Monte dei Paschi di Siena Bank

Consolidated interim report as at 30 September 2019

MONTE DEI PASCHI DI SIENA
BANK SINCE 1472

Interim Report on Operations
Monte dei Paschi di Siena Group
30 September 2019

Banca Monte dei Paschi di Siena S.p.a.

Share Capital: € 10,328,618,260.14 fully paid in

Registered with the Arezzo-Siena Company Register – registration no. and tax code 00884060526

MPS VAT Group - VAT number 01483500524

Member of the Italian Interbank Deposit Protection Fund. Registered with the Register of Banks under no. 5274

Monte dei Paschi di Siena Banking Group, registered with the Register of Banking Groups

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Introduction

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obligation for listed companies to publish interim reports on operations (as at 31 March and as at 30 September) was repealed, allowing issuers to decide on a voluntary basis whether to disclose periodic financial information in addition to the annual and half-yearly reports.

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

This Interim Report on Operations, not subject to audit requirements, provides a description of the activities and results which largely characterised Montepaschi Group's operations as at 30 September 2019, both as a whole and in the various business lines into which consolidated operations are carried out.

Results in brief

Below are the main economic and financial values of the Montepaschi Group as at 30 September 2019, compared with those for the same period of the previous year and at the end of 2018, respectively. In addition, the key economic and financial indicators are provided[1], based on accounting data, corresponding to those used in internal performance management and management reporting systems, and consistent with the most commonly used metrics within the banking industry, thereby ensuring the comparability of reported figures.

Pursuant to the requirements set forth in the "Guidelines on Alternative Performance Measures" published by the European Securities and Markets Authority (ESMA) in June 2016, this section also contains the definitions and calculation methods of alternative performance measures.

Lastly, please note that the data relating to the balance sheet as at 30 September 2019 do not include the former subsidiary BMP Belgio S.A., which was sold in June.

INCOME STATEMENT AND BALANCE SHEET FIGURES

MPS GROUP

INCOME STATEMENT FIGURES (mln of Eur)	30 09 2019	30 09 2018*	Chg.
Net interest income	1,167.9	1,312.0	-11.0%
Net fee and commission income	1,078.4	1,162.9	-7.3%
Other income from banking business	196.4	59.8	n.s.
Other operating income	(82.4)	(16.3)	n.s.
Total Revenues	2,360.3	2,518.4	-6.3%
Operating expenses	(1,695.6)	(1,715.4)	-1.1%
Net impairment losses (reversals) on financial assets measured at amortised cost and at fair value through other comprehensive income	(365.1)	(368.1)	-0.8%
Net operating income	299.6	435.0	-31.1%
Net profit (loss) for the period	186.9	379.3	-50.7%
EARNING PER SHARE (EUR)	**30 09 2019**	**30 09 2018***	**Chg.**
Basic earnings per share	0.169	0.344	-50.7%
Diluted earnings per share	0.169	0.344	-50.7%
BALANCE SHEET FIGURES AND INDICATORS (mln of Eur)	**30 09 2019**	**31 12 2018***	**Chg.**
Total assets	133,875.2	130,481.0	2.6%
Loans to customers	90,470.7	86,855.5	4.2%
Direct funding	92,246.3	90,471.7	2.0%
Indirect funding	101,023.0	96,488.6	4.7%
of which: assets under management	58,603.0	55,887.7	4.9%
of which: assets under custody	42,420.0	40,600.8	4.5%
Group net equity	9,587.0	8,992.0	6.6%
OPERATING STRUCTURE	**30 09 2019**	**31 12 2018***	**Chg.**
Total headcount - end of period	22,151	23,129	-978
Number of branches in Italy	1,529	1,529	n.s.

* *The Group has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 16, thus the figures for 2018 are not fully comparable.*

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

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

ALTERNATIVE PERFORMANCE MEASURES

MPS GROUP

PROFITABILITY RATIOS (%)	30 09 2019	31 12 2018*	Chg.
Cost/Income ratio	71.8	71.5	0.3
R.O.E.	2.7	2.9	-0.2
Return on Assets (RoA) ratio	0.2	0.2	n.s.
ROTE (Return on tangible equity)	2.7	2.9	-0.2

** The Group has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 16, thus the figures for 2018 are not fully comparable.*

KEY CREDIT QUALITY RATIOS (%)	30 09 2019	31 12 2018*	Chg.
Net non-performing loans / Loans to Customers	7.6	9.0	-1.4
Gross NPL ratio	14.6	17.3	-2.7
Growth rate of gross NPL	-13.7	-60.8	47.1
Coverage non-performing loans	52.6	53.1	-0.5
Bad loans / Loans to Customers	3.4	3.7	-0.3
Loans to Customers measured at amortised cost - Stage 2/Performing exposures measured at amortised cost	13.9	15.9	-2.0
Coverage bad loans	61.7	62.4	-0.7
Net impairment losses on loans measured at amortised cost/ Loans to Customers measured at amortised cost (Provisioning)	0.5	0.7	-0.20
Texas Ratio	85.2	95.0	-9.8

** The Group has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 16, thus the figures for 2018 are not fully comparable.*

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

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

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

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

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

Growth rate of gross NPL: represents the annual growth rate of gross non-performing exposures based on the difference between annual balances. The value as at 31 December 2018 was impacted by the disposal of the NPL Portfolio in June 2018.

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

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

REGULATORY MEASURES			
MPS GROUP			
CAPITAL RATIOS (%)	**30 09 2019**	**31 12 2018***	**Chg.**
Common Equity Tier 1 (CET1) ratio	14.8	13.7	1.1
Total Capital ratio	16.7	15.2	1.5
FINANCIAL LEVERAGE INDEX (%)	**30 09 2019**	**31 12 2018***	**Chg.**
Leverage ratio - Transitional Phase	6.1	5.5	0.6
LIQUIDITY RATIO (%)	**30 09 2019**	**31 12 2018***	**Chg.**
LCR[1]	211.4	190.2	21.2
NSFR	112.9	112.3	0.6
Encumbered asset ratio	36.8	35.5	1.3
Loan to deposit ratio	98.1	96.0	2.1
Counterbalancing capacity	23.4	21.2	2.2

** The Group has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 16, thus the figures for 2018 are not fully comparable.*

[1] The comparative figure relating to the LCR as at 31 December 2018 has been restated to take into account a specific interpretation clarification provided by the supervisory authority

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

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

Executive summary

A summary of the trend in key items of the main aggregates of the Group as at 30 September 2019 is provided below:

- **Net interest income**, amounting to EUR 1,168 mln (-11.0% compared to the same period of the previous year), was mainly affected by the negative trend in commercial lending (which recorded a decrease in average volumes and a drop in the related returns). This trend was only partially offset by the greater contribution of the securities portfolio and the reduction in the cost of corporate funding, which saw a fall in average volumes and interest expense. The aggregate was also impacted by the introduction of IFRS 16, which entailed the recognition of EUR 4.9 mln in interest expense as at 30 September 2019.

- **Net fee and commission income**, amounting to EUR 1,078 mln, decreased by 7.3% compared to the previous year, mainly as a result of the reduction in income from product placement and loan commissions (the latter also affected by the elimination of one-off income recorded in the first half of 2018).

- **Other revenues from banking business**, amounting to EUR 196 mln, rose by EUR 137 mln compared to the same period of the previous year thanks to the increased contribution of the results of trading activities, also impacted by the elimination of the negative effects recorded in the first half of 2018 following the widening of the BTP-Bund spread and higher gains on disposal.

- **Other operating income (expenses)**, totalling EUR -82 mln, deteriorated by EUR 66 mln compared to the first nine months of 2018, primarily as a result of the recognition of the indemnity linked to the exercise of the right of withdrawal from the agreement entered into with Juliet.

- As a result of the trend in these aggregates, **Total revenues** amounted to EUR 2,360 mln, down 6.3% compared to the same period of the previous year.

- **Operating expenses** amounted to EUR 1,696 mln (-1.1% Y/Y). This aggregate includes **Personnel expenses**, amounting to EUR 1,081 mln, which were down on a yearly basis by 1.6%, while **Other administrative expenses**, amounting to EUR 429 mln, were down by 4.2% compared to the same period of the previous year and **Net value adjustments to (recoveries on) property, plant and equipment and intangible assets**, amounting to EUR 186 mln, were up compared to 30 September 2018 (+9.9%), also due to the effects linked to the entry into force of IFRS 16, which led to the recording of lower Other administrative expenses of EUR 44.2 mln and higher Net value adjustments to property, plant and equipment and intangible assets of EUR 40.6 mln.

- **Net impairment (losses)/reversals on financial assets measured at amortised cost and at fair value through other comprehensive income** amounted to EUR 365 mln (EUR 3 mln lower than the same period of the previous year) and had a **Provisioning Rate[2] of 53 bps**. The cost of credit as at 30 September 2019 includes the positive effects linked to the exercise of the right of withdrawal from the agreement entered into with Juliet, which caused the elimination of forecast costs from the servicing agreement, reflected in value adjustments on the loan portfolio and the revision of the NPE reduction strategy.

- As a result of the trend in these aggregates, **Net operating income** amounted to EUR 300 mln, down 31.1% compared to the same period of the previous year.

- As a result of the trend in the aforementioned income statement aggregates, together with **Net provisions for risks and charges**, totalling EUR -33 mln, **restructuring costs**, amounting to EUR -2 mln (compared to EUR -61 mln recorded in the same period of the previous year), the **DTA fee**, amounting to EUR -53 mln, costs related to the **SRF (Single Resolution Fund), DGS**

[2] Calculated as the ratio between annualised net impairment losses and Loans to Customers

(Deposit Guarantee Systems) and similar schemes, amounting to EUR -123 mln (in line with 30 September 2018), and the **partial reassessment of DTAs** on tax losses, accrued and not recognised in previous years, the Group recorded a **Net profit of EUR 187 mln,** compared to a profit of EUR 379 mln achieved in September 2018.

- **Total funding** at the end of September 2019 instead came to around **EUR 193.3 bn**, with growth in volumes by EUR 6.3 bn compared to 31 December 2018, both with reference to Indirect Funding, whose assets under Custody and Management benefited from a significant positive market effect, and with reference to Direct Funding. The latter increased thanks to the growth in Current Accounts and Time Deposits (EUR +2.9 bn), Bonds (EUR +1.9 bn) and Other forms of funding (EUR +1.4 bn), partially offset by the reduction of EUR 4.4 bn in repurchase agreements.

- **Loans to customers**, inclusive of only exposures measured at amortised cost, came to roughly **EUR 90.5 bn** as at 30 September 2019, up compared to 31 December 2018, primarily in Securities lending (EUR +1.9 bn), Repurchase Agreements (EUR +1.0 bn), Mortgages (EUR +0.9 bn) and Other loans (EUR +0.6 bn), while current accounts remained basically stable. Non-performing loans were down (EUR -0.8 bn), also impacted by disposals of UTP and bad loans. The aggregate was up compared to the end of June 2019 by EUR 3.0 bn due to more repurchase agreement transactions (EUR +1.3 bn), and growth in Securities lending (EUR +1.4 bn), Other loans (EUR +0.4 bn) and Current Accounts (EUR +0.2 bn); on the other hand, Mortgages (EUR -0.2 bn) and Non-performing loans were down slightly.

- **The net exposure in terms of non-performing loans**, which include, in addition to exposures measured at amortised cost, all cash exposures, regardless of the accounting portfolio to which they belong, with the exception of equity instruments, UCITS, financial assets held for trading and hedging derivatives, stood at **EUR 6.9 bn** at the end of September 2019, down from the beginning of the year (EUR -1.0 bn), recording in particular a decrease in unlikely to pay (the incidence of which was down from 5.2% in December 2018 to 4.0% in September 2019) and a slight reduction in bad loans, while non-performing past due exposures were stable. The percentage of coverage of non-performing loans was 52.6% (53.1% as at 31 December 2018), with the coverage of bad loans going from 62.4% in December 2018 to 61.7% in September 2019 and unlikely to pay from 44.0% in December 2018 to 41.7% in September 2019.

- With regard to capital ratios, as at 30 September 2019 the **Common Equity Tier 1 Ratio** stood at **14.8%** (compared to 13.7% at the end of 2018) and the **Total Capital Ratio** at **16.7%**, compared to 15.2% recorded at the end of December 2018.

- As at 30 September 2019 the operational liquidity position showed an **unencumbered Counterbalancing Capacity of approx. EUR 23.4 bn**, up by EUR 2.2 bn compared to 31 December 2018 thanks to the improvement in the commercial imbalance, issues made in the course of the year and the new securitisation of SME mortgages, offset only in part by bond and autocovered maturities.

Reference context

The effects of the tariffs imposed by the US and the compensatory measures taken by the countries involved, destabilising geopolitical factors (the likelihood of a hard Brexit, the political crises in Argentina and Venezuela, the military escalation on the border between Turkey and Syria) and the Chinese economic slowdown have had a negative impact on the cycle and international trade. The decision by the World Trade Organisation allowing the US to impose sanctions on 7.5 bn dollars of imports from the EU has fuelled trade tensions and foreshadows the risk that a deceleration in demand and the global cycle, amplified by the transmission effects generated by global value chains, will extend to the medium term. Small signs of thawing on the China/US tariff front after the escalation in early August.

In the United States, the economic expansion continues, driven by consumption, albeit with more limited intensity (annualised +2% QoQ for GDP from +3.1% in the first quarter), due to the decline in exports, penalised by trade tensions with China. The aggressive trade policy of the US is negatively impacting industry, although job market conditions are still good; inflation remains under control; non-residential investments are basically stagnating while residential investments are down.

In the Eurozone, weakness in consumer spending and exports is the main cause of the slowdown in GDP growth in the second quarter of the year (quarterly change of +0.2% from +0.4%). Qualitative indicators for September confirm the trend under way: in manufacturing, short-term outlooks remain negative, with the opinion on orders at its lowest level since 2013 and that on inventories at its highest levels since 2009. Amongst the countries in the area, Germany recorded a GDP decline in the second quarter (-0.1% QoQ) due to greater exposure to the Chinese market in terms of the share of exports, with the spectre of a technical recession despite the unexpected boost in German industrial production in August.

Amongst the emerging countries, in the second quarter positive signs emerged from Brazil and Russia; in China, growth remains aligned with the government's expectations, but has reached its lowest level in twenty years (GDP +6.2%), a slowdown that Beijing is combatting with a highly expansionary budgetary policy, easing control over credit growth and allowing the national currency to depreciate.

In this global context, Italy is struggling to get out of stagnation: the accounts review slightly changed the GDP profile, showing a marginal quarterly increase in the first as well as the second quarters (+0.1%). However, in August, the industrial production index recorded an annual decline for the sixth consecutive month (-1.8%), while the indicator maintained a negative profile in September, suggesting a continuation of the phase of weakness in production levels. Inflation cooled further to 0.3% YoY (preliminary, harmonised) in September 2019.

During the summer months, the stock markets experienced a phase of uncertainty following the accentuation of global trade tensions, to later recover in the wake of new accommodating monetary policy interventions by the Central Banks, which continued to guarantee liquidity to the system: since the start of the year, the Euro Stoxx has risen by roughly 19%, the FTSE MIB by more than 20%, the S&P 500 by nearly 19% and the Nikkei by more than 8%.

As at 30 September 2019, the yield on the ten-year BTP fell to 0.82%, compared to 2.74% at the end of 2018, with the spread against the Bund at around 140 bps (110 basis points lower than at the end of 2018) after the formation of the new Italian government. The ten-year German bond yield was also down considerably, after stably returning to negative territory last May (-0.57% at the end of September) as was the US ten-year treasury bond yield (at 1.66% from 2.68% at the end of 2018).

Within a scenario of general cooling in the global economy, the Central Banks intervened once again: after cutting the Federal Funds rate in July, for the first time in ten years, the Federal Reserve approved a further cut to between 1.75% and 2% in September. That same month, the ECB reduced the bank deposit rate to -0.50% with a "tiering" system, announced a new quantitative easing programme with 20 bn in bond purchases per month starting from 1 November, changed the conditions and extended the duration to three years of the quarterly long-term TLTRO III auctions and especially modified its forward guidance, without establishing precise terms for the Authority's ultra-expansionary policy, which will remain in force as long as necessary. Draghi also expressly requested budgetary policy

interventions, demonstrating how monetary policy instruments alone may be insufficient to relaunch demand for goods and services.

Shareholders

As at 30 September 2019, the Parent Company Banca Monte dei Paschi di Siena's share capital amounted to EUR 10,328,618,260.14, broken down into 1,140,290,072 ordinary shares, of which 36,280,748 treasury shares.

According to the communications received pursuant to the applicable legislation and based on other information available, the entities that, as at 30 September 2019, directly and/or indirectly hold ordinary shares representing a shareholding exceeding 3% of the share capital of the Issuer and which do not fall under the cases of exemption set forth in art. 119-bis of the Issuers' Regulation, as well as on the basis of what is set forth on the Consob institutional website, are as follows:

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

* Shares held directly and through subsidiary companies.

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

Information on the BMPS share

Share price and trends

In the third quarter, the international financial markets recorded conflicting performance: New York (S&P 500) +1.2%, Tokyo (Nikkei) +2.3% and Shanghai (SHCOMP) -2.5%. Share listings have been sustained globally by the expansionary measures launched by many Central Banks as well as a considerable decline in risk-free rates. However, the effect of this support has been attenuated by the increase in risk premiums, due to the uncertainty unleashed by the worsening of trade tensions between the United States and China and continuing doubts with respect to global macroeconomic outlooks.

The other main European exchanges are tepid, but up, with Paris at +2.5%, Madrid +0.5% and Frankfurt +0.2%. Turbulent quarter for the London stock exchange which, amidst growing fears in the markets concerning the United Kingdom's exit from the European Union with no agreement, marked -0.2%.

On the domestic front, summer was characterised by a crisis in the Italian government and its subsequent resolution. The FTSE MIB index closed with a change of +4.1% and the IT8300 index "All Italian Banks" expressed a positive trend of +7.2%.

The BMPS share closed the third quarter of 2019 at EUR 1.528, marking an increase of +41.7% and an average daily trading volume of roughly 5.8 million shares.

SHARE PRICE SUMMARY STATISTICS (from 01/07/2019 to 30/09/2019)	
Average	1.46
Minimum	1.12
Maximum	1.66

Ratings

The ratings assigned by the rating agencies are provided below:

Rating Agencies	Short-term debt	Outlook	Long-term debt	Outlook	Latest rating action (at 30/09/19)
Fitch	B	-	B	Stable	12/07/19
DBRS	R-4	Stable	B (High)	Stable	19/06/19
Moody's	(P)NP	-	Caa1	Negative	03/12/18

- On 12 July 2019, during its annual review, Fitch Ratings confirmed the long-term rating of "B" with a "Stable" outlook and the short-term rating of "B".
- On 19 June 2019, DBRS Ratings Limited confirmed the long-term rating of "B (high)" and the short-term rating of "R-4", "Stable" outlook.
- On 3 December 2018, Moody's Investors Service lowered the long-term rating to "Caa1" from "B3". The long-term rating outlook was confirmed as "Negative".

