli utilizzatori sulla base del bilancio d'esercizio.

Nell'ambito della revisione contabile svolta in conformità ai principi di revisione internazionali (ISA Italia), abbiamo esercitato il giudizio professionale e abbiamo mantenuto lo scetticismo professionale per tutta la durata della revisione contabile. Inoltre:



- abbiamo identificato e valutato i rischi di errori significativi nel bilancio d'esercizio, dovuti a frodi o a comportamenti o eventi non intenzionali; abbiamo definito e svolto procedure di revisione in risposta a tali rischi; abbiamo acquisito elementi probativi sufficienti ed appropriati su cui basare il nostro giudizio. Il rischio di non individuare un errore significativo dovuto a frodi è più elevato rispetto al rischio di non individuare un errore significativo derivante da comportamenti o eventi non intenzionali, poiché la frode può implicare l'esistenza di collusioni, falsificazioni, omissioni intenzionali, rappresentazioni fuorvianti o forzature del controllo interno;
- abbiamo acquisito una comprensione del controllo interno rilevante ai fini della revisione contabile allo scopo di definire procedure di revisione appropriate nelle circostanze e non per esprimere un giudizio sull'efficacia del controllo interno della Banca;
- abbiamo valutato l'appropriatezza dei principi contabili utilizzati nonché la ragionevolezza delle stime contabili effettuate dagli amministratori, inclusa la relativa informativa;
- siamo giunti ad una conclusione sull'appropriatezza dell'utilizzo da parte degli amministratori del presupposto della continuità aziendale e, in base agli elementi probativi acquisiti, sull'eventuale esistenza di una incertezza significativa riguardo a eventi o circostanze che possono far sorgere dubbi significativi sulla capacità della Banca di continuare ad operare come un'entità in funzionamento. In presenza di un'incertezza significativa, siamo tenuti a richiamare l'attenzione nella relazione di revisione sulla relativa informativa di bilancio ovvero, qualora tale informativa sia inadeguata, a riflettere tale circostanza nella formulazione del nostro giudizio. Le nostre conclusioni sono basate sugli elementi probativi acquisiti fino alla data della presente relazione. Tuttavia, eventi o circostanze successivi possono comportare che la Banca cessi di operare come un'entità in funzionamento;
- abbiamo valutato la presentazione, la struttura e il contenuto del bilancio d'esercizio nel suo complesso, inclusa l'informativa, e se il bilancio d'esercizio rappresenti le operazioni e gli eventi sottostanti in modo da fornire una corretta rappresentazione.

Abbiamo comunicato ai responsabili delle attività di governance, identificati ad un livello appropriato come richiesto dagli ISA Italia, tra gli altri aspetti, la portata e la tempistica pianificate per la revisione contabile e i risultati significativi emersi, incluse le eventuali carenze significative nel controllo interno identificate nel corso della revisione contabile.

Abbiamo fornito ai responsabili delle attività di governance anche una dichiarazione sul fatto che abbiamo rispettato le norme e i principi in materia di etica e di indipendenza applicabili nell'ordinamento italiano e abbiamo comunicato loro ogni situazione che possa ragionevolmente avere un effetto sulla nostra indipendenza e, ove applicabile, le relative misure di salvaguardia.

Tra gli aspetti comunicati ai responsabili delle attività di governance, abbiamo identificato quelli che sono stati più rilevanti nell'ambito della revisione contabile del bilancio dell'esercizio in esame, che hanno costituito quindi gli aspetti chiave della revisione. Abbiamo descritto tali aspetti nella relazione di revisione.

**Altre informazioni comunicate ai sensi dell'articolo 10 del Regolamento (UE) 537/2014**

L'assemblea degli azionisti della MPS Capital Services Banca per le Imprese SpA ci ha conferito in data 9 dicembre 2019 l'incarico di revisione legale del bilancio d'esercizio della Banca per gli esercizi dal 31 dicembre 2020 al 31 dicembre 2028.

Dichiariamo che non sono stati prestati servizi diversi dalla revisione contabile vietati ai sensi dell'articolo 5, paragrafo 1, del Regolamento (UE) 537/2014 e che siamo rimasti indipendenti rispetto alla Banca nell'esecuzione della revisione legale.

Confermiamo che il giudizio sul bilancio d'esercizio espresso nella presente relazione è in linea con quanto indicato nella relazione aggiuntiva destinata al collegio sindacale, nella sua funzione di comitato per il controllo interno e la revisione contabile, predisposta ai sensi dell'articolo 11 del citato Regolamento.

Relazione su altre disposizioni di legge e regolamentari**Giudizio ai sensi dell'articolo 14, comma 2, lettera e), del DLgs 39/10**

Gli amministratori della MPS Capital Services Banca per le Imprese SpA sono responsabili per la predisposizione della relazione sulla gestione della MPS Capital Services Banca per le Imprese SpA al 31 dicembre 2020, incluse la sua coerenza con il relativo bilancio d'esercizio e la sua conformità alle norme di legge.

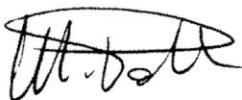
Abbiamo svolto le procedure indicate nel principio di revisione (SA Italia) n° 720B al fine di esprimere un giudizio sulla coerenza della relazione sulla gestione con il bilancio d'esercizio della MPS Capital Services Banca per le Imprese SpA al 31 dicembre 2020 e sulla conformità della stessa alle norme di legge, nonché di rilasciare una dichiarazione su eventuali errori significativi.

A nostro giudizio, la relazione sulla gestione è coerente con il bilancio d'esercizio della MPS Capital Services Banca per le Imprese SpA al 31 dicembre 2020 ed è redatta in conformità alle norme di legge.

Con riferimento alla dichiarazione di cui all'articolo 14, comma 2, lettera e), del DLgs 39/10, rilasciata sulla base delle conoscenze e della comprensione dell'impresa e del relativo contesto acquisite nel corso dell'attività di revisione, non abbiamo nulla da riportare.

Milano, 16 marzo 2021

PricewaterhouseCoopers SpA



Marco Palumbo
(Revisore legale)

REPORT OF THE BOARD OF STATUTORY AUDITORS

MM CAPITAL SERVICES BANCA PER LE IMPRESE SPA

Registered office in Florence - Via Pancaldo 4

Share capital: € 1,517,076,384.31 fully paid-up

Companies' Register of Florence and Tax ID Code 00816530482

Company subject to the direction and coordination of
Banca Monte dei Paschi di Siena S.p.A., Sole Shareholder**REPORT OF THE BOARD OF AUDITORS TO THE SHAREHOLDERS' MEETING CALLED FOR THE APPROVAL OF
THE FINANCIAL STATEMENTS AT 31 DECEMBER 2020***(pursuant to art. 153 of Italian Legislative Decree 58/1998 and art. 2429 of the Italian Civil Code)***To the shareholder Banca Monte dei Paschi di Siena SpA**

This report, prepared pursuant to art. 153 of Italian Legislative Decree 58/1998 (Consolidated Law on Finance - CLF), provides information on the activities carried out by the Board of Statutory Auditors during the year ended 31 December 2020, in compliance with the reference regulations, also taking into account the Standards of Conduct for Boards of Statutory Auditors recommended by the National Council of Chartered Accountants and Accounting Experts, the provisions contained in the Guidelines for Boards of Statutory Auditors for the subsidiaries of the Monte dei Paschi di Siena Banking Group and the pertinent regulations issued by the Bank of Italy and CONSOB.

We can also note that, as provided for in the regulatory legislation, for financial year 2020 this Board of Statutory Auditors was subject to a self-assessment audit on the part Management Search srl of Milan, in order to ascertain its independence and adequacy in terms of composition and function, taking into account the size, complexity and business carried on by the Bank, as required by the Regulatory Provisions contained in Bank of Italy Circular 285 of 17 December 2013.

The process ended on 5 March of this year, with a positive assessment in terms of the composition, functioning and exercising of the powers of the collegial body.

The Financial Statements at 31 December 2020 and the Report on Operations were sent to the Board of Statutory Auditors by the Board of Directors on 24 February 2021, to comply with the legal requirements.

1. Supervision on observance of the law and of the articles of association

The Board supervised observance of the law and of the articles of association as indicated below.

1.1 Participation at meetings of the company bodies, meetings of the Board of Statutory Auditors and meetings with company departments, exchanges of information with the independent auditing firm

During 2020, the Board of Statutory Auditors also carried out its activities through participation in the following meetings:

- Meetings of the Corporate Bodies: the Board of Statutory Auditors attended all the meetings of the Board of Directors, obtaining - in observance of what is provided for in art. 2381, paragraph 5 of the Italian Civil Code and in the Articles of Association, suitable information on the general trends in management, the foreseeable outlook and on the economic results achieved, as well as on the most

significant transactions, in terms of size and/or features, carried out by the Company; the Shareholders' Meetings held during the year, at which it was able to determine they were held in compliance with the law, Bank of Italy regulations and the Articles of Association.