Significant events in the first nine months of 2019

On **23 January 2019**, the Parent Company completed a new covered bond issue (bonds secured by Italian residential mortgages), intended for institutional investors, amounting to EUR 1 bn. The expected rating is A1/A+/AAL (Moody's/Fitch/DBRS). The issue expires in January 2024 and envisages an annual coupon of 2%. Taking into account the "below par" reoffer price, at 99.61%, the yield to maturity was 2.08% per annum. The transaction was settled on 29 January 2019.

On **19 February 2019**, a preventive attachment decree was carried out against the Parent Company for a total of EUR 35.7 million in relation to the investigations under way by the Public Prosecutor of Milan on the reporting to DPI of the customer involved in the purchase of diamonds.

On **2 April 2019**, Fitch Ratings assigned the rating "B (stable)" to the Parent Company's long-term deposits, in line with the long-term IDR (Issuer Default Rating). This rating initiative is the result of the full depositor preference, legislation introduced in Italy on 1 January 2019 with Law Decree 181/2015, which transposed European Directive no. 2014/59/EU (BRRD) for cases of bank insolvency and resolution proceedings. The full text of Fitch Ratings's press release is available on the rating agency's website www.fitchratings.com.

On **17 April 2019**, the Parent Company announced that the company WRM Capital Asset Management S.r.l. decided not to submit an offer for the Group's IT platform. The decision was reached at the end of the analysis and evaluation process launched on 9 November 2018, when the Parent Company, although it had noted that no strategic decision had yet been taken, communicated to the market that, as part of its discussions with the various counterparties and in relation to assessments concerning the Bank's IT platform and its management, it had decided to select WRM, with Oracle and TAS as technology partners, as the only candidate in order to further analyse the fulfilment of requirements that could result in the parties continuing with negotiations and possibly formalising a binding offer. The Parent Company will continue to make strategic assessments of the IT platform and its management, in line with the 2017-2021 Business Plan.

On **21 May 2019** the Parent Company and the subsidiary Perimetro Gestione Proprietà Immobiliari S.p.A. ("Perimetro"), in execution of the resolutions passed by the Board of Directors of BMPS on 28 February 2019 and by the Extraordinary Shareholders' Meeting of Perimetro on 1 March 2019, respectively, entered into the merger deed relating to the merger by incorporation of the subsidiary Perimetro into the parent company BMPS (the "Merger"). The statutory effects of the Merger began once the registrations were completed at the competent Companies' Register of Arezzo-Siena, while the accounting and tax effects began as of 1 January 2019. The Merger did not entail any share capital increase of the acquiring company BMPS, as the entire share capital of the merged company Perimetro was already held by the acquiring company. The documentation relating to the Merger is available on BMPS's institutional website at www.gruppomps.it.

On **12 June 2019**, following the full repayment of the amount due by way of principal, interest and other accessory costs pursuant to the Loan Agreement (as amended following the meeting of noteholders held on 12 December 2018 and the resulting signing of the rider on 17 December 2018, available on the website www.gruppomps.it - in the Investor Relations section) by Banca Monte dei Paschi di Siena S.p.A., Casaforte S.r.l. proceeded with the full early redemption of the Class A notes, the Class B notes and the Class Z notes, in compliance with article 8.5 of the notes regulation (as amended following the meeting of noteholders held on 12 December 2018 and the resulting signing of the rider on 17 December 2018, the "Notes Regulation") at the Redemption Value of the Class A notes, the Redemption Value of the Class B notes and the Redemption Value of the Class Z notes, respectively, each as defined in the Notes Regulation.

On **14 June 2019**, the Parent Company finalised the closing of the sale of the entire equity investment in Banca Monte Paschi Belgio (BMPB) to funds managed by Warburg Pincus. The agreement, already announced to the market on 5 October 2018, is part of the MPS Group's disposal programme related to the 2017-2021 Restructuring Plan.

On **19 June 2019** the DBRS Ratings GmbH (DBRS) rating agency, during its annual review, confirmed all of the Parent Company's ratings, including the Long-Term Issuer Rating of "B (high)" and the Short-Term Issuer Rating of "R-4". The outlook remains "stable" for all ratings.

On **30 June 2019**, the Board of Directors of the Parent Company approved the exercise of the right of withdrawal set forth in the ten-year servicing agreement entered into with Juliet S.p.A., concerning the recovery of a significant share of the NPLs of the BMPS Group. The exercise of withdrawal entails the obligation for the Parent Company to pay a comprehensive indemnity totalling EUR 40 mln (excluding VAT). This decision was necessary in order to have the utmost flexibility in the process of accelerating the reduction of the Group's exposure to non-performing loans in line with the indications received from the regulator during the 2019 SREP and already announced to the market. The agreements have also been reviewed to reduce the overall risk index within a context of a considerable deterioration in the economic framework in recent months. The Parent Company has also expressed its willingness to launch a constructive negotiation process with Juliet and its shareholders in order to mitigate the consequences of the early dissolution of the servicing agreement in the common interest. This will take place by identifying a shared path that enables the parties involved to preserve the commercial relationship, on different bases than the current ones, combining the necessary flexibility of the Parent Company in the management of its NPEs (repurchased following the withdrawal) with the specific expertise developed by Juliet for their reduction. The agreement calls for the involvement of Juliet, under market terms and conditions, as the advisor of the Parent Company in the definition of one or more portfolios subject to disposal for a total GBV of EUR 3 bn.

On **2 July 2019**, the Parent Company successfully completed the securitisation of a portfolio of roughly EUR 2.3 bn consisting of "performing" loans disbursed to Italian SMEs. The transaction, carried out as part of the Bank's funding programme, consistent with the objectives of the Restructuring Plan, was structured in line with the requirements of the new regulation on securitisations, obtaining the verification of compliance with the STS regulation ("Simple, Transparent and Standardised" transactions) from the company *Prime Collateralised Securities (PCS) UK,* a third-party verifier; this characteristic will be effective subsequent to the date of the notice to ESMA. The transaction was carried out through the vehicle Siena PMI 2016 S.r.l, which issued the following securities: Senior notes equal to EUR 519.4 mln in Class A1 and EUR 813.0 mln in Class A2, with an AA/AAA rating from Fitch/DBRS; Mezzanine notes of EUR 225.8 mln in Class B with an AA-/AA(low) rating from Fitch/DBRS; Mezzanine notes equal to EUR 271.0 mln in Class C with a BB+/BB(high) rating from Fitch/DBRS; Mezzanine notes equal to EUR 248.5 mln in Class D with a CCC/CC rating from Fitch/DBRS; Junior notes of roughly EUR 180.7 mln, unrated. As part of the securitisation, the European Investment Bank and Cassa Depositi e Prestiti subscribed EUR 400 mln and EUR 320 mln in senior Class A2 notes, respectively. The resulting amount was allocated to disburse loans to support Italian SMEs. The remaining senior notes were allocated for placement with other institutional investors or, along with the Mezzanine and Junior notes, for use as collateral in financing transactions. The transaction was carried out with the contribution of JP Morgan as co-arranger. The texts of the press releases with the assignment of ratings by DBRS Ratings Limited and Fitch Ratings are available on the agencies' websites.

On **4 July 2019**, the Parent Company successfully concluded the placement of a Senior Preferred unsecured fixed-rate bond issue with maturity in 3 years for institutional investors, in the amount of EUR 500 mln. This transaction, carried out in line with the Bank's Funding Plan, represents the first issue of a senior unsecured instrument by the Parent Company since the launch of its restructuring plan. The issue obtained an excellent response from the market, with orders in excess of EUR 1.1 bn from roughly 100 investors. Thanks to strong demand, the return initially indicated in the range of 4.250 - 4.375% was brought to a final level of 4.0%. The security was distributed to various types of institutional investors such as Asset Managers (60.5%), Hedge Funds (23.8%), Banks/Private Banks (14.3%) and others (1.4%). The geographical breakdown was as follows: United Kingdom (37.6%), Italy (31.7%), France, Luxembourg and Switzerland (13.7%), other countries (17%). The bond, issued as part of the BMPS Euro Medium Term Notes programme, with an expected rating of Caa1 (Moody's) / B (Fitch) / B(high) (DBRS), is listed on the Luxembourg Stock Exchange. Morgan

Stanley handled the placement as Sole Lead Manager, with the support of MPS Capital Services as Co-Manager.

On **12 July 2019**, the Parent Company announced that, during the annual review, the Fitch rating agency had confirmed all of the Bank's ratings, including the Long-Term Issuer Default Rating of "B" with a "stable" outlook, the Short-Term Issuer Default Rating of "B" and the Viability Rating of "b".

On **16 July 2019**, the Parent Company successfully concluded the placement of a subordinated tier 2 fixed-rate bond issue with maturity in 10 years for institutional investors, in the amount of EUR 300 mln. This transaction, which represents a further important step by the Parent Company in the implementation of its Restructuring Plan, obtained an excellent response from the market, with final orders totalling around EUR 600 mln from more than 100 investors. Thanks to strong demand, the return initially indicated in the range of 11.00 - 11.50% was brought to a final level of 10.50%. The security was distributed to various types of institutional investors such as Asset Managers (56.7%), Hedge Funds (17.2%), Banks/Private Banks (15.8%) and others (9.5%). The geographical breakdown was as follows: United Kingdom and Ireland (53.5%), Switzerland (11.2%), France (8.2%), Italy (7.3%), Nordics (5.7%), Germany and Austria (4.6%), other countries (9.7%). The bond, issued as part of the BMPS Euro Medium Term Notes programme, with an expected rating of Caa2 (Moody's) / CCC+(Fitch), is listed on the Luxembourg Stock Exchange.
JP Morgan and Mediobanca handled the placement as Global Coordinator and Joint Bookrunner, supported by Barclays, MPS Capital Services and UBS as Joint Bookrunners.

On **31 July 2019**, the Parent Company concluded two agreements with illimity Bank S.p.A. for the disposal of non-performing loans for a total value of nearly EUR 700 mln. The first transaction regards the non-recourse disposal of non-performing loans ("NPLs") of Banca MPS and MPS Capital Services. The portfolio subject to disposal has a value of more than EUR 240 mln and includes mixed loans (secured and unsecured), originally backed by the ISMEA (Italian Institute for Services to the Agricultural and Food Markets) guarantee.
The second transaction concerns the disposal of unlikely to pay loans of Banca MPS and MPS Capital Services. The portfolio subject to disposal has a value of roughly EUR 450 million and includes primarily unsecured loans to corporate customers.

On **1 August 2019**, the Parent Company completed a disposal of non-performing loans to an affiliate of Cerberus Capital Management L.P. for a total value of around EUR 455 million. The agreement concerns the disposal of unlikely to pay loans of Banca MPS and MPS Capital Services and the portfolio includes mainly secured loans to corporate customers. This transaction joins that carried out on 31 July with illimity Bank (see above) leading, in just a few days' time, to a total of 1.15 bn of non-performing loans transferred by the MPS Group.

On **13 August 2019**, the Parent Company, continuing with its derisking process, concluded a further 4 disposals of non-performing loans for roughly EUR 340 million. The deals concluded regarded, in particular, the disposal of mixed secured and unsecured bad loans for a total of EUR 137 million, and three transactions on unlikely to pay loans, mainly secured, for EUR 202 million, on Banca MPS and MPS Capital Services portfolios.

On **17 September 2019**, the Parent Company successfully concluded the placement of a Senior Preferred unsecured fixed-rate bond issue with maturity in 5 years for institutional investors, in the amount of EUR 500 mln. The transaction obtained an excellent response from the market, with final orders of around EUR 900 million from roughly 100 investors. Thanks to strong demand, the return initially indicated, of 3.875%, was brought to a final level of 3.625%. The security was distributed to various types of institutional investors including Asset Managers (67%), Banks/Private Banks (21%), Hedge Funds (5%) and others (7%). The geographical breakdown was as follows: Italy (47%), United

Kingdom and Ireland (33%), Scandinavia (6%), Germany (6%), other countries (8%). The bond, issued as part of the BMPS Debt Issuance Programme, with an expected rating of Caa1 (Moody's) / B (Fitch) / B(high) (DBRS), is listed on the Luxembourg Stock Exchange. Barclays, J.P. Morgan, Morgan Stanley, MPS Capital Services, NatWest Markets and Société Générale managed the placement as Joint Bookrunners.

Significant events after 30 September 2019

On **1 October 2019**, the Parent Company successfully concluded the placement of a Covered Bond issue with maturity in 7 years, for institutional investors, in the amount of EUR 1 billion. The transaction was announced to the market as a benchmark issue with the indication of an initial spread of around "mid swap" + 135 basis points. The order book grew rapidly, on closure surpassing EUR 4 bn and causing a narrowing of the spread to the "mid swap" level + 125 basis points. The bond has an expected rating of A1 / A+ / AAL (Moodys/Fitch/DBRS), maturity in October 2026 and an annual coupon of 0.875%. Taking into account the "below par" re-offer price, at 99.622%, the yield to maturity is 0.931% per annum. The settlement date was scheduled for 8 October 2019. The issue was distributed to 190 institutional investors, including Fund Managers (60%), Banks and Insurance Companies (31%), with residence primarily in Germany and Austria (30%), Italy (23%), the UK (18%) and Northern European countries (14%), demonstrating the widespread international and domestic interest. Commerzbank, Credit Agricole CIB, Credit Suisse, MPS Capital Services, Santander (B&D) and UniCredit managed the placement as Joint Bookrunners.

Strategy

The Group's strategy is outlined in the Restructuring Plan approved by the European Commission on 4 July 2017, which is subject to formal monitoring by the European Commission, through a Monitoring Trustee[3]. This monitoring assumes formal relevance in verifying compliance with the commitments only at specific deadlines agreed with the European Commission.

Long-term internal estimates of economic and financial values, updated to take into account the evolution of the current macroeconomic scenario, the 2018 results and the SREP requirements (2018 SREP Decision received on 8 February 2019) are lower than what is set forth in the 2017-2021 Restructuring Plan approved by the competent authorities in July 2017, but in any event have capital ratio values that are higher than regulatory requirements.

In line with the Restructuring Plan and the updated long-term internal estimates, the Parent Company continues with the process of relaunching the commercial business.

This includes the "Pegaso Programme", which started at the end of 2018 and will continue to the end of 2019, and involves the renewal of the Parent Company's organisational and distribution model through the simplification of the sales model and processes as well as the implementation of digital transformation to support the business. The first phase of the project was completed at the end of April and led to the standardisation of organisational models currently in use by the sales network and the optimisation of regional oversight and coordination of the network.

With reference to some of the main commitments of the Restructuring Plan, pursuant to art. 114, paragraph 5 of Italian Legislative Decree 58/1998, the relative implementation status as at 30 September 2019 is described below:

- Risk containment:
  - on 30 June 2019, the Board of Directors approved the exercise of the right of withdrawal set forth in the ten-year servicing agreement entered into with Juliet S.p.A., concerning the recovery of a significant share of the Group's NPEs. This decision was necessary in order to have the utmost flexibility in the process of reducing the Group's exposure to non-performing loans in line with the indications received from the regulator in February 2019 during the SREP (Supervisory Review and Evaluation Process) and already announced to the market. At the same time, the strategy of reducing Group NPEs was reviewed, calling for an acceleration of the 2019 disposal plan so as to further drive down the percentage of gross non-performing loans out of total loans (NPE Ratio);
  - in this context, the non-performing portfolio disposal/reduction programme continued, in order to reach the target NPE ratio. In particular, as at 30 September 2019, the disposal/reduction of the unlikely to pay portfolio came to roughly EUR 1.5 bn and the disposal and deconsolidation of bad loans represented by lease agreements amounted to roughly EUR 0.4 bn. Additional disposals of bad loans were also carried out for more than EUR 0.4 bn.
- Exposure to sovereign debt:
  - financial assets measured at fair value through other comprehensive income (FVTOCI) are down by around EUR 4 bn compared to the end of 2018, referable especially to Italian government debt securities.
- Transfer of foreign banks:
  - the closing of the sale of Banca Monte Paschi Belgio S.A. to an investee of funds managed by Warburg Pincus was finalised on last 14 June (the agreement was already announced to the market in October 2018 and was concluded only in June 2019 after the acquisition was approved by the European Central Bank);

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

  - the Parent Company, as set out in the Plan, approved the orderly winding down procedure of the subsidiary Monte Paschi Banque S.A., which consists of limiting the bank's activities strictly to those targeted at the deleveraging of loans, excluding the development of new business. This procedure was necessary once unsuccessful attempts at disposal were made with the timing set forth in the commitment. Trends in the first nine months of 2019 were aligned with the objectives of the subsidiary's orderly winding down plan.
- Closure of foreign branches:
  - following the termination of banking activities (on 31 December 2018) and the extinction or transfer to Italy of the residual assets, in 2019 activities were initiated to return the licences in the three financial markets concerned. In particular, for the London branch these activities were concluded in March, for the Hong Kong branch the request for revocation was sent in March and we are still waiting for confirmation from the local authorities (HKMA) and for the New York branch preparatory activities are under way.
- Cost reduction measures:
  - departure, by activating the Solidarity Fund, of 2,550 resources between 2017 and the first nine months of 2019 (53% of the 4,800 resources expected over the course of the Plan);
  - around 590 branches closed, substantially reaching the target set for 31 December 2021. Of these, 84 branches were closed in October 2019, in line with the closures planned for the second half of the year in compliance with Plan objectives.
- Sale of property assets:

  the commitment calls for the closure of the Perimetro Consortium as well as the disposal in the course of the Plan of owned properties for an equivalent value of EUR 500 mln; from the approval of the Plan (4 July 2017) to 30 September 2019, the MPS Group sold 52 real estate assets for a value of roughly EUR 30.4 mln. In addition, for roughly EUR 31.2 mln, corresponding to 26 real estate assets, the relative preliminary sale agreements have already been entered into;
  - in the course of the first half of 2019, the "restructuring" of the Chianti Classico transaction was completed, which led to the merger of Perimetro Gestione Proprietà Immobiliari S.p.A (PGPI) into Banca Monte dei Paschi di Siena S.p.A. (with legal effects as of 22 May 2019 and with accounting and tax effects as of 1 January 2019) and the dismantling of the Casaforte securitisation through the early repayment of the securitised loan and the Casaforte notes on 12 June 2019. The transaction allows for more flexible management of the MPS Group's property assets and, by reducing the number of entities involved, to govern more effectively the administrative and decision-making processes related to the same.
- Strengthening of the capital position:
  - the issue of a subordinated Tier 2 loan, in January 2018, for the amount of EUR 750 mln, was followed in July 2019 by the placement of an additional Tier 2 issue for EUR 300 mln. The Parent Company continues to monitor market conditions in order to complete the issues of the same type set forth in the Plan.

In the 2019-2021 period, the MPS Group will need to manage the maturity of the bond for roughly EUR 9.7 bn, the most significant component of which is represented by the EUR 8 bn in senior notes with the Government Guarantee (GGB) maturing in 2020. Also in 2020, the TLTRO II to which the Parent Company had access will mature, for roughly EUR 16.5 bn (EUR 10 bn maturing in June 2020, EUR 6.5 bn in September 2020).

Against the above-mentioned maturities and starting from a robust liquidity position at the end of 2018, the Group's funding strategy for the 2019-2021 three-year period calls for recourse to diversified sources of funding distributed over time, primarily represented by new public issues (subordinated, senior and covered), bilateral funding, flows deriving from the disposal of NPLs and the repayment of the senior tranches of the SIENA NPL 2018 transaction, as well as the positive contribution of the trade balance (deposits).

In this regard, in the third quarter of 2019, the Parent Company placed Senior Preferred unsecured bond issues for a total amount of EUR 1 bn (EUR 500 mln placed on 4 July and EUR 500 mln on 17

September 2019) and successfully completed a securitisation of a portfolio of roughly EUR 2.3 bn consisting of "performing" loans disbursed to Italian SMEs. This transaction was carried out through the vehicle Siena PMI 2016 S.r.l., which issued senior class A1 notes for EUR 519.4 mln, senior class A2 notes for EUR 813 mln, Mezzanine notes for a total of EUR 745 mln and Junior notes for roughly EUR 180.7 mln. As part of the securitisation, the European Investment Bank and Cassa Depositi e Prestiti subscribed EUR 400 mln and EUR 320 mln in senior Class A2 notes, respectively. The remaining senior notes are allocated for placement with other institutional investors or, along with the Mezzanine and Junior notes, for use as collateral in financing transactions. Lastly, on 1 October 2019, the Parent Company successfully concluded the placement of a Covered Bond issue for EUR 1 bn.

The Parent Company will also evaluate access to the ECB's planned TLTRO III auctions on a case by case basis in light of the Group's liquidity situation (it chose not to participate in the first of the seven planned auctions, held on last 19 September).

Explanatory Notes

The Interim Report on Operations of the Monte dei Paschi di Siena Group as at 30 September 2019, approved by the Board of Directors on 6 November 2019, was prepared in consolidated format by applying the recognition and measurement criteria envisaged in IAS/IFRS international accounting principles issued by the International Accounting Standards Board (IASB) and the related interpretations by the IFRS Interpretations Committee, as endorsed by the European Commission and effective at the time this interim report was prepared, pursuant to EC Regulation no. 1606 of 19 July 2002.

With reference to the classification, recognition, valuation and derecognition of the various asset, liability and equity entries, as well as the methods for recognising revenue and costs, the accounting principles used for the preparation of this Interim Report on Operations are the same as those used for preparation of the Consolidated Financial Statements as at 31 December 2018, to which the reader is referred for more detail. The only exception is in relation to the entry into force, on 1 January 2019, of the provisions contained in IFRS 16 "Leases", which replaced the previous IAS 17 "Leases", as well as the interpretations IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC-15 "Operating Leases — Incentives", and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease". In this regard, please refer to the chapter "Transition to the new IFRS 16" in this report.

The additional IAS/IFRS accounting standards and related SIC/IFRIC interpretations, whose mandatory application took effect on 1 January 2019, but which had no significant impacts on the Group are listed below.

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

The document **"Amendments to IFRS 9 - Prepayment features with negative compensation"**, published with Regulation (EU) no. 2018/498 on 26 March 2018, clarifies the classification of specific prepayable financial assets when IFRS 9 applies. In particular, the loans that assume payment by the grantor in the case of early repayment (negative compensation) may be measured at amortised cost or at fair value through other comprehensive income, depending on the business model. In addition, for financial liabilities measured at amortised cost, the document establishes that the amendments that do not entail the derecognition of the liability are recognised in the income statement in the amount equal to the difference between the original contractual cash flows and the modified cash flows discounted at the effective interest rate.

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

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

On 13 March 2019, the document **"Amendments to IAS 19 - Plan Amendment, Curtailment or Settlement"** was published with Regulation (EU) no. 2019/402. This document clarifies that, after the

amendment, the curtailment or settlement of the defined benefit plan, the entity must apply the updated assumptions for the determination of its net liability (asset) for defined benefits for the rest of the reference period.

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

Transition to the new IFRS 16

The provisions introduced by IFRS 16 entailed, on first-time adoption, the recognition in the balance sheet of rights of use and the corresponding financial liabilities for real estate lease agreements and vehicle lease agreements.

The quantitative effects recognised on the first-time adoption of the standard as at 1 January 2019 are attributable almost in their entirety to real estate lease agreements and at Group level have resulted in an increase in the Balance Sheet Assets and Liabilities of EUR 301.7 mln.

Therefore, on the basis of what is described above, at the transition date, there was no impact on the book value of consolidated shareholders' equity.

For further insights on the first-time adoption of the accounting standard IFRS 16, please refer to the Consolidated Half-yaerly report as at 30 June 2019 .

Going concern

This interim report on operations was prepared based on a going concern assumption.

With regard to the indications contained in Document no. 4 of 3 March 2010, issued jointly by the Bank of Italy, Consob and IVASS, and subsequent amendments, the Group reasonably expects to continue operating in the foreseeable future and has therefore prepared the Interim Report on Operations as at 30 September 2019 under the going concern assumption.

In this regard, note that, with reference to the 2017-2021 Restructuring Plan approved by the competent authorities in July 2017, the Parent Company continues the process of relaunching the commercial business and implementing the various operating guidelines. Moreover, consistent with the Plan's provisions, initiatives continued aimed at improving the risk profile of the loan portfolio, performing and non-performing, and strengthening the regulatory capital requirements through the placement of an additional tranche of subordinated Tier 2 securities, as well as the managerial actions envisaged in the Plan. For more details with respect to such initiatives, please refer to what is described in the "Strategy" section of this Interim Report on Operations.

Income statement and balance sheet reclassification principles

Please note that to enable continuity in the description and interpretation of the Group's results, the income statement data of the subsidiary BMP Belgio S.A. are included in the individual income statement items, rather than in the item "Profit (loss) after tax from assets held for sale and discontinued operations", although it was sold on 14 June 2019. Likewise, the loss on disposal was included in the item "Restructuring costs/One-off charges".

- Item "**Net interest income**" was cleared of the negative contribution (equal to EUR -5 mln) of the Purchase Price Allocation (PPA), referring to past business combinations, which was reclassified to a specific item, and supplemented by the amount relating to the subsidiary BMP Belgio S.A. for EUR +4 mln.
- Item "**Net fee and commission income**" was supplemented by the amount relating to the subsidiary BMP Belgio S.A. for EUR +0.7 mln.
- Item "**Dividends, similar income and gains (losses) on equity investments**" incorporates item 70 "Dividends and similar income" and the relevant portion of profits from investments in the associate AXA, consolidated using the equity method, equivalent to EUR 71 mln, included in item 250 "Gains (losses) on investments". The aggregate was also cleared of dividends earned on equity securities other than equity investments (EUR 1.4 mln), reclassified to item "Net profit (loss) from trading and financial assets/liabilities measured at amortised cost and at fair value through profit and loss".
- Item "**Net profit (loss) from trading and financial assets/liabilities measured at amortised cost and at fair value through profit and loss**" includes item 80 "Net profit (loss) from trading", item 100 "Gains (losses) on disposal/repurchase of: i) financial assets measured at amortised cost; ii) financial assets measured at fair value through other comprehensive income, and iii) financial liabilities" and item 110 "Net profit (loss) from financial assets and liabilities measured at fair value through profit and loss". The item also incorporates dividends earned on securities other than equity investments (EUR 1.4 mln) and the portion relating to the subsidiary BMP Belgio S.A. for EUR -3 mln, while the capital loss on the Carige security was cleared for approximately EUR 13 mln, reclassified to "Risks and charges related to the SRF, DGS and similar schemes".
- The item "**Other operating income (expenses)**" includes the balance of item 230 "Other operating expenses/income" net of stamp duties and other expenses recovered from customers, which are included in the reclassified item "Other administrative expenses" (EUR 206 mln) and net of other expenses recovered, which are posted to "Net adjustments to/recoveries on property, plant and equipment" (EUR 11 mln). Moreover, the item includes the amount relating to the subsidiary BMP Belgio S.A. for EUR +0.1 mln.
- The item "**Personnel expenses**" includes the balance of item 190a "Personnel expenses" reduced by around EUR 12 mln, linked primarily to recoveries from INPS relating to provisions recognised for Solidarity Fund departures in 2017, reclassified to "Restructuring costs/One-off charges". The item also includes the amount of the cost relating to BMP Belgio S.A. for EUR 4 mln.
- The item "**Other administrative expenses**" includes the balance of item 190b "Other administrative expenses", reduced by the following cost items:
  - expenses, amounting to EUR 110 mln, resulting from the EU Deposit Guarantee Schemes Directive (hereinafter "DGSD") and Bank Recovery Resolution Directive (hereinafter "BRRD") for the resolution of bank crises, posted under the reclassified item "Risks and charges related to the SRF, DGS and similar schemes";
  - DTA fee, convertible into tax credit, for an amount of EUR 53 mln (posted to the reclassified item "DTA fee");
  - extraordinary charges, relating to project initiatives also aimed at complying with the commitments undertaken with DG Comp (also including the closure of domestic and foreign branches), for EUR 4 mln, stated under reclassified item "Restructuring costs/One-off charges".

This item also incorporates the stamp duty and expenses recovered from customers (EUR 206 mln) posted in the income statement under item 230 "Other operating expenses/income" and the relevant portion of the cost for the subsidiary BMP Belgio S.A. for EUR 4 mln.

- Item "**Net adjustments to (recoveries on) property, plant and equipment and intangible assets**" includes the values of items 210 "Net adjustments to/recoveries on property, plant and equipment" and 220 "Net adjustments to/recoveries on intangible assets" and was cleared of the negative contribution (EUR -11 mln) referring to the Purchase Price Allocation (PPA), which was recognised in a specific item, while it incorporates the amount of the expense recovery (EUR 11 mln) that was recorded under item 230 "Other operating expenses/income". The item also includes the amount relating to the subsidiary BMP Belgio S.A. for EUR -0.9 mln.
- Item "**Net impairment (losses)/reversals on financial assets measured at amortised cost**" includes items 130a "Financial assets measured at amortised cost" and 140 "Modification gains/(losses)". The item was supplemented by the amount relating to the subsidiary BMP Belgio S.A. for EUR +3 mln.
- Item "**Net impairment (losses)/reversals on financial assets measured at fair value through other comprehensive income**" includes item 130b "Net impairment (losses)/reversals on financial assets measured at fair value through other comprehensive income", and was supplemented by the portion relating to the subsidiary BMP Belgio S.A. for EUR +0.1 mln.
- Item "**Net provisions for risks and charges**" includes the balance of item 200 "Net provisions for risks and charges" and was supplemented with the portion relating to the subsidiary BMP Belgio S.A. for EUR -0.2 mln.
- Item "**Gains (losses) on investments**" includes the balance of item 250 "Gains (losses) on investments", cleared of the portion of profit relative to the investments in AXA, consolidated at equity and equivalent to EUR 71 mln, reclassified under item "Dividends, similar income and gains (losses) on equity investments".
- Item "**Restructuring costs/One-off charges**" mainly includes the recoveries recognised by INPS for previous early retirement/solidarity fund manoeuvres of EUR 12 mln, recognised in the financial statements under item 190a "Personnel expenses" and the charges relating to project initiatives, including for the implementation of the commitments undertaken with the DGComp, amounting to EUR 4 mln recorded in the financial statements under item 190b "Other administrative expenses", as well as the adjustment of the price relating to the sale of the subsidiary BMP Belgio S.A., amounting to EUR 11 mln, recognised in the financial statements under item 320 "Profit (loss) after tax from assets held for sale and discontinued operations".
- Item "**Risks and charges related to the SRF, DGS and similar schemes**" includes the charges deriving from EU directives DGSD for deposit guarantee and BRRD for the resolution of bank crises, amounting to EUR 110 mln, recognised in the financial statements under item 190b "Other administrative expenses", as well as the capital loss on the Carige security for approximately EUR 13 mln, recognised in the financial statements under item 110 "Net profit (loss) from financial assets and liabilities measured at fair value through profit and loss".
- Item "**DTA Fee**" includes the expenses related to the fees paid on DTAs that can be converted into tax credit as set forth in art. 11 of Law Decree no. 59 of 3 May 2016, converted into Law no. 119 of 30 June 2016, recognised in the Financial Statements under item 190b "Other administrative expenses", for EUR 53 mln.
- Item "**Tax expense (recovery)**" includes the balance of item 300 "Tax expense (recovery) on income from continuing operations" cleared of the theoretical tax component relating to the Purchase Price Allocation (PPA), which was reclassified to a specific item for an amount of EUR 5 mln.
- Item "**Profit (loss) after tax from assets held for sale and discontinued operations**" was cleared of the profit (loss) for the period of the subsidiary (EUR -4 mln) posted in the individual income statement items as well as the effects of the price adjustment relating to the sale of the subsidiary BMP Belgio S.A. amounting to EUR 11 mln, reclassified under "Restructuring costs/One-off charges".

- The overall negative effects of the **Purchase Price Allocation (PPA)** were reclassified to a specific item, excluding them from affected income statement items (in particular "Net interest income" for EUR -5 mln and "Net adjustments to/recoveries on property, plant and equipment and intangible assets" for EUR -11 mln, net of a theoretical tax burden of EUR +5 mln which was added the item).

Balance sheet reclassification principles

- Asset item "**Financial assets measured at fair value**" includes balance sheet items 20 "Financial assets measured at fair value through profit and loss" and 30 "Financial assets measured at fair value through other comprehensive income".
- Asset item "**Other assets**", includes balance sheet items 50 "Hedging derivatives", 60 "Change in value of macro-hedged financial assets", 110 "Tax assets", 120 "Non-current assets held for sale and discontinued operations" and 130 "Other assets".
- The liability item "**Deposits from customers and securities issued**", includes items 10b "Financial liabilities measured at amortised cost - deposits from customers", 10c "Financial liabilities measured at amortised cost - debt securities issued" and 30 "Financial liabilities designated at fair value".
- Liability item "**Other liabilities**" includes balance sheet items 40 "Hedging derivatives", 50 Fair value change of financial liabilities in hedged portfolio", 60 "Tax liabilities", 70 "Liabilities associated with non-current assets held for sale and discontinued operations" and 80 "Other liabilities".

Furthermore, the balance sheet data as at 30 September 2019 (and as at 30 June 2019) do not include BMP Belgio S.A., as the entire equity investment was sold in June. To allow for continuity in the interpretation of the Group's results, the balance sheet data of the subsidiary as at 31 March 2019, 31 December 2018 and 30 September 2018 were included in the individual items of the balance sheet, although it was being disposed of at that time.

Reclassified income statement

Reclassified Consolidated Income Statement				
	30 09 2019	30 09 2018*	Change	
MONTEPASCHI GROUP			Abs.	%
Net interest income	1,167.9	1,312.0	(144.1)	-11.0%
Net fee and commission income	1,078.4	1,162.9	(84.5)	-7.3%
Income from banking activities	**2,246.3**	**2,474.9**	**(228.6)**	**-9.2%**
Dividends, similar income and gains (losses) on equity investments	80.3	55.0	25.3	46.0%
Net profit (loss) from trading and financial assets/liabilities measured at amortised cost and at fair value through profit and loss	114.9	5.8	109.1	n.s.
Net profit (loss) from hedging	1.2	(1.0)	2.2	n.s.
Other operating income (expenses)	(82.4)	(16.3)	(66.1)	n.s.
Total Revenues	**2,360.3**	**2,518.4**	**(158.1)**	**-6.3%**
Administrative expenses:	(1,509.8)	(1,546.3)	36.5	-2.4%
a) personnel expenses	(1,080.5)	(1,098.0)	17.5	-1.6%
b) other administrative expenses	(429.3)	(448.3)	19.0	-4.2%
Net adjustments to (recoveries on) tangible and intangible assets	(185.8)	(169.1)	(16.7)	9.9%
Operating expenses	**(1,695.6)**	**(1,715.4)**	**19.7**	**-1.1%**
Pre Provision Profit	**664.7**	**803.1**	**(138.4)**	**-17.2%**
Net impairment losses (reversals) on:	**(365.1)**	**(368.1)**	**3.0**	**-0.8%**
a) financial assets measured at amortised cost	(363.0)	(361.1)	(1.9)	0.5%
b) Financial assets measured at fair value through other comprehensive income	*(2.1)*	*(7.0)*	4.9	-70.0%
Net operating income	**299.6**	**435.0**	**(135.4)**	**-31.1%**
Net provisions for risks and charges	(32.8)	(15.3)	(17.5)	n.s.
of which commitments and guarantees issued	*37.5*	*37.2*	*0.3*	*0.8%*
Gains (losses) on investments	3.7	1.0	2.7	n.s.
Restructuring costs / One-off costs	(2.5)	(61.1)	58.6	-95.9%
Risks and charges related to the SRF, DGS and similar schemes	(123.2)	(123.5)	0.3	-0.3%
DTA Fee	(52.9)	(53.1)	0.2	-0.5%
Gains (losses) on disposal of investments	1.1	50.1	(49.0)	-97.8%
Profit (loss) before tax from continuing operations	**93.0**	**233.0**	**(140.0)**	**-60.1%**
Tax expense (recovery)	104.5	164.5	(60.0)	-36.5%
Net profit (loss) for the period including non-controlling interests	**197.5**	**397.5**	**(200.1)**	**-50.3%**
Net profit (loss) attributable to non-controlling interests	(0.1)	0.1	(0.2)	n.s.
Profit (loss) for the period before PPA	**197.6**	**397.4**	**(199.9)**	**-50.3%**
PPA (Purchase Price Allocation)	(10.7)	(18.1)	7.5	-41.2%
Net profit (loss) for the period	**186.9**	**379.3**	**(192.4)**	**-50.7%**

** The Group has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 16, thus the figures for 2018 are not fully comparable.*