In consideration of this, the Board of Statutory Auditors attests that operations, as well as the most significant transactions, were carried out in compliance with the operational guidelines of the Bank and the Group and in observance of the commitments it has made with domestic and European Supervisory Authorities.

- Meetings of the Board of Statutory Auditors: the Board of Statutory Auditors, for the tasks assigned to it, held 38 (thirty-eight) meetings which - taking into account the health emergency in being - were held in video conference. On the occasion of the said meetings it made use, in order to carry out its activities, of the assistance of the Internal Audit and other first and second level corporate control departments, of both the Bank and the Parent Company, for the services carried out by the latter.

The Board of Statutory Auditors, in relation to the regulatory provisions, also met with the corresponding body of Banca Monte dei Paschi di Siena for the periodic exchange of information, as well as to report on control and administration systems and general business performance.

- Meetings with the Independent Auditing Firm: for the periodic exchange of information several meetings were held, with both the previous and the current Independent Auditing Firm, during which the economic/financial situation for the period was examined, also for the purposes of checks regarding regulatory capital and to share items which during the audit of the annual financial statements were subject to significant attention.

The financial statements at 31 December 2020 are the first financial statements subject to auditing by the new Independent Auditor and were therefore the occasion for this Auditing Body to discuss with it also the assessment of the Bank's the administrative and accounting processes. The new independent auditor, for the purpose of preparing the financial reporting, noted the need to improve a number of information flows with the Parent Company. These are aspects not considered significant but which the Board of Statutory Auditors reserves the right to draw attention to in order to improve them.

- Board Induction: with the induction of the new Board of Directors on 2 October 2020, the Bank, also in compliance with the ECB's recommendations, prepared a plan of sessions in order to refine, complete and update the training of the new administrative body and the managers of the main corporate units on banking regulations, risks and bank management.

During the year 8 (eight) Board Induction sessions were held (and they are continuing in the current year 2021); they dealt with regulatory, legislative, administrative-management and organisational aspects of the Bank. This Auditing Body participated in all the sessions.

The sessions were prepared and carried out by the Department Managers of the relevant structures.

1.2 Considerations on transactions of greatest economic and financial significance performed by the Company and on their compliance with the law and the articles of association.

In the Report on Operations you have been informed on the salient aspects of the activity performed in 2020 by the 4 (four) Business Units in which the Bank's activity is structured and on the most significant operations carried out.

In referring you for brevity to the aforementioned Report, we consider it necessary however to point out that your Bank, for the year 2020, came out in first place in the classification of Specialists in Government Securities drawn up by the Ministry of the Economy and Finance.

Finally, for completeness of disclosure, we can note that the sale en bloc of the two adjacent assets of a commercial nature located in Florence planned in implementation of the "Real Estate Disposal" project which we reported on in our 2019 report, did not take place.

But the operation of absolutely the greatest economic and financial significance carried out in the year was the proportional partial separation which involved the positions classified as probable defaults and bad loans in favour of Banca Monte dei Paschi di Siena. This operation, named *Hydra*, is part of the process of deleveraging the aforementioned loan positions, carried out by the Group through the non-proportional partial separation with asymmetric option which involved the MPS Group and AMCO SpA.

The entire process is illustrated in the specific paragraph of the Notes to the Financial Statements to which we refer you. Following the the aforementioned extraordinary operation the share capital of € 1,669,516,282.10 was reduced by € 152,439,897.79 and now amounts to € 1,517,076,384.31 divided into 16,051 ordinary nominative shares without indication of the value.

This Board monitored the separation project continuously, from its approval by the Board of Directors on 29 June 2020 to its conclusion on 19 November 2020 with the signing of the separation deed. The above said, we attest that the operation that involved the Bank was carried out observing the legal rules and under the control and with the authorisation of the Supervisory Authorities.

Finally, we can note that despite the capital reduction the Bank maintained the amount of *own funds* well above the regulatory limits, all as detailed in point 5) below.

1.3 Indication of the existence of any atypical and/or unusual transactions, including intra-group or related party transactions.

In order to adjust its internal regulations to the changes that have occurred on the matter of transactions with associated subjects connected to the regulations of the supervisory authority, the Bank published on 3 November 2020 a new text of "*Group Directive on management of prescriptive formalities on the subject of related parties, associated subjects and obligations of bank representatives*" which cancels and replaces the previous one dating back to a few years ago.

The new administrative body, after ascertaining fulfilment of the legislative conditions, appointed a *Related Parties Committee* and approved the related Regulations.

To the extent of its responsibilities, this Board of Statutory Auditors can attest that the transactions with related parties, monitored continuously by the independent directors and by the newly-designated

Committee, and of which it was punctually made aware, were carried out in keeping with and observing the provisions of the Supervisory Authority, of Consob and more generally of the law and the aforementioned Group Regulations.

The transactions occurred for the most part with the parent company BMPS and other Group companies.

The Board of Statutory Auditors has not identified any atypical or unusual transactions with related parties or third parties.

On the basis of the information obtained, also through participation at the Board of Directors meetings and Shareholders' Meetings, as well as based on the information produced and acquired from the representatives of company departments, the Board of Statutory Auditors is able to affirm that no transactions were carried out in contrast with the law, extraneous to the company's intended purpose or in contrast with the Articles of Association, Regulations or resolutions passed.

1.4 COVID-19.

2020 must be considered the year of COVID-19, which very quickly assumed the features of a real and proper pandemic causing an unprecedented health emergency and a very serious economic crisis.

The Board of Directors in its report provides information on the initiatives of an economic nature taken by the Bank in accordance with the guidance of the national and international Authorities in order on the one hand to attenuate the effects on the banking system itself and on the other to support the economy and the incomes of businesses and households.

The Board of Statutory Auditors attests the timeliness and effectiveness of the initiatives and actions that the Bank (with the support of the Parent Company's Prevention and Protection Service) took to safeguard the health of the employees and third parties, first of all, recourse to Agile Working, in line with the legal provisions.

All the procedures for the prevention and containment of the pandemic were governed and regulated by a "Covid-19 Protocol" drawn up by the Employer, and periodically updated in relation to the evolution of the emergency and the legislation.

2. Monitoring of the principles of proper administration.

To the extent of its responsibilities, the Board of Statutory Auditors monitored the legitimacy of the decisions made by the Board of Directors and compliance with the principles of proper administration through direct observation and recommendations, the collection of information, meetings with the heads of the main company departments and with the independent auditing firm.

During the year there was only one case of the situation coming under the provisions pursuant to art. 136 of the Consolidated Law on Banking and it was completed in compliance with the rules of the law.

The Bank is subject to direction and coordination activities of the Parent Company Banca Monte dei Paschi di Siena SpA, which exercises them in compliance with art. 2497ter of the Italian Civil Code.

We can note that, as a consequence of the grouping together of the ordinary shares resolved by the extraordinary shareholders' meeting of 9 December 2019, the Bank is now owned by the sole shareholder Banca Monte dei Paschi di Siena.

3. Monitoring of the adequacy of the organisational structure and internal control system.

3.1. Organisational structure.

During the year in question, the Board of Statutory Auditors monitored the adequacy of operating processes and models with regard to the provisions contained in the Group directives and external regulations (in particular those issued by the supervisory authorities), as well as monitoring the adequacy of the organisational structure and management processes. This was done through direct observation and by gathering information from the heads of the control departments and the main company departments, both those internal to the Bank and those of the Parent Company.

3.2. Internal control system.

The Board of Statutory Auditors monitored the adequacy of the internal control system interacting continuously with the Bank's Internal Audit (AI) Unit which is responsible for control, with the objective of carrying out activities intended to identify anomalous trends and violations of internal and external procedural regulations, as well as finally assessing the effectiveness of the overall system of internal controls.

The activity in 2020 of the Internal Audit Unit was monitored by the Board of Statutory Auditors *i)* through meetings with its Manager *ii)* examining the Activity Plan prepared annually *iii)* analysing the periodic reports which highlight the results of the audits performed, the process of analysis carried out and the critical issues that have emerged which correspond with the "grade" assigned.

The Board was able to ascertain that the activity planned by the Unit for the year 2020, including the follow-up activity, was completed.

The audit actions led, in general (although they had found limited areas for improvement in monitoring the risks associated with certain processes) to a positive and in any case adequate assessment of the system of first and second level controls.