Quarterly trend in reclassified consolidated income statement

MONTEPASCHI GROUP	2019			2018*			
	3°Q 2019	2°Q 2019	1°Q 2019	4°Q 2018	3°Q 2018	2°Q 2018	1°Q 2018
Net interest income	354.7	404.3	408.9	430.8	442.1	448.5	421.5
Net fee and commission income	355.9	363.7	358.8	360.4	353.4	403.0	406.5
Income from banking activities	**710.6**	**768.0**	**767.7**	**791.2**	**795.5**	**851.5**	**828.0**
Dividends, similar income and gains (losses) on equity investments	36.9	27.5	15.9	19.5	20.7	16.2	18.1
Net profit (loss) from trading and financial assets/liabilities measured at amortised cost and at fair value through profit and loss	72.9	14.9	27.1	(18.8)	(2.0)	(29.5)	37.4
Net profit (loss) from hedging	1.8	(0.6)	-	0.8	(1.2)	(0.9)	1.1
Other operating income (expenses)	(11.0)	(63.0)	(8.3)	(23.6)	(3.4)	(5.1)	(7.8)
Total Revenues	**811.1**	**746.7**	**802.5**	**769.1**	**809.5**	**832.2**	**876.8**
Administrative expenses:	(491.8)	(509.7)	(508.2)	(554.3)	(504.2)	(526.4)	(515.7)
a) personnel expenses	(354.5)	(357.4)	(368.6)	(364.9)	(364.0)	(366.2)	(367.8)
b) other administrative expenses	(137.4)	(152.3)	(139.7)	(189.5)	(140.2)	(160.1)	(147.9)
Net adjustments to (recoveries on) tangible and intangible assets	(57.4)	(67.6)	(60.9)	(81.0)	(56.9)	(55.1)	(57.1)
Operating expenses	**(549.2)**	**(577.3)**	**(569.1)**	**(635.4)**	**(561.1)**	**(581.4)**	**(572.8)**
Pre Provision Profit	**261.9**	**169.4**	**233.4**	**133.7**	**248.3**	**250.8**	**304.0**
Net impairment losses (reversals) on:	**(113.3)**	**(87.5)**	**(164.3)**	**(256.5)**	**(121.4)**	**(108.8)**	**(137.9)**
a) financial assets measured at amortised cost	*(112.1)*	*(86.7)*	*(164.2)*	*(267.0)*	*(115.9)*	*(108.1)*	*(137.1)*
b) Financial assets measured at fair value through other comprehensive income	*(1.2)*	*(0.8)*	*(0.1)*	*10.5*	*(5.5)*	*(0.7)*	*(0.8)*
Net operating income	**148.6**	**81.9**	**69.1**	**(122.8)**	**126.9**	**142.0**	**166.1**
Net provisions for risks and charges	(8.7)	(6.8)	(17.3)	(53.7)	(16.6)	(51.3)	52.6
of which commitments and guarantees issued	*3.2*	*12.5*	*21.8*	*(22.3)*	*(9.5)*	*1.8*	*44.9*
Gains (losses) on investments	0.5	2.4	0.9	0.3	5.0	0.0	(4.0)
Restructuring costs / One-off costs	(5.6)	0.9	2.2	(140.6)	(27.8)	(16.3)	(17.0)
Risks and charges related to the SRF, DGS and similar schemes	(35.8)	(26.6)	(60.9)	(7.6)	(28.6)	(25.9)	(69.0)
DTA Fee	(17.7)	(17.3)	(17.9)	(17.7)	(17.7)	(17.7)	(17.7)
Gains (losses) on disposal of investments	0.4	0.1	0.6	(0.1)	0.2	49.6	0.3
Profit (loss) before tax from continuing operations	**81.7**	**34.6**	**(23.3)**	**(342.2)**	**41.4**	**80.4**	**111.3**
Tax expense (recovery)	13.3	34.4	56.7	245.7	55.0	26.1	83.3
Net profit (loss) for the period including non-controlling interests	**95.0**	**69.0**	**33.5**	**(96.6)**	**96.4**	**106.5**	**194.6**
Net profit (loss) attributable to non-controlling interests	(0.1)	(0.2)	0.2	-	0.1	-	-
Profit (loss) for the period before PPA	**95.1**	**69.2**	**33.3**	**(96.6)**	**96.3**	**106.5**	**194.6**
PPA (Purchase Price Allocation)	(1.3)	(4.0)	(5.4)	(4.1)	(5.5)	(5.6)	(7.0)
Net profit (loss) for the period	**93.8**	**65.2**	**27.9**	**(100.7)**	**90.8**	**100.9**	**187.6**

** The Group has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 16, thus the figures for 2018 are not fully comparable.*

Revenue trends

As at 30 September 2019, the Group realised total **Revenues** of **EUR 2,360 mln**, down 6.3% compared to the same period of the previous year, particularly following the decline in Net interest income and Net fee and commission income, the deterioration in Other operating income and expenses attributable primarily to the indemnity linked to the unwinding of the Juliet agreement, partially offset by the improvement in other revenues from banking business. Compared to the previous quarter, which was impacted by the indemnity due on the exercise of the right of withdrawal from the Juliet agreement (EUR 40 mln, excluding VAT), there was instead revenue growth of EUR 64 mln, despite the decline in Net interest income, thanks to gains from the disposal of securities.

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

SEGMENT REPORTING	Business Segments								Corporate Center		Total MPS Group	
Primary segment	Retail banking		Wealth Management		Corporate banking		Widiba					
(EUR mln)	30/09/19	Chg % Y/Y*	30/09/19	Chg % Y/Y*	30/09/19	Chg % Y/Y*	30/09/19	Chg % Y/Y*	30/09/19	Chg % Y/Y*	30/09/19	Chg % Y/Y*
PROFIT AND LOSS AGGREGATES												
Net interest income	746.4	2.6%	10.6	n.s.	358.5	-15.6%	43.9	20.4%	8.5	-92.9%	1,167.9	-11.0%
Net fee and commission income, of which	879.1	-7.0%	80.9	-8.5%	220.0	-6.0%	8.2	-32.7%	(109.8)	-5.8%	1,078.4	-7.3%
fee and commission income	*894.0*	*n.d.*	*81.9*	*n.d.*	*253.1*	*n.d.*	*51.7*	*n.d.*	*(6.3)*	*n.d.*	*1,274.3*	*-5.7%*
fee and commission expense	*(14.8)*	*n.d.*	*(1.0)*	*n.d.*	*(33.1)*	*n.d.*	*(43.5)*	*n.d.*	*(103.5)*	*n.d.*	*(195.9)*	*4.1%*
Other income	58.2	n.s.	15.7	n.s.	(2.8)	-82.6%	0.0	n.s.	125.3	76.3%	196.4	n.s.
Other operating expense/income	11.5	-36.8%	0.2	-48.2%	(12.6)	16.1%	(0.3)	n.s.	(81.2)	n.s.	(82.4)	n.s.
Total income	1,695.2	0.0%	107.4	14.9%	563.1	-10.9%	51.8	6.6%	(57.3)	n.s.	2,360.3	-6.3%

* *The Group has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 16, thus the figures for 2018 are not fully comparable.*

Net interest income as at 30 September 2019 amounted to **EUR 1,168 mln**, down by 11.0% compared to the same period of 2018, mainly reflecting the negative trend in commercial loans, which recorded a decrease in average volumes and a drop in the relative returns. This trend was only partially offset by the greater contribution of the securities portfolio and the reduction in the cost of corporate funding, which saw a fall in average volumes and interest rates. With respect to the previous quarter, there was a 12.3% decline primarily following the lower contribution of commercial components (lower interest income due to the decline in volumes and rates on interest-bearing loans), and growth in the cost of market funding, linked to the issue of institutional bonds in 3Q19. The aggregate was also impacted by the introduction of IFRS 16, which entailed the recognition of around EUR 4.9 mln in interest expense as at 30 September 2019.

Items	30 09 2019	30 09 2018*	Chg. Y/Y		3°Q 2019	2°Q 2019	Chg. Q/Q	
			Abs.	%			Abs.	%
Loans to customers measured at amortised cost	1,266.9	1,355.0	(88.2)	-6.5%	399.7	424.1	(24.3)	-5.7%
Securiries issued	(184.6)	(210.4)	25.8	-12.3%	(71.4)	(47.6)	(23.8)	50.0%
Net Differentials on hedging derivatives	(7.0)	(3.4)	(3.6)	n.s.	0.5	(2.6)	3.1	n.s.
Loans to Banks measured at amortised cost	(18.9)	2.0	(20.9)	n.s.	(11.1)	(3.4)	(7.7)	n.s.
Trading portfolios	31.0	26.9	4.1	15.2%	9.1	10.2	(1.1)	-10.8%
Portfolios measured at fair value	8.9	34.0	(25.1)	-73.8%	2.2	3.5	(1.3)	-37.1%
Financial assets measured at fair value through other comprehensive income	65.2	105.5	(40.3)	-38.2%	19.8	21.9	(2.1)	-9.6%
Other net interest income	6.4	2.4	4.0	n.s.	5.8	(1.8)	7.6	n.s.
Net interest income	**1,167.9**	**1,312.0**	**(144.1)**	**-11.0%**	**354.7**	**404.3**	**(49.6)**	**-12.3%**
of which: interest income on impaired financial assets	149.6	210.3	(60.7)	-28.9%	42.0	54.1	(12.1)	-22.4%

** The Group has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 16, thus the figures for 2018 are not fully comparable.*

Net fee and commission income in the first nine months of 2019, totalling **EUR 1,078 mln**, declined by 7.3% compared to the same period of the previous year. This trend was primarily impacted by the reduction in income from the placement of products and commissions on loans, the latter affected by the decline in loans in the first nine months of 2019 and the elimination of around EUR 15 mln in one-off income recorded in the first half of 2018 linked to the renewal of the Compass SPA product distribution agreement. This trend marks a decline compared to the previous quarter as well, mainly in commissions on loans and commissions from services, while income on asset management improved (particularly for product placement).

Items	30 09 2019	30 09 2018	Chg Y/Y		3°Q 2019	2°Q 2019	Chg Q/Q	
			abs.	%			abs.	%
Commission from asset management	**473.2**	**509.4**	**(36.2)**	**-7.1%**	**162.3**	**156.2**	**6.1**	**3.9%**
Product placement	156.7	180.9	(24.2)	-13.4%	55.3	52.1	3.2	6.2%
Product continuing	258.2	266.4	(8.2)	-3.1%	88.1	85.2	2.9	3.4%
Securities service	29.0	29.7	(0.7)	-2.5%	9.9	8.6	1.3	15.2%
Protection	29.3	32.4	(3.1)	-9.6%	9.0	10.3	(1.3)	-12.8%
Commission from traditional banking services	**738.9**	**793.1**	**(54.2)**	**-6.8%**	**240.5**	**251.8**	**(11.3)**	**-4.5%**
Credit commissions	352.0	399.1	(47.2)	-11.8%	111.9	120.6	(8.7)	-7.2%
Foreing Office	38.4	41.5	(3.1)	-7.5%	12.7	13.3	(0.6)	-4.4%
Commissions from services	348.5	352.4	(3.9)	-1.1%	115.9	117.9	(2.0)	-1.7%
Other net fee and commissions	**(133.7)**	**(139.6)**	**5.9**	**-4.2%**	**(46.9)**	**(44.3)**	**(2.7)**	**6.0%**
Net fee and commissions	**1,078.4**	**1,162.9**	**(84.5)**	**-7.3%**	**355.9**	**363.7**	**(7.8)**	**-2.1%**

Dividends, similar income and gains (losses) on equity investments totalled **EUR 80 mln**, mainly due to the AXA-MPS contribution[4]. This component was up compared to 30 September 2018 (EUR +25.3 mln) as well as compared to the previous quarter (EUR +9.4 mln).

Net profit (loss) from trading and financial assets/liabilities measured at amortised cost and at fair value through profit and loss as at 30 September 2019 totalled **EUR 115 mln**, up from the same period of the previous year (EUR 6 mln). The analysis of the main aggregates shows the following:

- **Net profit (loss) from trading of EUR +89 mln**, up compared to 30 September 2018 due to the higher contribution made by the subsidiary MPSCS which benefitted from the elimination of the negative effects recorded in the first nine months of 2018 due to the expansion of the BTP-Bund spread. The result in 3Q19 also marked growth compared to the previous quarter, again thanks to the contribution of the subsidiary MPSCS;
- **Net profit (loss) from financial assets/liabilities measured at fair value through profit and loss was a negative EUR 74 mln**, a deterioration compared to the same period of the previous year (EUR -64 mln) due in particular to the negative impacts recognised on loans. The result for 3Q19 was also worse than 2Q19.
- **Gains on disposal/repurchase came to EUR 100 mln**, up compared to EUR 60 mln in the same period of the previous year, thanks to higher gains from the sale of securities. The result for 3Q19 was also up compared to 2Q19 following the positive contribution of the above-mentioned security sales, offset only in part by the negative effects linked to loan disposals.

Items	30 09 2019	30 09 2018	Chg. Y/Y		3°Q 2019	2°Q 2019	Chg. Q/Q	
			Abs.	%			Abs.	%
Financial assets held for trading	180.7	(147.4)	328.1	n.s.	114.2	49.0	65.2	n.s.
Financial trading liabilities	(148.6)	154.3	(302.9)	n.s.	(93.7)	(32.5)	(61.2)	n.s.
Exchange rate effects	17.5	18.8	(1.3)	-6.9%	4.0	4.4	(0.4)	-9.1%
Derivatives	39.0	(15.5)	54.5	n.s.	5.0	2.3	2.7	n.s.
Trading results	**88.6**	**10.2**	**78.4**	**n.s.**	**29.4**	**23.2**	**6.3**	**27.2%**
Net profit (loss) from financial assets and liabilities measured at fair value through profit and loss	(73.6)	(64.3)	(9.3)	14.5%	(39.0)	(14.2)	(24.8)	n.s.
Disposal / repurchase	99.9	59.9	40.0	66.8%	82.4	5.8	76.6	n.s.
Net profit (loss) from trading and financial assets and liabilities measured amortised cost and measuerd at fair value through profit and loss	**114.9**	**5.8**	**109.1**	**n.s.**	**72.9**	**14.9**	**58.0**	**n.s.**

The following items also make up Revenues:

- **Net profit (loss) from hedging at EUR +1.2 mln**, an improvement compared to 30 September 2018 (EUR -1 mln) and 30 June 2019 (EUR -0.6 mln);
- **Other operating income (expenses) was negative by EUR 82 mln**, a deterioration compared to the result in the first nine months of 2018 (equal to EUR -16 mln) due to the recognition of the indemnity linked to the exercise of the right of withdrawal from the agreement entered into with Juliet in 2Q19. The aggregate improved compared to the previous quarter (EUR -63 mln) even excluding the effects linked to the unwinding of the agreement with Juliet.

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

Operating expenses

Note that comparisons with 2018 figures are purely indicative, insofar as the data are inconsistent following the introduction of the new IFRS 16, which led to the recording of lower administrative expenses of EUR 44.2 mln and higher net value adjustments to property, plant and equipment and intangible assets of EUR 40.6 mln.

Operating expenses totalled **EUR 1,696 mln** as at 30 September 2019, down 1.1% on the previous year. The 3Q19 figure was down 4.9% from 2Q19, with savings of around EUR 28 mln, due mainly to the trend in Other administrative expenses and Net value adjustments to property, plant and equipment and intangible assets. A closer look at the individual aggregates reveals the following:

- **Administrative expenses** totalled **EUR 1,510 mln**, down compared to the same period of the previous year by roughly EUR 36.5 mln. Expenses in 3Q19 were down by 3.5% also compared to 2Q19. A breakdown of the aggregate shows:
  - **Personnel expenses**, amounting to **EUR 1,081 mln**, were down on an annual basis by 1.6%, with an expense in 3Q19 down by 0.8% compared to the previous quarter, primarily thanks to the positive effects deriving from the further reduction in headcount linked to the early retirement procedure, which entailed 100 departures on 1 May, and the deconsolidation of BMP Belgio S.A. Compared to 30 September 2018, the expense trend also benefitted from the reduction in headcount linked to the early retirement procedure, which resulted in 650 departures on 1 April, aside from contractual increases recorded since October 2018, the effects of the agreement on personnel costs as at 31 December 2018 and the renewal of the second-level bargaining agreement (12 July 2019).
  - **Other administrative expenses** amounted to **EUR 429 mln**, down by 4.2% compared to the same period of the previous year. As mentioned above, in the comparison with the first nine months of 2018, this aggregate was impacted by the first-time adoption of IFRS 16, net of which there would have been an upward trend, primarily due to higher expenses in the debt collection segment. Compared to 2Q19, there was a 9.8% reduction due to lower expenses, particularly in the ICT, debt collection and logistics segments.
- As at 30 September 2019, **Net adjustments to (recoveries on) property, plant and equipment and intangible assets** totalled **EUR 186 mln**, a deterioration of 9.9% compared to the same period of the previous year, following the effects of the entry into force of IFRS 16 (cleared of such effects, the trend would have been a reduction of roughly EUR 24 mln). The aggregate improved compared to the previous quarter by around 15.1% due to the recognition of lower impairment on real estate in 3Q19.