The 2020 Annual Report on the Internal Control System confirms this.

The Board of Statutory Auditors believes therefore that this system is adequate for the Company's management characteristics, meets the requirements of efficiency and efficacy in monitoring risks and complies with internal and external procedures and provisions, as authorised by the supervisory authorities.

Finally, this Board also acknowledged favourably the Planning of the activity that the Internal Audit Office intends to perform in financial year 2021, a plan that was agreed with the Parent Company's Chief Audit Executive Department.

In 2020 the Internal Audit (AI) Unit operated in an independent manner, although in coordination with the Parent Company's equivalent Unit. From the current financial year 2021 the Group Internal Audit Model following quality assessment review activity was modified with the outsourcing of this Function to the Parent Company's Internal Audit Unit (Chief Audit Executive Department).

The Anti-Money Laundering and Combating the Financing of Terrorism (ALM-CFT) Unit was, for 2020, also located within the Bank.

The Board, also for this function, followed continuously the process of strengthening the monitoring, introducing new types of control and updating the reporting carried out by the Manager of the Unit who took over during 2019 and on whom information was already given in the previous report. The AML-CFT unit periodically reported to the Board of Directors on the activities performed providing on the subject related information also on the initiatives taken to strengthen the monitoring of the various areas.

The Board of Statutory Auditors received in good time the 2020 Report on Activities and the 2021 Plan from the AML-CFT Department. The latter was prepared taking into account the results of the self-assessment exercise and the considerations made on the state of AML safeguards. This body will be responsible for monitoring precise execution of the same.

Also for the AML & Combating the Financing of Terrorism Unit on 11 November 2020 the Board of Directors resolved its centralisation at the Parent Company's Risk Management Unit. As of today, however, the resolution has not been completely implemented.

Considering that the Compliance, Risk Management and Validation Units are already outsourced, from the current year 2021 all the Bank's Control Functions will therefore be outsourced to the Parent Company.

The Board of Statutory Auditors also interacted with the Compliance Unit both on the occasion of presentation of the periodic reports (tableau de board) and each time critical issues became apparent, in particular in the Finance and Markets and Supervisory Reporting areas. In relation to this remediation plans were promptly activated and the Board monitored these constantly; they will end with the complete revision of the related processes and procedures, planned for the middle of the current year 2021.

The Validation Unit presented its 2020 Report to the Board of Directors on 24 February 2021. This reports on compliance checks carried out in the various regulatory areas, any problems identified and corrective actions implemented; all of these are also agreed during the year. The assessment of the level of compliance at 31/12/2020 of the areas monitored confirmed the judgement of the previous year: mostly "Compliant" or with a "Moderate Risk".

Together with the 2020 annual report, the Compliance Unit presented the activity plan for the year 2021, which was examined and assessed positively by this Board of Statutory Auditors.

The Risk Management Unit is managed by the Parent Company's Chief Risk Officer Department, the Head of which is also the Head of the Unit within the Bank.

During the year, the department continuously carried out its tasks on the basis of the 2020 Risk Plan, prepared at the beginning of the year.

The department sent information on a periodic basis, each time identifying any findings.

During the year for the risk thresholds that showed breaches/excesses the related escalation processes and the actions to overcome them were promptly activated.

At 31 December 2020, Regulatory Pillar 1 RWAs fell within the RAS target set for 2020. Risk Weighted Assets (RWAs) totalled € 8,217.1 million at the end of the year. In relation to the Bank's business type, these were

almost entirely represented by credit risk: 58.0% and counterparty risk: 29.57%. We can note a significant increase in the operational risk rate which from 9.12% in 2019 went up to 12.42%, in relation to the critical issues that emerged in the Finance and Reporting areas.

From the activities it performed, which did not give rise to the emergence of significant events worthy of note in this report, the Board of Statutory Auditors was able to assess the adequacy of the activities and organisation of the various departments with respect to the tasks assigned to them. Consequently, the Board of Statutory Auditors has no significant flaws to report within the Bank's internal control system.

The Board of Statutory Auditors also conferred with the Oversight Committee. This Committee's Report did not identify any particular findings and confirms the Bank's compliance with the "Organisation, Management and Control Model pursuant to Italian Legislative Decree 231/2001".