Type of transaction	30 09 2019	30 09 2018*	Chg Y/Y		3°Q 2019	2°Q 2019	Chg Q/Q	
			Abs.	%			Abs.	%
Wages and salaries	(770.6)	(792.7)	22.1	-2.8%	(251.2)	(254.6)	3.4	-1.3%
Social-welfare charges	(211.2)	(216.2)	5.0	-2.3%	(68.6)	(69.8)	1.2	-1.7%
Other personnel expenses	(98.7)	(89.1)	(9.6)	10.8%	(34.7)	(33.0)	(1.6)	4.9%
Personnel expenses	**(1,080.5)**	**(1,098.0)**	**17.5**	**-1.6%**	**(354.5)**	**(357.4)**	**3.0**	**-0.8%**
Taxes	(179.6)	(184.3)	4.7	-2.6%	(56.8)	(62.9)	6.1	-9.7%
Furnishing, real estate and security expenses	(62.0)	(115.4)	53.4	-46.3%	(17.4)	(22.1)	4.7	-21.3%
General operating expenses	(139.0)	(142.9)	3.9	-2.7%	(42.6)	(44.0)	1.4	-3.2%
Information technology expenses	(103.0)	(109.3)	6.3	-5.8%	(32.9)	(37.2)	4.3	-11.6%
Legal and professional expenses	(88.3)	(75.4)	(12.9)	17.1%	(37.0)	(30.8)	(6.2)	20.1%
Indirect personnel costs	(7.8)	(4.3)	(3.5)	81.4%	(2.3)	(4.0)	1.7	-42.5%
Insurance	(37.5)	(32.0)	(5.5)	17.2%	(15.8)	(13.0)	(2.8)	21.5%
Advertising, sponsorship and promotions	(3.5)	(4.5)	1.0	-22.2%	(1.4)	(0.8)	(0.6)	75.0%
Other	(14.2)	(4.2)	(10.0)	n.s.	(6.1)	(5.5)	(0.5)	9.8%
Expenses recovery	205.6	224.0	(18.4)	-8.2%	74.9	68.0	6.9	10.1%
Other administrative expenses	**(429.3)**	**(448.3)**	**19.0**	**-4.2%**	**(137.4)**	**(152.3)**	**14.9**	**-9.8%**
Tangible assets	(120.6)	(95.9)	(24.7)	25.8%	(36.8)	(45.3)	8.5	-18.8%
Intangible assets	(65.2)	(73.2)	8.0	-10.9%	(20.6)	(22.3)	1.7	-7.6%
Amortization and impairment losses	**(185.8)**	**(169.1)**	**(16.7)**	**9.9%**	**(57.4)**	**(67.6)**	**10.2**	**-15.1%**
Operating costs	**(1,695.6)**	**(1,715.4)**	**19.7**	**-1.1%**	**(549.2)**	**(577.3)**	**28.1**	**-4.9%**

** The Group has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 16, thus the figures for 2018 are not fully comparable.*

As a result of these trends, the Group's **Gross Operating Income** totalled **EUR 665 mln** (EUR 803 mln as at 30 September 2018), with a contribution in the quarter up by roughly EUR 93 mln compared to the previous quarter.

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

As at 30 September 2019, the Group recorded **Net impairment (losses)/reversals on financial assets measured at amortised cost and at fair value through other comprehensive income** amounting to **EUR 365 mln**, substantially stable compared to the figures recorded in the same period of the previous year (EUR 368 mln). The cost recorded in 3Q19, equal to EUR 113 mln, is up compared to roughly EUR 88 mln in 2Q19.

The cost of credit was influenced by the following events that had already occurred in the first half of the year:

- the exercise of the right of withdrawal from the servicing agreement entered into with Juliet, which resulted in the elimination of the expected costs of the agreement which were reflected in value adjustments on the loan portfolio (positive effect of roughly EUR 457 mln recognised in 2Q19, equal to approx. EUR 463 mln net of around EUR 6 mln considering that the in-sourcing of the recovery process will take place gradually);

- the simultaneous review of the NPE reduction strategy, which called for an acceleration of the 2019 disposal plan in order to further drive down the NPE Ratio (negative effect of around EUR 248 mln).

In the comparison with 30 September 2018, the aggregate is also negatively impacted by the annual update of the risk parameters used for the collective/statistical valuation of performing loans and below-threshold non-performing loans (roughly EUR 106 mln recognised in 2Q19), increases in coverage on positions that are already non-performing and the effects deriving from the downward revision of GDP growth estimates for 2019 incorporated into the forward-looking scenarios required under IFRS 9 (around EUR 37 mln recognised in 1Q19). These trends were only partially offset by the positive effects of lower default flows, a reduction in transfers to bad loan status and changes in the loan estimation criteria referring to the analytical valuation threshold and the valuation of specialised lending transactions (for roughly EUR 53 mln recognised in 2Q19).

The ratio of net impairment losses on loans to total Loans to Customers as at 30 September 2019 shows an annualised **Provisioning Rate of 53 bps**.

	30 09 2019	30 09 2018	Chg. Y/Y		3°Q 2019	2°Q 2019	Chg. Q/Q	
			Abs.	%			Abs.	%
Loans to banks measured at amortised cost	0.4	0.8	(0.4)	-50.0%	(0.1)	-	(0.1)	-
- Loans	0.4	0.8	(0.4)	-50.0%	(0.1)	-	(0.1)	-
Loans to customers measured at amortised cost	(359.8)	(355.0)	(4.8)	1.4%	(111.7)	(84.9)	(26.8)	31.6%
- Loans	(358.7)	(353.1)	(5.6)	1.6%	(111.0)	(85.0)	(26.0)	30.6%
- Debt securities	(1.1)	(1.9)	0.8	-42.1%	(0.7)	0.1	(0.8)	n.s.
Gains (losses) due to modifications in contractual cash flows without derecognition	(3.6)	(6.8)	3.2	-47.1%	(0.3)	(1.8)	1.5	-83.3%
Impairmet loss on loans measured at amortised cost	**(363.0)**	**(361.0)**	**(2.0)**	**0.6%**	**(112.1)**	**(86.7)**	**(25.4)**	**29.3%**
Financial assets measured at fair value through comprehensive income	(2.1)	(7.0)	4.9	-70.0%	(1.2)	(0.8)	(0.4)	50.0%
Total adjustments due to credit risk	**(365.1)**	**(368.0)**	**2.9**	**-0.8%**	**(113.3)**	**(87.5)**	**(25.8)**	**29.5%**

The Group's **Net Operating Income** was **positive for approximately EUR 300 mln**, compared to roughly EUR 435 mln in the same period of the previous year.

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

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

- **Net provisions for risks and charges** of **EUR -33 mln**, mainly attributable to provisions relating to commitments assumed by the Parent Company against the compensation relating to transactions in diamonds. As at 30 September 2018, there was a negative balance of EUR 15 mln, linked to provisions for legal risks in part offset by the revaluation of the commitment assumed to cover hedging costs of the vehicle Siena NPL 2018 S.r.l. as part of the bad loan securitisation.
- **Gains on investments** of approx. **EUR 4 mln**, primarily due to the change in value of several equity investments, against a gain of EUR 1 mln in the same period of the previous year.
- **Restructuring costs/One-off charges**, equal to **EUR -2 mln**, include in particular costs linked to project expenses and the price adjustment for the disposal of BMP Belgio S.A., offset in part by recoveries recognised by INPS on previous early retirement/solidarity fund procedures. As at 30 September 2018, the aggregate was a negative EUR 61 mln and included mainly the expenses referring to initiatives also connected to the fulfilment of the commitments assumed with

DGComp, including the expected loss from the disposal of the subsidiary BMP Belgio, partially offset by recoveries recognised by INPS on previous early retirement/solidarity fund procedures.

- **Risks and charges related to the SRF, DGS and similar schemes**, with a balance of **EUR -123 mln** consisting of the Group's contribution due to the Single Resolution Fund (SRF) accounted for in 1Q19 for EUR 54 mln, the capital loss on the exposure to the IDPF Voluntary Scheme (for the Carige intervention) accounted for in part in 1Q19 for EUR 6 mln and in part in 2Q19 for EUR 7 mln, the additional amount due to the National Resolution Fund (NRF) accounted for in 2Q19 of EUR 20 mln and the estimated amount to be recognised to the IDPF (DGS) accounted for in 3Q19 equal to EUR 36 mln.
- **DTA Fee**, amounting to **EUR -53 mln**. This amount, determined according to the criteria set forth in Law Decree 59/2016, converted into Law no. 119 of 30 June 2016, represents the fee as at 30 September 2019 on DTAs (Deferred Tax Assets) that can be converted into a tax credit.
- **Gains (losses) on disposal of investments** of **EUR 1 mln** related to the sale of property. As at 30 September 2018, the aggregate was a positive EUR 50 mln and linked primarily to income deriving from the disposal of Juliet.

Due to the trends discussed above, the Group's **Profit before tax from continuing operations** stood at **EUR +93 mln**, down compared to the levels as at 30 September 2018, which recorded a profit of EUR +233 mln.

Tax expense (recovery) on income from continuing operations record a gain of **EUR 104 mln**, essentially due to the partial reassessment of DTAs related to tax losses, accrued and not recorded in previous years. This component was recorded until 30 June 2019; as a prudential measure, in order to take into account the potential negative effects on future taxable income that could derive both from the reintroduction of the ACE scheme, hypothesised in Italy's Draft Budgetary Plan 2020, and from the worsening of the macroeconomic scenario.

Considering the net effects of the PPA (EUR -11 mln), the Group's **consolidated profit amounted to EUR 187 mln**, compared to a profit of EUR 379 mln in the same period of 2018.

Reclassified balance sheet

Reclassified Consolidated Balance Sheet				
ASSETS	**30 09 2019**	**31 12 2018***	**Chg**	
			abs.	**%**
Cash and cash equivalents	675.8	950.6	(274.8)	-28.9%
Financial assets measured at amortised cost :				
a) Loans to customers	90,470.7	86,855.5	3,615.2	4.2%
b) Loans to banks	13,651.9	12,504.2	1,147.7	9.2%
Financial assets measured at fair value	18,195.0	20,296.2	(2,101.2)	-10.4%
Equity investments	1,053.4	922.8	130.6	14.2%
Property, plant and equipment / Intangible assets	2,890.8	2,727.3	163.5	6.0%
of which:				
a) goodwill	*7.9*	*7.9*	-	-
Other assets	6,937.6	6,224.4	713.2	11.5%
Total assets	**133,875.2**	**130,481.0**	**3,394.2**	**2.6%**

LIABILITIES	**30 09 2019**	**31 12 2018***	**Chg**	
			abs.	**%**
Payables				
a) Deposits from customers and securities issued	92,246.3	90,471.7	1,774.6	2.0%
b) Deposits from banks	21,046.6	21,986.3	(939.7)	-4.3%
Financial liabilities held for trading	3,466.9	3,175.7	291.2	9.2%
Provisions for specific use				
a) Provisions for staff severance indemnities	184.7	192.1	(7.4)	-3.9%
b) Provisione related to guarantees and other commitments given	205.0	242.4	(37.4)	-15.4%
c) Pensions and other post retirement benefit obligations	35.9	37.9	(2.0)	-5.3%
d) Other provisions	991.6	1,199.9	(208.3)	-17.4%
Other liabilities	6,109.3	4,180.8	1,928.5	46.1%
Group net equity	9,587.0	8,992.0	595.0	6.6%
a) Valuation reserves	153.0	(176.7)	329.7	n.s.
c) Equity instruments carried at equity	-	-	-	-
d) Reserves	(767.8)	(1,124.8)	357.0	-31.7%
e) Share premium	-	-	-	-
f) Share capital	10,328.6	10,328.6	-	-
g) Treasury shares (-)	(313.7)	(313.7)	-	-
h) Net profit (loss) for the period	186.9	278.6	(91.7)	-32.9%
Non-controlling interests	1.9	2.2	(0.3)	-13.6%
Total Liabilities and Shareholders' Equity	**133,875.2**	**130,481.0**	**3,394.2**	**2.6%**

** The Group has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 16, thus the figures for 2018 are not fully comparable.*

Reclassified Balance Sheet - Quarterly Trend

ASSETS	30 09 19	30 06 19	31 03 19	31 12 18*	30 09 18*	30 06 18*	31 03 18*
Cash and cash equivalents	675.8	650.1	609.1	950.6	714.1	721.2	896.9
Financial assets measured at amortised cost :							
a) Loans to customers	90,470.7	87,483.7	89,375.7	86,855.5	87,464.9	87,010.1	89,320.4
b) Loans to banks	13,651.9	12,474.4	11,097.1	12,504.2	8,724.2	8,636.3	6,374.5
Financial assets measured at fair value	18,195.0	19,892.4	20,568.7	20,296.2	25,430.0	29,257.2	25,652.3
Equity investments	1,053.4	958.2	901.7	922.8	905.1	896.8	1,075.8
Property, plant and equipment / Intangible assets	2,890.8	2,921.1	2,977.7	2,727.3	2,746.9	2,789.9	2,831.2
of which:							
a) goodwill	*7.9*	*7.9*	7.9	*7.9*	*7.9*	*7.9*	*7.9*
Other assets	6,937.6	7,159.0	6,592.3	*6,224.4*	6,199.8	6,411.4	10,620.6
Total assets	**133,875.2**	**131,538.9**	**132,122.3**	**130,481.0**	**132,185.0**	**135,722.8**	**136,771.8**

LIABILITIES	30 09 19	30 06 19	31 03 19	31 12 18*	30 09 18*	30 06 18*	31 03 18*
Payables							
a) Deposits from customers and securities issued	92,246.3	92,215.9	92,686.1	90,471.7	93,906.0	96,833.9	97,856.8
b) Deposits from banks	21,046.6	21,137.3	22,170.2	21,986.3	20,838.9	20,794.8	20,483.1
Financial liabilities held for trading	3,466.9	2,972.1	2,502.1	3,175.7	3,000.6	3,173.6	3,625.4
Provisions for specific use							
a) Provisions for staff severance indemnities	184.7	182.8	182.1	192.1	194.6	196.3	197.3
b) Provisione related to guarantees and other commitments given	205.0	208.1	220.6	242.4	219.2	209.7	223.4
c) Pensions and other post retirement benefit obligations	35.9	36.6	37.2	37.9	40.5	43.8	49.4
d) Other provisions	991.6	1,035.0	1,073.7	1,199.9	1,067.4	1,112.5	1,086.6
Other liabilities	6,109.3	4,412.7	4,159.3	4,180.8	3,946.7	4,361.5	3,949.2
Group net equity	9,587.0	9,336.4	9,088.6	8,992.0	8,968.9	8,994.5	9,298.3
a) Valuation reserves	153.0	(15.0)	(123.7)	(176.7)	(305.0)	(194.0)	196.7
d) Reserves	(767.8)	(756.6)	(830.5)	(1,124.8)	(1,120.3)	(1,114.9)	(1,100.8)
e) Share premium	-	-	-	-	-	-	-
f) Share capital	10,328.6	10,328.6	10,328.6	10,328.6	10,328.6	10,328.6	10,328.6
g) Treasury shares (-)	(313.7)	(313.7)	(313.7)	(313.7)	(313.7)	(313.7)	(313.7)
h) Net profit (loss) for the period	186.9	93.1	27.9	278.6	379.3	288.5	187.5
Non-controlling interests	1.9	2.0	2.4	2.2	2.2	2.2	2.3
Total Liabilities and Shareholders' Equity	**133,875.2**	**131,538.9**	**132,122.3**	**130,481.0**	**132,185.0**	**135,722.8**	**136,771.8**

** The Group has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 16, thus the figures for 2018 are not fully comparable.*

Customer funding

The Group's **Total Funding** as at 30 September 2019 amounted to **EUR 193.3 bn**, up by EUR 0.9 bn with respect to 30 June 2019 and by EUR 6.3 bn compared to 31 December 2018 mainly due to the increase in Indirect Funding.

Background

The uncertainty characterising the macroeconomic scenario and low interest rates are favouring growth in bank deposits (from resident consumer clients, net of central counterparties and deposits connected with securitisations) which showed, last July and August, a few signs of accelerating compared to the average annual figure in the first half of 2019 (+3.1%). Risk aversion and caution in the use of savings are indeed causing the continuation of a high propensity towards holding on to liquidity, with current accounts up by roughly 5% annually in the first eight months of the year; the decline in time deposits, which combine the offer of rates just under 1% with the possibility of waiting for more favourable market phases, was also interrupted. After roughly seven years of declines, bond funding is showing a few signs of a trend reversal, although it remains down on an annual basis (-2.5% in August); indeed, net bond issues from Italian banks have resumed. Overall, direct bank funding grew by more than 1.5% on average per year in the first eight months of 2019, accelerating compared to last year.

With respect to interest rates, those on deposits of non-financial companies and households remained basically stable, at 0.37% in August (+1 bp compared to the average figure in the first half of the year); the rate on bonds instead continued its downward trend, declining 4 bps compared to the end of 2018, reaching 2.35%. The weighted average cost of direct funding (calculated on the ABI sample) thus fell in August to 0.50%, 2 bps lower than in December 2018, a year in which the annual average was 0.58%.

With respect to asset management, basic stagnation continues in net funding from mutual funds, which in the first eight months of 2019 was a negative EUR 984 mln, despite the brilliant result in August (EUR +4 bn). Low risk propensity is holding back placements, as also seen in the dichotomous trends between bond and monetary funds (EUR +12.8 bn) and equity and flexible funds (EUR -15.5 bn). Asset management rose by EUR 1,036 bn (around EUR +80 bn over the end of 2018), highlighting the achievement of significant returns. Net funding on retail individual asset management was negative in the first eight months of 2019 (by EUR 400 mln), while the stock rose by roughly EUR 5 bn (+4% over the end of 2018). In the "savings" policy market, new business was down (by roughly 2% in bancassurance), but net funding is positive, by roughly EUR 13 bn, in the first half of the year. As regards assets under custody (securities under custody and administration), in the first six months of the year those of households, non-financial companies and the public administration inverted the downward trend of the previous year, marking an increase of around EUR 27 bn.

Customer Funding

					Chg Q/Q		Chg 31/12		Chg Y/Y	
	30/09/19	30/06/19	31/12/18	30/09/18	Abs.	%	Abs.	%	Abs.	%
Direct funding	92,246.3	92,215.9	90,471.7	93,906.0	30.4	0.0%	1,774.6	2.0%	(1,659.7)	-1.8%
Indirect funding	101,023.0	100,156.8	96,488.6	99,352.3	866.2	0.9%	4,534.4	4.7%	1,670.7	1.7%
Total funding	**193,269.3**	**192,372.7**	**186,960.3**	**193,258.3**	**896.6**	**0.5%**	**6,309.0**	**3.4%**	**11.0**	**0.0%**

Volumes of **Direct Funding**, which came to **EUR 92.2 bn**, were aligned with the end of June 2019, with growth in the bond segment of EUR 1.4 bn offset by the decrease in repurchase agreements (EUR -0.7 bn) and current accounts (EUR -0.9 bn). The aggregate was up by EUR 1.8 bn compared to the end of December 2018 (EUR 2.7 bn excluding the effects of the sale of BMP Belgio S.A.), despite the EUR 4.4 bn decrease in repurchase agreements, which was more than offset by growth in Current Accounts and Time Deposits (EUR +2.9 bn), Bonds (EUR +1.9 bn) and other forms of funding (EUR +1.4 bn).

The Group's market share[5] on Direct Funding was 3.67% (figure updated in July 2019), down slightly compared to December 2018 (3.70%).