4 Monitoring of the adequacy of the administrative/accounting system and independent auditing of the accounts.

4.1 Administrative/accounting system.

The Board of Statutory Auditors monitored compliance with legal and professional norms related to maintaining accounts and preparing financial statements, mainly through information obtained from the Administration and Financial Statements Manager.

Also on the basis of information acquired from the Independent Auditing Firm, the Board of Statutory Auditors, to the extent of its responsibilities, had confirmation of the observance of the provisions of the law and the regulations related to the preparation and structure of the financial statement schedules and the contents of the report on operations.

Based on what was ascertained, the Board of Statutory Auditors considers that the administrative/accounting system is capable of correctly representing operating events.

4.2 Adequacy of the information provided, in the Directors' Report on Operations, in relation to atypical and/or unusual transactions, including intragroup and related party transactions.

Intragroup and related party transactions are adequately described in the Report on Operations and in the Notes to the Financial Statements, in compliance with what is prescribed by law.

We can confirm that during the year no atypical and/or unusual transactions were carried out.

4.3 Observations and proposals on findings and requests for information contained in the Independent Auditing Firm's Report.

The Board of Statutory Auditors examined the contents of the Auditing Report on the Annual Financial Statements at 31 December 2020, issued on 16 March 2021 which, after referencing the key aspects of the independent audit, expressed a judgement with no objections.

During the year the Board of Statutory Auditors met the auditing firm PWC, the Group's independent auditor, which took over from the Company EY on the basis of the shareholders' meeting resolution of 9 December

2019, with which there was a reciprocal exchange of information on the matters of respective responsibility and in particular: focus areas, significant risks and KAMs. From these discussions no facts worthy of being mentioned here emerged.

The Board of Statutory Auditors, in addition, examined the additional Report for the Internal Control and Audit Committee pursuant to art. 11 of Regulation (EU) 537/14, prepared on 16 March 2021 and related to the procedures implemented for the main aspects to which attention was drawn in the independent audit. On the outcomes of the checks and more in general on the independent auditing activity the Board of Statutory Auditors was punctually updated during the periodic meetings.

The most significant key aspect of the financial statements at 31 December 2020 is the assessment of the Bank being a going concern which cannot be separated from the overall situation of the Montepaschi Group.

The going concern assumption is the condition on the basis of which, in preparing the financial statements, the Bank is considered capable of continuing to perform its business over a time horizon of 12 months and this on the basis of the prospective evolution of its capital and liquidity position.

The activities and the checks carried out by the Independent Auditor of which the Board was informed confirmed the fulfilment of this condition for the aforementioned period of time.

Finally in the context of the Report pursuant to art. 11 of Regulation (EU) no. 537/14, the auditing firm confirmed its independence under the terms of art. 6, paragraph 2 letter a) of the aforesaid Regulation; this Board was therefore able to verify autonomously the existence of this requisite.

4.4 Indication of any additional tasks assigned to the Independent Auditing Firm and the related costs.

On the basis of the information received by the Board of Statutory Auditors, the tasks assigned to the Independent Auditing Firm are the ones reported in the Notes to the Financial Statements in the amounts indicated therein, referring to the independent auditing of the accounts carried out pursuant to art. 14 of Italian Legislative Decree 39 of 2010 and art. 165 of Italian Legislative Decree 58 of 1998 (Consolidated Law on Finance - CLF) and Certification Services for tax declarations.

4.5 Indication of any additional tasks assigned to the entities connected to the Independent Auditing Firm through continuous relations and the related costs.

During the year no tasks were assigned to companies in the network of the current Independent Auditing Firm.

5 Monitoring and adjustment of the regulatory capital

The Chief Risk Officer Department, as the company risk control function has the task, among other things, of verifying capital adequacy within the Internal Capital Adequacy Assessment Process (ICAAP).

Capital adequacy is subject to quarterly reporting, sent to the supervisory authorities.

The document containing the official figures for the quarter is supplemented through a monthly report which the Board of Statutory Auditors carefully monitors, making it possible to continuously monitor maintenance of the regulatory capital and the capital ratios required by the supervisory authorities.

The schedule provided below shows Regulatory Capital and the related capital ratios at 31/12/2020, after the partial separation.