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

Direct funding										
					Change Q/Q		Change 31.12		Change Y/Y	
Type of transaction	30/09/19	30/06/19	31/12/18	30/09/18	Abs.	%	Abs.	%	Abs.	%
Current accounts	55,267.1	56,150.1	53,156.0	55,738.7	(883.0)	-1.6%	2,111.1	4.0%	(471.6)	-0.8%
Time deposits	9,621.8	9,438.6	8,871.4	8,528.0	183.2	1.9%	750.4	8.5%	1,093.8	12.8%
Reverse repurchase agreements	5,700.9	6,355.3	10,137.0	10,595.4	(654.4)	-10.3%	(4,436.1)	-43.8%	(4,894.5)	-46.2%
Bonds	12,983.0	11,576.1	11,052.4	11,615.8	1,406.9	12.2%	1,930.6	17.5%	1,367.2	11.8%
Other types of direct funding	8,673.5	8,695.8	7,254.9	7,428.1	(22.3)	-0.3%	1,418.6	19.6%	1,245.4	16.8%
Total	**92,246.3**	**92,215.9**	**90,471.7**	**93,906.0**	**30.4**	**0.0%**	**1,774.6**	**2.0%**	**(1,659.7)**	**-1.8%**

Indirect Funding amounted to **EUR 101.0 bn**, up compared to 30 June 2019 (EUR +0.9 bn) and 31 December 2018 (EUR +4.5 bn), despite the elimination of the contribution of BMP Belgio S.A., thanks to a consistent positive market effect, which benefitted both the Assets under Management and the Assets under Custody components.

In detail, **Assets under Management**, amounting to **EUR 58.6 bn**, grew compared to June 2019 by EUR 0.8 bn and compared to December 2018 by EUR 2.7 bn, primarily in the bancassurance and funds segments.

Indirect Funding										
					Change Q/Q		Change 31/12		Change Y/Y	
	30/09/19	30/06/19	31/12/18	30/09/18	Abs.	%	Abs.	%	Abs.	%
Assets under management	58,603.0	57,813.4	55,887.7	58,454.5	789.6	1.4%	2,715.3	4.9%	148.5	0.3%
Mutual Funds/Sicav	*27,080.0*	*26,966.2*	*26,308.4*	*28,175.8*	113.8	*0.4%*	771.6	*2.9%*	(1,095.8)	*-3.9%*
Individual Portfolio under Management	*5,142.0*	*5,061.8*	*5,015.9*	*5,415.6*	80.2	*1.6%*	126.1	*2.5%*	(273.6)	*-5.1%*
Insurance Products	*26,381.0*	*25,785.4*	*24,563.4*	*24,863.1*	595.6	*2.3%*	1,817.6	*7.4%*	1,517.9	*6.1%*
Assets under custody	42,420.0	42,343.4	40,600.8	40,897.8	76.6	0.2%	1,819.2	4.5%	1,522.2	3.7%
Total funding	**101,023.0**	**100,156.8**	**96,488.6**	**99,352.3**	866.2	**0.9%**	4,534.4	**4.7%**	1,670.7	**1.7%**

Loans to customers

As at 30 September 2019, **Loans to Customers** of the Group came to **EUR 90.5 bn**, up compared to the end of June 2019 by EUR 3.0 bn, due to increased repurchase agreement transactions (EUR +1.3 bn) and growth in securities lending (EUR +1.4 bn). Compared to 31 December 2018, the aggregate was up by EUR 3.6 bn (EUR +4.3 bn excluding the effects of the disposal of BMP Belgio S.A) primarily on securities lending (EUR +1.9 bn), repurchase agreements (EUR +1.0 bn), mortgages (EUR +0.9 bn) and other loans (EUR +0.6 bn), while current accounts remained basically stable. By contrast, non-performing loans were down (EUR -0.8 bn), also impacted by disposals of UTP and bad loans.

Background

The trend in bank lending continues to be weak, influenced by stagnation in the real economy and greater recourse to alternative sources of financing by businesses. The growth in loans to the private sector, corrected for those which have been securitised or otherwise transferred, is limited: around +0.7% both in August and in the previous months during the year. The slowdown (from +2.4% on average in 2018) can also be attributed to a "reference basis" effect, due to the increase in loans to companies in January of last year, corresponding to the end of the reference period for the calculation of rates to be applied to TLTRO-II loans. The slight deceleration in loans to households (+2.4% per annum in August compared to +2.6% at the end of 2018) was offset by the confirmation of the annual decline in those to non-financial companies (-0.7% in August). Loans to households were driven by consumer credit, but were also impacted by the expansion of mortgages for the acquisition of homes (+1.6% per annum in August); for companies, the increase in investments in the first part of the year seems to have been financed partly through a reduction in liquidity and the placement of securities.

As regards interest rates, in August 2019 those on the stock of loans to households and non-financial companies started dropping once again, after the rebound in the first four months of the year, reaching 2.52% in August (-3 bps compared to December 2018). The decline concerned loans to households (those for the purchase of homes are below 2%) and businesses (just above 3% in August) to an equal extent. On new transactions, loans to non-financial companies declined to around 1.3% (from 1.5% at the end of 2018) and those for home mortgages to around 1.7% (from 1.9%).

The reduction in bad loans continued compared to the end of the previous year as well as on a year-on-year basis (-30% in August); net of disposal transactions (roughly EUR 8 bn in the first half of the year and another EUR 3 bn in July and August), growth came to 3.5%, marking a slowdown compared to 2018 (4.5% at the end of the year and 6.1% on average). The impact of bad loans, net of loss provisions, on bank loans has stabilised since the end of 2018 to just above 1.8% (from an average of 2.5% in 2018).

The Group's market share[6] stood at 5.05% (last available figure from July 2019), up slightly compared to the end of 2018.

Loans to customers

Type of transactions	30/09/19	30/06/19	31/12/18	30/09/18	Change Q/Q Abs.	Change Q/Q %	Change 31.12 Abs.	Change 31.12 %	Change Y/Y Abs.	Change Y/Y %
Current accounts	4,945.8	4,710.3	4,941.0	5,239.0	235.5	5.0%	4.8	0.1%	(293.2)	-5.6%
Mortgages	49,089.2	49,328.3	48,217.0	48,880.7	(239.1)	-0.5%	872.2	1.8%	208.5	0.4%
Other forms of lending	16,250.5	15,827.8	15,614.7	17,341.4	422.7	2.7%	635.8	4.1%	(1,090.9)	-6.3%
Repurchase agreements	4,417.9	3,121.3	3,394.9	3,380.8	1,296.6	41.5%	1,023.0	30.1%	1,037.1	30.7%
Securities lending	9,304.3	7,944.0	7,386.0	4,636.0	1,360.3	17.1%	1,918.3	26.0%	4,668.3	n.s.
Non performing loans	6,463.0	6,552.0	7,301.9	7,987.0	(89.0)	-1.4%	(838.9)	-11.5%	(1,524.0)	-19.1%
Total	**90,470.7**	**87,483.7**	**86,855.5**	**87,464.9**	**2,987.0**	**3.4%**	**3,615.2**	**4.2%**	**3,005.8**	**3.4%**
Stage 1	*72,330.4*	*69,540.6*	*66,899.8*	*63,417.2*	*2,789.8*	*4.0%*	*5,430.6*	*8.1%*	*8,913.2*	*14.1%*
Stage 2	*11,677.2*	*11,391.2*	*12,653.8*	*16,060.7*	*286.0*	*2.5%*	*(976.6)*	*-7.7%*	*(4,383.5)*	*-27.3%*
Stage 3	*6,463.1*	*6,551.9*	*7,301.9*	*7,987.0*	*(88.8)*	*-1.4%*	*(838.8)*	*-11.5%*	*(1,523.9)*	*-19.1%*

In 3Q19, the medium/long-term component recorded new disbursements of EUR 2.4 bn, up compared to 2Q19 (EUR +0.1 bn) and down Y/Y (EUR -1.3 bn).

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

Loans to customers measured at amortised cost		Stage 1	Stage 2	Stage 3	Total
30 09 2019	Gross exposure	72,400.9	12,096.2	13,284.4	**97,781.5**
	Provisions	70.5	419.0	6,821.3	**7,310.8**
	Net exposure	72,330.4	11,677.2	6,463.1	**90,470.7**
	Coverage ratio	*0.10%*	*3.46%*	*51.35%*	***7.48%***
	% on Loans to customers	*79.95%*	*12.91%*	*7.14%*	***100.00%***

Non-performing loans

The Group's **exposure to gross non-performing loans** as at 30 September 2019 totalled **EUR 14.5 bn**, down compared to the end of June 2019 (EUR -1.4 bn) due to the deconsolidation of positions classified under Assets held for sale as at 30 June 2019, the decline in net default flows, recoveries on bad loans and other reductions linked to write-offs, conversions and payments; the cure rate was stable on the previous quarter. The aggregate was also down compared to 31 December 2018 (EUR -2.3 bn). The gross exposure to Bad Loans was down compared to 30 June 2019 by EUR 0.2 bn primarily due to the above-mentioned deconsolidation of transferred portfolios and debt collection, in part offset by new positions transferred to that category during the period, and by EUR 0.5 bn compared to 31 December 2018. The exposure of unlikely to pay also fell by EUR 1.2 bn over June 2019 and EUR 1.9 bn over December 2018, mainly following transfers to Bad Loans and disposals/reductions recorded during the period. Gross non-performing past due exposures were up compared to June 2019 and 31 December 2018. Furthermore, as at 30 September 2019 a gross amount of roughly EUR 0.6 bn in Bad Loans and Unlikely to Pay positions was reclassified to Other assets in the reclassified balance sheet, as these were loans subject to disposals already defined and being finalised.

As at 30 September 2019, the Group's **net exposure in terms of non-performing loans** totalled **EUR 6.9 bn**, down compared to 30 June 2019 (EUR -0.5 bn), as well as 31 December 2018 (EUR -1.0 bn). The net exposure to Bad Loans reduced slightly compared to 30 June 2019 as well as 31 December 2018. The net exposure of unlikely to pay also fell by EUR 0.4 bn over June 2019 and EUR 0.9 bn over 31 December 2018. Net non-performing past due exposures were up slightly compared to 30 June 2019 as well as compared to 31 December 2018.

The ratio between net non-performing loans and net loans to customers as at 30 September 2019 was 7.6%, down compared to June 2019 (equal to 8.3%) and compared to December 2018 (9%). Within the aggregate, during the quarter the incidence in percentage terms of past-due exposures remained basically stable compared to June 2019, while the incidence was down slightly for unlikely to pay positions (from 4.6% in June 2019 to 4% in September 2019) and bad loans (from 3.6% in June 2019 to 3.4% in September 2019).

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

Loans to customers		Bad loans	Unlikely to pay	Non-performing Past due	**Non-performing exposures**	Perfoming exposures	**Total**	*- of which forbone impaired*	*- of which forborne not impaired*
30 09 2019	Gross exposure	8,120.9	6,201.3	202.5	**14,524.7**	84,713.1	**99,237.8**	*5,415.0*	*1,966.5*
	Provisions	5,007.7	2,584.8	47.4	**7,639.9**	489.5	**8,129.4**	*2,249.2*	*139.3*
	Net exposure	3,113.2	3,616.5	155.1	**6,884.8**	84,223.6	**91,108.4**	*3,165.8*	*1,827.2*
	Coverage ratio	*61.7%*	*41.7%*	*23.4%*	***52.6%***	*0.6%*	***8.2%***	*41.5%*	*7.1%*
	% on Loans to customers	*3.4%*	*4.0%*	*0.2%*	***7.6%***	*92.4%*	***100.0%***		
30 06 2019	Gross exposure	8,306.9	7,434.4	160.4	**15,901.7**	81,668.8	**97,570.5**	*6,219.8*	*2,096.3*
	Provisions	5,137.9	3,381.9	40.4	**8,560.2**	515.6	**9,075.8**	*2,756.0*	*147.7*
	Net exposure	3,169.0	4,052.5	120.0	**7,341.5**	81,153.2	**88,494.7**	*3,463.8*	*1,948.6*
	Coverage ratio	*61.9%*	*45.5%*	*25.2%*	***53.8%***	*0.6%*	***9.3%***	*44.3%*	*7.0%*
	% on Loans to customers	*3.6%*	*4.6%*	*0.1%*	***8.3%***	*91.7%*	***100.0%***		
31 12 2018	Gross exposure	8,584.1	8,065.7	177.5	**16,827.3**	80,423.2	**97,250.5**	*6,522.1*	*2,195.3*
	Provisions	5,360.0	3,550.5	32.5	**8,943.0**	658.8	**9,601.8**	*2,887.7*	*174.0*
	Net exposure	3,224.1	4,515.2	145.0	**7,884.3**	79,764.4	**87,648.7**	*3,634.4*	*2,021.3*
	Coverage ratio	*62.4%*	*44.0%*	*18.3%*	***53.1%***	*0.8%*	***9.9%***	*44.3%*	*7.9%*
	% on Loans to customers	*3.7%*	*5.2%*	*0.2%*	***9.0%***	*91.0%*	***100.0%***		
30 09 18	Gross exposure	9,686.0	9,458.6	372.4	**19,517.0**	80,832.4	**100,349.4**	*7,197.6*	*2,323.0*
	Provisions	6,645.9	4,247.2	112.7	**11,005.8**	780.5	**11,786.3**	*3,179.0*	*164.5*
	Net exposure	3,040.1	5,211.4	259.7	**8,511.2**	80,051.9	**88,563.1**	*4,018.6*	*2,158.5*
	Coverage ratio	*68.6%*	*44.9%*	*30.3%*	***56.4%***	*1.0%*	***11.7%***	*44.2%*	*7.1%*
	% on Loans to customers	*3.4%*	*5.9%*	*0.3%*	***9.6%***	*90.4%*	***100.0%***		

As at 30 September 2019, **coverage** of non-performing loans stood at 52.6%, a decrease compared to 30 June 2019 (53.8%) and 31 December 2018 (53.1%). In particular, coverage declined on Unlikely to Pay positions to 41.7% (45.5% as at 30 June 2019 and 44.0% as at 31 December 2018) and Bad Loans to 61.7% (61.9% as at 30 June 2019 and 62.4% as at 31 December 2018). This trend is influenced by the deconsolidation of positions subject to disposal transactions carried out over time.

Change in gross exposures

	abs/%	Bad loans	Unlikely to pay	Non performing past due	**Non performing exposures**	Performing exposures	**Total**	*- of which forbone impaired*	*- of which forborne not impaired*
Q/Q	abs.	(186.0)	(1,233.1)	42.1	**(1,377.0)**	3,044.3	**1,667.3**	*(804.8)*	*(129.8)*
	%	-2.2%	-16.6%	26.2%	**-8.7%**	3.7%	**1.7%**	*-12.9%*	*-6.2%*
Y/Y	abs.	(1,565.1)	(3,257.3)	(169.9)	**(4,992.3)**	3,880.7	**(1,111.6)**	*(1,782.6)*	*(356.5)*
	%	-16.2%	-34.4%	-45.6%	**-25.6%**	4.8%	**-1.1%**	*-24.8%*	*-15.3%*

Changes in coverage ratios

	Bad loans	Ulikely to pay	Non performing past due	**Non performing exposures**	Performing exposures	**Total**
Q/Q	*-0.19%*	*-3.81%*	*-1.78%*	***-1.23%***	*-0.05%*	***-1.11%***
Y/Y	*-6.95%*	*-3.22%*	*-6.86%*	***-3.79%***	*-0.39%*	***-3.55%***

Balance-sheet exposure to customers: changes in non-performing loans	30 09 2019		3°Q 2019		1°Q 2019		30 09 2018		Chg. 3°Q 2019/2°Q2019 Non-performing		Chg. Y/Y Non-performing exposures	
	Non-performing exposures	*of which Bad loans*	Non-performing exposures	*of which Bad loans*	Non-performing exposures	*of which Bad loans*	Non-performing exposures	*of which Bad loans*	Abs.	%	Abs.	%
Gross exposure, opening balance	**16,827.3**	**8,584.1**	**15,901.7**	**8,306.9**	**16,229.0**	**8,384.5**	**42,908.3**	**31,045.3**	**(327.3)**	**-2.0%**	**(27,006.6)**	**-62.9%**
Increases from performing loans	829.8	93.8	286.3	43.0	260.8	29.7	1,073.4	136.7	25.5	9.8%	(787.1)	-73.3%
Transfers to performing loans	(319.0)	(0.8)	(67.2)	(0.1)	(97.0)	0.1	(565.1)	(6.6)	29.8	-30.7%	497.9	-88.1%
Collections	(1,253.9)	(374.0)	(608.2)	(153.1)	(323.1)	(157.2)	(5,894.0)	(4,832.3)	(285.1)	88.2%	5,285.8	-89.7%
Write-offs and loss on disposal	(605.3)	(511.7)	(51.2)	(24.1)	(461.2)	(441.6)	(649.3)	(72.1)	410.0	-88.9%	598.1	-92.1%
+/- Other changes	(954.2)	329.5	(936.7)	(51.7)	293.2	491.4	(17,356.3)	(16,585.0)	(1,229.9)	n.s.	16,419.6	-94.6%
Gross exposure, closing balance	**14,524.7**	**8,120.9**	**14,524.7**	**8,120.9**	**15,901.7**	**8,306.9**	**19,517.0**	**9,686.0**	**(1,377.0)**	**-8.7%**	**(4,992.3)**	**-25.6%**
Opening balance of overall adjustments	**(8,943.0)**	**(5,360.0)**	**(8,560.2)**	**(5,137.9)**	**(8,623.8)**	**(5,150.2)**	**(28,110.2)**	**(23,513.7)**	**63.6**	**-0.7%**	**19,550.0**	**-69.5%**
Adjustments / write-backs*	(539.4)	(303.9)	(153.3)	(133.4)	(214.2)	(124.9)	(432.0)	(321.0)	60.9	-28.4%	278.7	-64.5%
+/- Other changes	1,842.5	656.2	1,073.6	263.6	277.8	137.2	17,536.4	17,188.8	795.8	n.s.	(16,462.8)	-93.9%
Closing balance of overall adjustments	**(7,639.9)**	**(5,007.7)**	**(7,639.9)**	**(5,007.7)**	**(8,560.2)**	**(5,137.9)**	**(11,005.8)**	**(6,645.9)**	**920.3**	**-10.8%**	**3,365.9**	**-30.6%**
Net exposure closing balance	**6,884.8**	**3,113.2**	**6,884.8**	**3,113.2**	**7,341.5**	**3,169.0**	**8,511.2**	**3,040.1**	**(456.7)**	**-6.2%**	**(1,626.4)**	**-19.1%**

* Net impairment (losses)/reversals for credit risk on assets measured at amortised cost/loans to customers - of which item 130 a) and Gains/losses on financial assets measured at fair value through profit and loss as per mandatory requirements - of which item 110 b).

Financial assets/liabilities

As at 30 September 2019, the Group's **Financial assets measured at fair value** amounted to **EUR 18.2 bn**, down by EUR 1.7 bn compared to 30 June 2019 following the reduction in Financial assets measured at fair value through other comprehensive income (EUR -2.2 bn) in relation to net acquisitions/sales carried out primarily in 3Q19. They were also down compared to 31 December 2018 (EUR -2.1 bn) due to the reduction in Financial assets measured at fair value through other comprehensive income, only partially offset by the increase in the trading component referring to the subsidiary MPS Capital Services. **Financial liabilities held for trading** rose compared to the end of June 2019 by EUR 0.5 bn and by EUR 0.3 bn compared to 31 December 2018.

Items	30 09 2019	30 06 2019	31 12 2018	30 09 2018	Chg. Q/Q		Chg. 31.12		Chg. Y/Y	
					Abs.	%	Abs.	%	Abs.	%
Tradable financial assets	18,195.0	19,892.4	20,296.2	25,430.0	(1,697.4)	-8.5%	(2,101.2)	-10.4%	(7,235.0)	-28.5%
Financial assets held for trading	*10,534.0*	*10,057.6*	*8,560.0*	*10,427.0*	*476.4*	*4.7%*	*1,974.0*	*23.1%*	*107.0*	*1.0%*
Financial assets measured at fair value mandatory	*624.8*	*647.0*	*705.8*	*1,108.3*	*(22.2)*	*-3.4%*	*(81.0)*	*-11.5%*	*(483.5)*	*-43.6%*
Financial assets measured at fair value through other comprehensive income	*7,036.2*	*9,187.8*	*11,030.4*	*13,894.7*	*(2,151.6)*	*-23.4%*	*(3,994.2)*	*-36.2%*	*(6,858.5)*	*-49.4%*
Financial liabilities held for trading	3,466.9	2,972.1	3,175.7	3,000.6	494.8	16.6%	291.2	9.2%	466.3	15.5%

Items	30 09 2019		30 06 2019		31 12 2018		30 09 2018	
	Tradable financial assets	Financial liabilities held for tradig	Tradable financial assets	Financial liabilities held for tradig	Tradable financial assets	Financial liabilities held for tradig	Tradable financial assets	Financial liabilities held for tradig
Debt securities	14,099.4	-	15,672.2	-	16,299.6	-	21,292.1	-
Equity instruments and Units of UCITS	443.7	-	478.0	-	454.7	-	507.6	-
Loans	350.1	-	354.7	-	413.5	-	465.7	-
Debts	-	1,777.2	-	1,379.4	-	1,873.9	-	1,696.9
Derivatives	3,301.8	1,689.7	3,387.5	1,592.7	3,128.4	1,301.8	3,164.6	1,303.7
Total	18,195.0	3,466.9	19,892.4	2,972.1	20,296.2	3,175.7	25,430.0	3,000.6

Interbank position

At the end of September 2019, the Group's **net interbank position** came to **EUR 7.4 bn** in funding, a decline of EUR 1.3 bn compared to the balance recorded as at 30 June 2019 against growth in lending transactions and repos for investment and deposits with the ECB, while funding from banks was stable. The aggregate was also down compared to December 2018 (EUR -2.1 bn) due to lower funding from banks (particularly repurchase agreements and current accounts) and growth in lending transactions and repos for investment.

Interbank balances										
					Change Q/Q		Change 31.12		Change Y/Y	
	30 09 2019	30 06 2019	31 12 2018	30 09 2018	Abs.	%	Abs.	%	Abs.	%
Loans to banks measured at amortised cost	13,651.9	12,474.4	12,504.2	8,724.2	1,177.5	9.4%	1,147.7	9.2%	4,927.7	56.5%
Deposits from banks measured at amortised cost	21,046.6	21,137.3	21,986.3	20,838.9	(90.7)	-0.4%	(939.7)	-4.3%	207.7	1.0%
Net position	**(7,394.7)**	**(8,662.9)**	**(9,482.1)**	**(12,114.7)**	**1,268.2**	**-14.6%**	**2,087.4**	**-22.0%**	**4,720.0**	**-39.0%**

As at 30 September 2019 the operational liquidity position showed an **unencumbered Counterbalancing Capacity of approx. EUR 23.4 bn**, up slightly compared to 30 June 2019 and up by EUR 2.2 bn compared to 31 December 2018 thanks to the improvement in the commercial imbalance, issues made in the course of the year and the new securitisation of SME mortgages, offset only in part by institutional bond and autocovered maturities.

Shareholders' equity

As at 30 September 2019, the **Shareholders' equity of the Group and non-controlling interests** was roughly **EUR 9.6 bn**, up by EUR 0.3 bn compared to 30 June 2019 mainly resulting from the improvement in valuation reserves (due to the decline in the BTP-Bund spread) and the profit for the period. It was also up compared to the end of December 2018 (+6.6%) thanks to i) the improvement in valuation reserves described above, ii) the elimination of the indemnity issued to Bank of New York (EUR 76 mln) and iii) profit for the period.

Reclassified Consolidated Balance Sheet										
Equity	30 09 2019	30 06 2019	31 12 2018*	30 09 2018	Chg Q/Q		Chg 31/12		Chg Y/Y	
					Abs.	%	Abs.	%	Abs.	%
Group net equity	9,587.0	9,336.4	8,992.0	8,968.9	250.6	2.7%	595.0	6.6%	618.1	6.9%
a) Valuation reserves	153.0	(15.0)	(176.7)	(305.0)	168.0	n.s.	329.7	n.s.	458.0	n.s.
d) Reserves	(767.8)	(756.6)	(1,124.8)	(1,120.3)	(11.2)	1.5%	357.0	-31.7%	352.5	-31.5%
f) Share capital	10,328.6	10,328.6	10,328.6	10,328.6	-	n.s.	-	n.s.	-	n.s.
g) Treasury shares (-)	(313.7)	(313.7)	(313.7)	(313.7)	-	n.s.	-	n.s.	-	n.s.
h) Net profit (loss) for the period	186.9	93.1	278.6	379.3	93.8	n.s.	(91.7)	-32.9%	(192.4)	-50.7%
Non-controlling interests	1.9	2.0	2.2	2.2	(0.1)	-5.0%	(0.3)	-13.6%	(0.3)	-13.6%
Total Group Shareholder's Equity and Non-controlling interests	**9,588.9**	**9,338.4**	**8,994.2**	**8,971.1**	**250.5**	**2.7%**	**594.7**	**6.6%**	**617.8**	**6.9%**

Capital adequacy

Regulatory capital and statutory requirements

As a result of the conclusion of the 2018 SREP conducted with reference to the figures as at 31 December 2017 and taking into account the information received after that date, with the submission of the 2018 SREP Decision, the ECB asked BMPS to maintain, effective 1 March 2019, a TSCR level of 11%, which includes 8% as a minimum requirement for Capital pursuant
to art. 92 of the CRR and 3% as Pillar II capital requirement, fully comprised of CET1.
The Pillar II capital requirement therefore remained unchanged with respect to 2018.

With regard to Pillar II Capital Guidance, the ECB expects BMPS to adjust, on a consolidated basis, to a requirement of 1.3% (1.5% in 2018), to be fully met with Common Equity Tier 1 capital in addition to the minimum regulatory requirement of CET1, the additional Pillar II requirement and the Combined Capital Reserve Requirement. Failing to comply with this capital guidance is not the same as failure to comply with capital requirements.

It should also be noted that from 1 January 2019 the Capital Conservation Buffer is 2.5% (1.875% until 31 December 2018) due to the planned phase-in, and that the Group is no longer required to comply with the O-SII Buffer (0.06% until the end of 2018) since, for 2019, it was not identified by the Bank of Italy as a systemically important institution authorised in Italy.

Accordingly, the MPS Group must meet the following requirements at the consolidated level as at 30 September 2019:

- CET1 Ratio of 10.00% on a transitional basis,
- Total Capital Ratio of 13.50% on an overall transitional basis including, in addition to P2R, 2.5% for the Capital Conservation Buffer.

As at **30 September 2019**, the Group's level of capital on a transitional basis was as shown in the following table:

Categories / Values	30 09 2019	31 12 2018	Chg. 31 12 2018	
			Abs.	%
OWN FUNDS				
Common Equity Tier 1 (CET1)	8,596.8	8,020.5	576.3	7.18%
Tier 1 (T1)	8,596.8	8,020.5	576.3	7.18%
Tier 2 (T2)	1,154.2	857.5	296.7	34.60%
Total capital (TC)	**9,751.0**	**8,878.0**	**873.0**	**9.83%**
RISK ASSETS				
Credit and Counterparty Risk	45,356.8	45,925.4	(568.6)	-1.24%
Credit valuation adjustment risk	418.9	457.7	(38.8)	-8.47%
Market risks	2,743.7	2,426.0	317.7	13.10%
Operational risk	9,698.1	9,562.5	135.6	1.42%
Risk-weighted assets	**58,217.5**	**58,371.6**	**(154.1)**	**-0.26%**
CAPITAL RATIOS				
CET1 capital ratio	**14.77%**	**13.74%**	**1.03%**	
Tier1 capital ratio	**14.77%**	**13.74%**	**1.03%**	
Total capital ratio	**16.75%**	**15.21%**	**1.54%**	

Compared to 31 December 2018, the CET1 rose by a total of EUR 576 mln, essentially due to the following positive phenomena:

- improvement in the balance of the OCI Reserve, for EUR 330 mln, and other reserves for EUR 90 mln (primarily due to the elimination of the indemnity issued to Bank of NY in relation to FRESH 2008, amounting to EUR 76 mln, after the ten-year time limit was reached);
- inclusion of the profit accrued in the first half of 2019, equal to EUR 93 mln (while the profit accrued in the third quarter was not calculated);
- cancellation of the filter on multiple tax deduction of the same goodwill, set forth in the 29th update of Circ. 285 of the Bank of Italy, for EUR 192 mln;
- decline in deductions linked to prudential filters (particularly the prudent valuation), intangible assets, DTAs and qualified financial investments (overall for EUR 36 mln);

partially offset:

- by the decline in the neutralisation of the impact of IFRS 9 connected to the first-time adoption of the accounting standard as set forth in Regulation (EU) 2017/2935 (inclusive of the positive effect of the relative DTAs), equal to a total of EUR -151 mln and the negative effects of the end of the transition period for EUR -14 mln.

Note that in compliance with regulatory rules, the values of the higher deductions for DTAs and qualified investments which contributed towards the calculation of CET1 are updated at the reporting date although, as already noted above, it does not include the share of the result for the period of 3Q2019.

Tier 2 marked an increase of EUR 297 mln compared to the end of December 2018, substantially due to the issue in July 2019 of subordinated T2 bonds for EUR 300 mln.

The Total Capital Ratio therefore reflects an overall decrease in own funds of EUR 873 mln.

RWAs recorded an overall decrease of EUR 154 mln, due to lower RWAs relating to credit and counterparty risk (EUR 607 mln) and higher RWAs relating to market risks (EUR 318 mln) and operational risk (EUR 135 mln).

For the 2019 SREP, the Parent Company received the 2019 SREP Draft Decision on 26 September 2019.

The 2019 SREP Draft Decision does not currently contain significant amendments to the requirements and quantitative prudential policies of the 2018 SREP Decision. On 11 October 2019, the Parent Company sent the ECB a response letter with its own counterarguments. The 2019 SREP Final Decision is expected to be formalised by the end of this year.

Disclosure on risks

Exposure to sovereign debt risk

Below is a breakdown of the Group's exposure to sovereign debt risk in government bonds, loans and credit derivatives as at 30 September 2019.

The exposures are broken down by accounting categories.

COUNTRY	DEBT SECURITIES					LOANS	CREDIT DERIVATIVES
	Financial assets measured at fair value through profit and loss		Financial assets measured at fair value through other comprehensive income		Financial assets measured at amortised cost	Financial assets measured at amortised cost	Financial assets held for trading
	Nominal	Fair value=book value	Nominal	Fair value=book value	Book value	Book value	Nominal
Argentine	0.3	-	-	-	-	-	-
Austria	0.1	0.1	-	-	-	-	-
Azerbaijan	-	-	-	-	0.6	-	-
France	-	-	185.0	185.7	-	-	2.8
Germany	10.1	11.0	-	-	-	-	-
Italy	4,515.8	4,481.8	5,601.6	5,725.1	5,653.1	2,049.8	2,860.1
Portugal	-	-	15.0	18.3	-	-	-
Spain	48.6	57.7	310.0	310.7	982.3	-	(2.9)
United States	-	-	50.0	46.0	-	-	-
Other Countries	-	-	-	0.1	(0.1)	-	(0.1)
Total 30 09 2019	**4,574.9**	**4,550.6**	**6,161.6**	**6,285.9**	**6,635.9**	**2,049.8**	**2,859.9**
Total 31 12 2018	**2,764.9**	**2,753.4**	**10,337.7**	**10,305.7**	**4,317.7**	**2,136.4**	**2,200.3**

Operational risks

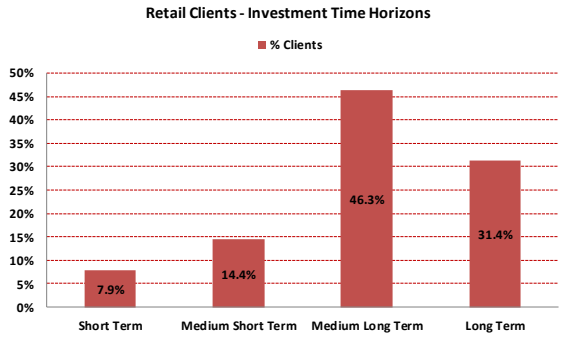
As at 30 September 2019, the number of operational risk events and the relative losses rose compared to what was observed in the same period of the previous year, basically due to compensation activities linked to diamond transactions. The Regulatory Requirements as at 30 September 2019 were stable compared to December 2018.

Financial risks of investment services

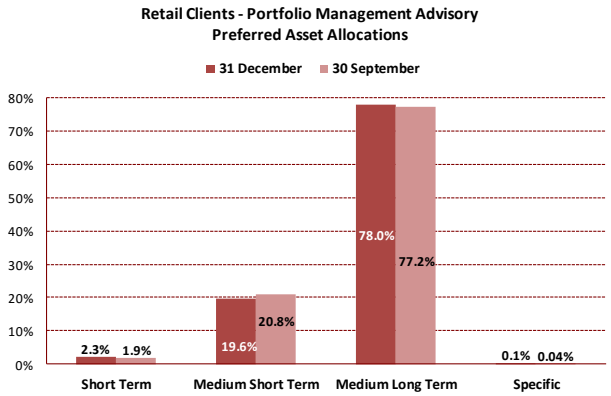
From 3 January 2018, the MiFID II directive (2014/65/EU) came into force in the entire European Union. Together with MiFIR or Markets in financial instruments regulation (EU Regulation 600/2014), this has changed the reference framework of European legislation.

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

The graphs below show the distribution as at 30 September 2019 of the Investment Objective and Time Horizon indicators based on the customers that completed the MiFID questionnaire.



At the end of September 2019, the portfolios held by Consumer/Retail customers on the basis of formalised "advanced" advisory proposals to obtain optimum asset allocation, were mainly distributed into the recommended Asset Allocation macro-classes, with regard to long-term investments.



Main types of legal risks

As at 30 September 2019, the pending legal disputes, where quantified, amounted to a total of approximately EUR 4.7 bn. In particular:

- approx. EUR 2.3 bn in claims regarding disputes for which there is a "probable" risk of losing the case, for which provisions of EUR 0.5 bn have been allocated;
- approx. EUR 1.4 bn in claims attributable to disputes for which there is a "possible" risk of losing the case;
- approx. EUR 1.0 bn in claims attributable to the remaining disputes, for which there is a "remote" risk of losing the case.

The most significant events in the third quarter of 2019 are shown below. For more details on legal disputes, please refer to the "Consolidated Half-Yearly Report as at 30 June 2019".

Dispute regarding bankruptcy rescindments

The provisions for risks recognised for this type of dispute amounted to EUR 32 mln as at 30 September 2019 (total claim of EUR 197 mln), compared to EUR 45 mln as at 30 June 2019 (against a claim of EUR 206 mln).

Dispute with purchasers of subordinated bonds issued by Group companies

The total claim for these disputes is currently EUR 61 mln, up compared to 30 June 2019 (EUR 48 mln). The focus of the opposing claims is concentrated on the lack of disclosure and/or in any case violations of specific regulations on financial intermediation.

As at 30 September, the provisions recognised amounted to EUR 31 mln (up by EUR 8 mln compared to the figure for the half-year).

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

As at 30 September 2019, the total claim for this type of dispute amounted to EUR 2.0 bn, subdivided as follows (data in EUR mln):

Type of dispute	30/09/19	30/06/19	31/12/18
Civil dispute	882	896	764
Civil Part Constitutions cp 29634/14	137	191	42
Civil Part Constitutions cp 955/16	95	76	76
Out-of-court claims [7]	858	846	607
Total claim	**1,972**	**2,009**	**1,489**

Criminal proceeding no. 29634/14

At the hearing on 18 July 2019, the defence attorneys of some civil parties declared on the record that they revoked their actions against the Deutsche and Nomura defendants, as well as the requests for compensation from such banks as civilly liable parties, revocations that were subsequently filed at the next hearings on 11 and 19 September 2019. At the same hearing on 19 September, two actions were also revoked by civil parties with respect to the defendants, former representatives of the Bank, and the resulting waivers of the requests for compensation from the Bank as a civilly liable party were submitted.

[7] The out-of-court claims are not included in the claim related to the legal dispute referenced in the introduction to this section.

On 30 September 2019, the discussions of the foreign defendant entities pursuant to Italian Legislative Decree 231/01, Deutsche Bank and Nomura, concluded.

The trial will continue on 31 October 2019 for possible new revocations of civil party claims as well as on 8 November, when the final hearing will be held, after which time the Court, after withdrawing to the chambers, will hand down its decision relating to the ruling in the first instance.

As at 30 September 2019, the total claim, i.e., the sum of monetary and non-monetary damages requested, had declined from EUR 191 mln to EUR 137 mln. This was due to the revocations of the civil party claims, filed at the hearing on 19 September 2019 by the two civil parties which, therefore, formally waived their right to continue with the civil claim against the Bank as a civilly liable party.

Criminal proceeding no. 955/16

The claim, when determined in the civil party claims, amounted to EUR 95 mln as at 30 September 2019. This amount increased due to the filing, at the hearing on 16 September 2019, of a technical appraisal in the interest of a few hundred civil parties, to quantify the alleged damages they had suffered.

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

In relation to capital increases and the allegedly incorrect financial information contained in the prospectuses and/or in the financial statements and/or in the price sensitive information for the period 2008-2011, as at 30 September 2019, the Parent Company has received 935 out-of-court claims (926 as at 30 June 2019), for a total of EUR 655 mln in quantified claims (EUR 654 mln as at 30 June 2019). As at 30 September 2019, the residual claims of the plaintiffs who did not file civil suits amounted to EUR 592 mln (EUR 591 mln in the previous quarter).