EQUITY POSITION (amounts in millions of euro)	31 December 2020
Total Common Equity Tier 1 (CET1)	1,141.9
Total Tier 1 Equity	1,141.9
Total Tier 2 Equity	286.0
Regulatory capital	1,427.9
Total credit and counterparty risk assets	4,766.2
Total market risk assets	2,429.7
Total operating and other risk assets	1,021.2
Total RWA	8,217.1
Total requirements for credit and counterparty risk	381.3
Total requirements for market and concentration risk	194.4
Total requirements for operating and other risks	81.7
Total capital requirements (8% base)	657.4
CORE Tier 1 ratio	13.90%
Limits CORE Tier 1 ratio (*)	13.08%/9.36%
Total capital ratio	17.38%
Limits Total Capital ratio (*)	16.49%/14.18%
Leverage ratio	4.36%
Leverage ratio limits (*)	4.10%/3.50%

*For each ratio, the appetite and regulatory capacity limits are shown, respectively.

Own Funds came out at €/mln 1,427.9. The capital ratios - as can be easily seen - are higher than the prescribed regulatory minima.

6 Other opinions and Additional information.

6.1. Other opinions

During the year, in addition to the opinions already reported above, the Board of Statutory Auditors also expressed its opinion on:

- Conferment of appointment to entity belonging to the independent auditor's network;
- Report on the risk management activity related to the performance of investment services in 2019;
- Loan to "Connected Borrower";
- Liquidation of fee to the Oversight Committee;
- Outsourcing of the AML-CFT Unit to the Parent Company.

6.2 Additional information.

During the year, no complaints were presented to the Board of Statutory Auditors pursuant to article 2408, Civil Code, nor were any claims or notifications received.

The Board of Statutory Auditors therefore acknowledges that its supervisory activities were carried out during financial year 2020 in a normal manner and that it did not identify any significant events which require reporting in this Report.

7. Final assessments.

With regard to controls on the regular maintaining of the accounts and proper recognition of operating events, on the verification of the correspondence between the information in the financial statements and that found in the accounting records, and the compliance of the financial statements with the provisions of the law, we can remind you that these tasks are assigned to the Independent Auditing Firm. For its part, the Board of Statutory Auditors monitored the general structure given to the financial statements.

In particular, the Board of Statutory Auditors:

- verified compliance with the provisions of the law with regard to the preparation and structure of the financial statements;
- verified that the Directors, in preparing the financial statements, did not derogate from the provisions of the law pursuant to art. 2423, paragraph four of the Italian Civil Code;
- established the correspondence of the financial statements to the events and information it acquired through participation at the meetings of the company bodies, also with regard to the transactions of the greatest economic, financial and equity significance carried out by the Bank;
- verified that the Notes to the Financial Statements contain a declaration of compliance with the applicable international accounting standards and indicate the main measurement criteria adopted, as well as supporting information for the items in the balance sheet, income statement, statement of comprehensive income, statement of changes in shareholders' equity and the statement of cash flows. In particular, full information was provided with regard to the impacts deriving from application of the Standard IFRS 9;
- ascertained that the Report on Operations meets the requirements of art. 2428 of the Italian Civil Code and current regulations and is consistent with the figures and results seen in the Financial Statements; it provides adequate information about operating trends and also contains the disclosure provided for by the Oversight Committee.

Following the supervisory activities carried out, the Board of Statutory Auditors has no observations to make and expresses its opinion in favour of the proposed resolutions presented by the Board of Directors, with reference to the approval of the Annual Financial Statements at 31 December 2020 and with regard to the proposed destination of the profits for the year.

Florence, 17 March 2021

The Board of Statutory Auditors

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Mr Franco Ghiringhelli

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Ms Loredana Anna Conidi

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Ms Antonella Giachetti

SHAREHOLDERS' MEETING RESOLUTIONS

Shareholders' Meeting Resolutions

The ordinary Shareholders' Meeting, called and held on first convocation on 2 April 2021, has passed the following resolutions:

POINT 1 OF THE AGENDA

Approval of the 2020 Financial Statements, comprising the balance sheet, the income statement, the statement of changes in shareholders' equity with the related movements in reserves, the statement of cash flows and the Notes, as well as the related attachments and Report on Operations, as a whole and in their individual items, as presented by the Board of Directors.

POINT 2 OF THE AGENDA

The year 2020 ended with net profit of € 43,663,968.22 (forty three million six hundred sixty three thousand nine hundred sixty eight euros and twenty two cents) which the Shareholders' Meeting approved be destined to reduce the residual amount of the loss for 2017 carried forward.