These requests were joined, again out-of-court, by 406 (305 as at 30 June 2019) concerning the 2014-2015 share capital increases for a claim amount of EUR 271 mln (roughly EUR 266 mln considering only the plaintiffs who did not file civil suits, up compared to the previous quarter by EUR 255 mln).

The total claim amount as at 30 September 2019 is therefore EUR 858 mln (against a total of EUR 846 mln in June 2019).

Settlement agreements for civil disputes
In the third quarter of 2019, settlement agreements were reached, involving the closure of 13 disputes against a total claim of approx. EUR 70 mln. The outlays made following the above transactions did not have a negative impact on the income statement for the period.

Other disputes

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

At the reporting date, for all plaintiffs rulings in the first and/or second instance had been handed down, all against the Parent Company, giving the workers concerned the right to be re-hired, with the exception of one ruling in the first instance handed down on 4 October 2019 in favour of the Company.

Specifically, for 142 workers a ruling in the first instance was handed down (at the Courts of Lecce and Rome) against which the Parent Company has already appealed before the applicable Courts of Appeals with hearings currently scheduled between November 2019 and October 2020; on the other hand, for 333 workers, a ruling in the second instance was also handed down (at the Courts of Appeals of Florence, Rome and Brescia), against which the Parent Company has already submitted an appeal before the Court of Cassation (pending the scheduling of a hearing by the Supreme Court for all appeals submitted thus far).

With regard to the transferor's remuneration obligation, on 19 September 2019 the Parent Company received 3 injunctions, in which the plaintiffs demanded the payment of sums by way of wages not received between 14 October 2016 and 31 August 2019. In this context, as already noted in the

"Consolidated Half-Yearly Report as at 30 June 2019", two opinions have already been obtained from the Ichino-Brugnatelli and Bonelli Erede with Lombardi law offices which, acknowledging the current case law conflict, highlighted that in that additional legal dispute which the workers concerned are launching against the Parent Company, there are grounded reasons to object to the conclusions that the Court of Cassation has recently come to.

* * *

Diamond offer

As at 30 September 2019, the Parent Company allocated provisions for risks and charges in relation to the damages claimed amounting to EUR 146 mln and taking into account provisions for EUR 97 mln made in the first nine months of the year. Transactions with customers were carried out during this period for an amount of EUR 119 mln.

* * *

In 28 January - 26 April 2019, an on-site inspection was performed by the ECB regarding legal risk with respect to the management of operational risk. In August 2019, the Parent Company received the draft inspection report, which contains some significant procedural findings. The Parent Company responded with its own detailed counterarguments concerning the individual findings and is waiting to receive the final version of the report, which will be followed up with the draft follow up letter of the ECB.

Market risks

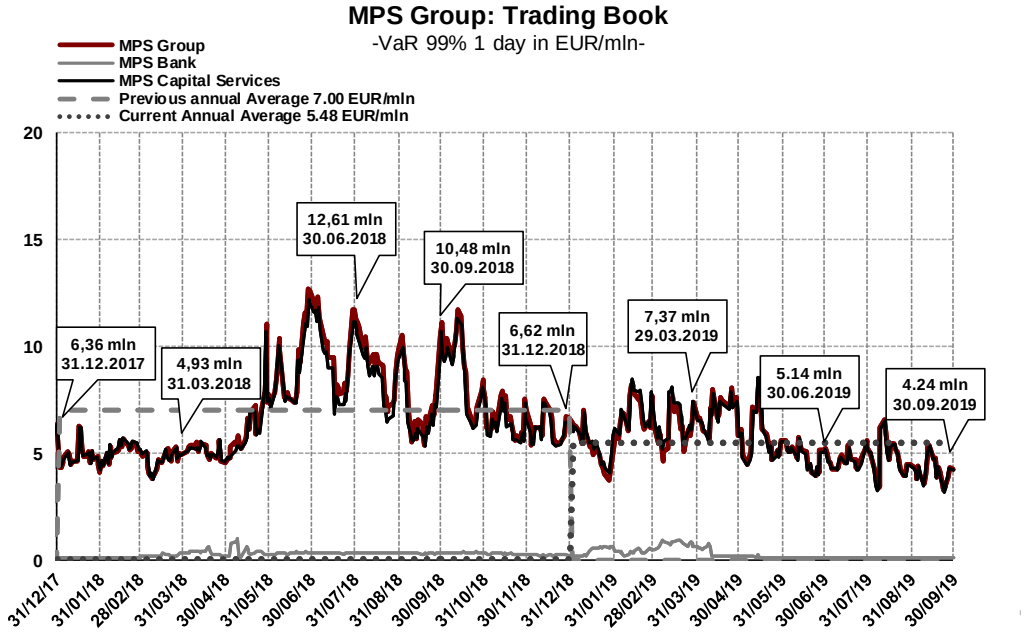
At the end of the third quarter of 2019, the market risks of the Group's Regulatory Trading Book, measured as VaR, have decreased compared to the end of 2018, amounting to EUR 4.24 mln as at 30 September 2019.

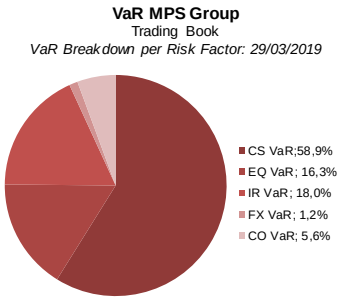
During the year, the market risks of the Group's Regulatory Trading Book showed, in terms of VaR, a performance influenced by the subsidiary MPS Capital Services, mainly for own trading activities in the Credit Spread – Interest Rate segment (auction transactions in Italian Government bonds and long futures) and, to a lesser extent, Client-Driven activities in the Equity segment (options and equity futures on the main market indices).

The volatility of the VaR recorded in the third quarter of 2019 is mainly due to trading activities of the subsidiary MPS Capital Services, the latter mainly focused on participation in auctions for short-term Italian government bonds.

Today, the VaR is sensitive to changes in the short-term exposure on the Italian credit spread given that it incorporates, in the tail scenarios recorded between May and June 2018, a marked widening of the yields on Italian Government bonds, more significant on the short-term than the long-term component (i.e. increase in yields with flattening of the curve). The above trend faded away starting in the last quarter of 2018, along with the reduction in average exposure to Italian government bonds, particularly notable starting from the end of the first half of 2019.

Note that in August 2019, a new tail scenario entered the historical simulation VaR model, relating to the increase in the Italian credit spread due to the intervening crisis in the government.





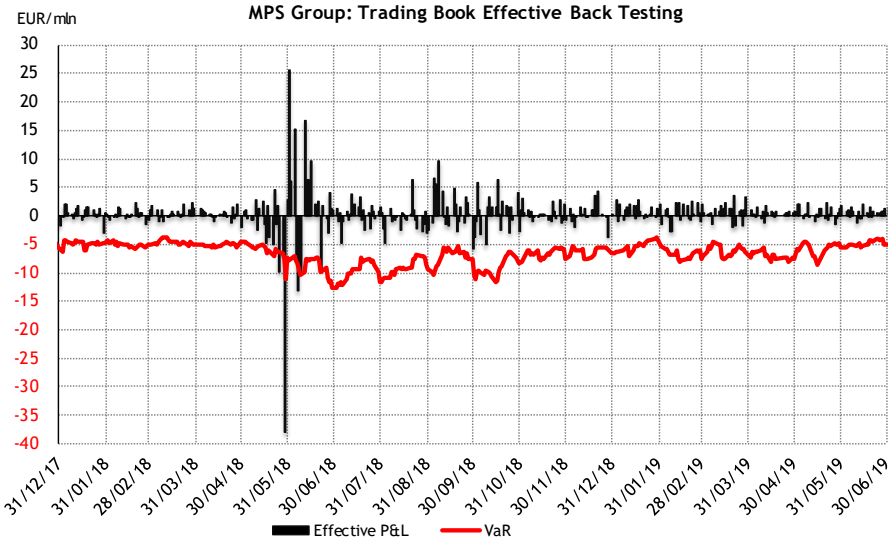
MPS Group
VaR PNV 99%1 day in EUR/mln

	VaR	Data
End Period	4.24	30/09/2019
Min	3.28	23/09/2019
Max	8.48	14/05/2019
Average	5.48	

The breakdown of the VaR shows that the Credit Spread is the main risk factor, accounting for 58.9% of the TB Gross VaR of the Group, while the IR accounts for 18.0%, EQ for 16.3%, CO for 5.6% and FX for 1.2%.

VaR model backtesting

The chart below shows the actual backtesting results of the internal Market Risks model in relation to the Group's Regulatory Trading Book for 2018 and for the first three quarters of 2019:



Five exceptions were recorded in 2018, shaped almost entirely by the risk exposure of the subsidiary MPSCS. These exceptions are concentrated between the end of May and June 2018, as a consequence of the increase in volatility in the Italian credit spread, due to a climate of political uncertainty generated in the period following the elections to form a new government.

No exceptions were recorded in the third quarter of 2019.

Results by operating segment

Identification of operating segments

For the purpose of identifying the Operating Segments provided for by IFRS 8, the Group has adopted the business approach. Consolidated income statement and balance sheet data are broken down and re-aggregated based on criteria including: business area concerned, operating structure of reference, relevance and strategic importance of activities carried out, and customer clusters served.

The Parent Company structure envisages the implementation of a specialised commercial organisational model with three Departments (Retail, Wealth Management and Corporate), each of which is responsible for the pertinent markets, segments and products.

Based on the Group's current organisational structures and the reporting criteria at the highest decision-making level, the following operating segments were identified:

- **Retail Banking**, which includes the sales activities of Retail customers (Value, Premium and Small Business segments);
- **Corporate Banking**, which includes the sales activities of Corporate customers (SME, Entities and Top Corporate segments), Large Corporate Area, Foreign Branches and the subsidiaries MPS Capital Services, MPS Leasing & Factoring and the foreign banks BMP Belgio and MP Banque;
- **Wealth Management**, which includes the sales activities of Private Banking customers (Private Banking and Family Office segments) and the subsidiary MPS Fiduciaria;
- **Banca Widiba SpA**, which includes the financial advisor network and the self-service channel;
- **Corporate Centre**, which in addition to cancellations of intragroup entries, incorporates the results of the following business centres:
  - service operations supporting the Group's business, dedicated in particular to the management and development of IT systems (MPS Group Operational Consortium);
  - companies consolidated at equity and held for sale;
  - operating units, such as proprietary finance, ALM, Treasury and Capital Management which, individually, fall below the disclosure requirements for primary reporting.

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

- to allow for continuity in the description and interpretation of the performance results, even though the subsidiary BMP Belgio S.A. was sold on 14 June 2019, its economic data are included in the individual income statement items of the Corporate Banking operating segment, while the balance sheet data as at 30 September 2019 (and as at 30 June 2019) do not include BMP Belgio S.A. since the entire equity investment was sold in June. The subsidiary's data as at 31 March 2019, 31 December 2018 and 30 September 2018 were included in the individual balance sheet items of the Corporate Banking operating segment, even though it was being disposed of during that time.
- as from 2019, the cost allocation model for the identified operating segments was updated, thus, in order to make the comparison meaningful, the 2018 values were drafted on a pro-forma basis.

Results in brief

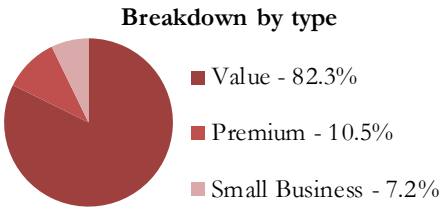
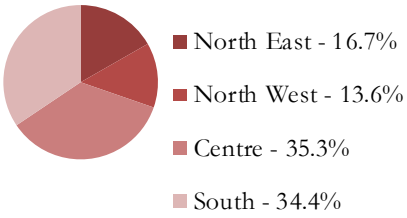
The following table reports the main income statement and balance sheet items that characterised the Group's Operating Segments as at 30 September 2019:

SEGMENT REPORTING	Business Segments											
Primary segment	Retail banking		Wealth Management		Corporate banking		Widiba		Corporate Center		Total MPS Group	
(EUR mln)	30/09/19	Chg % Y/Y	30/09/19	Chg % Y/Y	30/09/19	Chg % Y/Y	30/09/19	Chg % Y/Y	30/09/19	Chg % Y/Y	30/09/19	Chg % Y/Y
PROFIT AND LOSS AGGREGATES												
Total Income	1,695.2	0.0%	107.4	14.9%	563.1	-10.9%	51.8	6.6%	(57.3)	n.s.	2,360.3	-6.3%
Operating expenses	(1,207.7)	-3.9%	(73.6)	-3.4%	(332.3)	-6.6%	(46.6)	3.7%	(35.5)	n.s.	(1,695.6)	-1.1%
Pre Provision Profit	487.6	11.2%	33.8	95.8%	230.8	-16.5%	5.3	42.8%	(92.8)	n.s.	664.7	-17.2%
Net impairment losses (reversals) on loans and financial assets	(156.0)	-27.1%	2.0	n.s.	(201.5)	29.5%	(0.3)	-55.7%	(9.5)	n.s.	(365.1)	-0.8%
Net Operating Income	331.6	47.7%	35.9	n.s.	29.4	-75.7%	5.0	60.6%	(102.3)	n.s.	299.6	-31.1%
BALANCE SHEET AGGREGATES												
Interest-bearing loans to customers	40,057.5	-0.3%	491.9	-10.9%	32,076.1	-12.3%	625.9	62.9%	14,295	n.s.	87,546	3.6%
Deposits from customers and debt securities issued(*)	41,418.1	2.3%	3,598.1	9.0%	17,338.9	-10.8%	3,060.0	25.2%	26,831	-4.9%	92,246	-1.8%
Indirect funding	47,622.6	1.2%	15,326.1	-2.8%	16,446.0	3.4%	5,007.9	-4.4%	16,620	7.9%	101,023	1.7%
Assets under management	*38,707.2*	*1.7%*	*11,307.7*	*-1.4%*	*1,402.4*	*-7.1%*	*4,491.1*	*-4.7%*	*2,695*	*-0.6%*	*58,603*	*0.3%*
Assets under custody	*8,915.4*	*-0.9%*	*4,018.4*	*-6.3%*	*15,043.6*	*4.5%*	*516.8*	*-1.9%*	*13,926*	*9.7%*	*42,420*	*3.7%*

(*) The values stated in the Sales & Distribution segments are gross interest-bearing loans and therefore do not include loss provisions.

N.B.: The Group has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 16, thus the figures for 2018 are not fully comparable. Moreover, as from 2019, the cost allocation model for the identified operating segments was updated, thus, in order to make the comparison meaningful, the 2018 values were drafted on a pro-forma basis.

Retail Banking

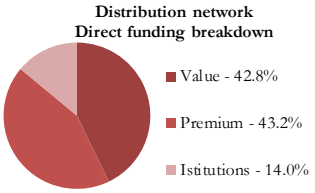
Business areas	Customers
• Funding and provision of insurance products. • Lending. • Financial advisory services. • Electronic payment services.	Retail customers number approximately 4.4 mln.  

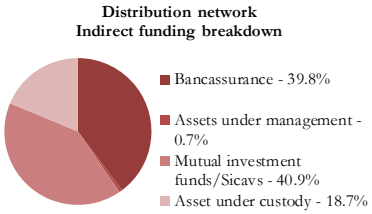
Income statement and balance sheet results

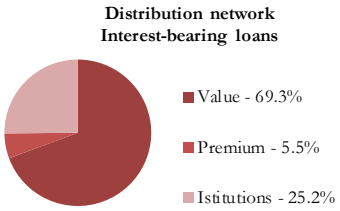
As at 30 September 2019, **Total Funding** for Retail Banking amounted to approximately **EUR 89.0 bn**, up by roughly EUR 3.5 bn from the end of 2018 and EUR 0.6 bn compared to June 2019. More specifically:

- **Direct Funding** was **EUR 41.4 bn**, up by approx. EUR 1.7 bn compared to 31 December 2018, due mainly to the demand components (EUR +1.5 bn) and medium/long-term components (EUR +0.6 bn). The aggregate increased by EUR 0.3 bn compared to 30 June 2019, in particular demand (EUR +0.4 bn) and medium/long-term (EUR +0.2 bn) forms, while short-term deposits were down by EUR -0.3 bn.
- **Indirect Funding**, amounting to approx. **EUR 47.6 bn**, up by EUR 1.8 bn compared to 31 December 2018 due to assets under management. Also compared to the June 2019 levels, the aggregate recorded an increase (EUR +0.2 bn), with an increase in assets under management (EUR +0.5 bn) and a slight decrease in assets under custody.
- **Interest-bearing loans** to Retail Banking customers were **EUR 40.1 bn**, in line with December 2018 and up over June 2019 (EUR +0.6 bn).

RETAIL BANKING - BALANCE SHEET AGGREGATES										
(Eur mln)	30/09/19	30/06/19	31/12/18	30/09/18	Chg Abs Q/Q	Chg % Q/Q	Chg Abs 31/12	Chg % 31/12	Chg Abs Y/Y	Chg % Y/Y
Deposits from customers and debt securities issued	**41,418**	**41,115**	**39,703**	**40,505**	**303**	**0.7%**	**1,715**	**4.3%**	**913**	**2.3%**
Assets under management	*38,707*	*38,193*	*36,696*	*38,047*	*514*	*1.3%*	*2,011*	*5.5%*	*660*	*1.7%*
Assets under custody	*8,915*	*9,182*	*9,161*	*8,994*	*-266*	*-2.9%*	*-245*	*-2.7%*	*-79*	*-0.9%*
Indirect Funding	**47,623**	**47,375**	**45,857**	**47,041**	**248**	**0.5%**	**1,766**	**3.9%**	**581**	**1.2%**
Total Funding	**89,041**	**88,490**	**85,560**	**87,546**	**551**	**0.6%**	**3,480**	**4.1%**	**1,495**	**1.7%**
Interest-Bearing Loans to Customers	**40,058**	**39,476**	**39,915**	**40,189**	**582**	**1.5%**	**143**	**0.4%**	**-131**	**-0.3%**







With regard to profit and loss, as at 30 September 2019, Retail Banking achieved total **Revenues** of approx. **EUR 1,695 mln**, in line with the same period of last year. A breakdown of the aggregate shows:

- Net Interest Income was approximately EUR 746 mln, up 2.6% annually due both to the higher contribution from funding with respect to the decrease in returns on commercial assets (volumes and rates);
- Net Fee and Commission Income totalled approximately EUR 879 mln, down from the previous year's level by 7.0%, due to the reduction in income from product placement and loan usage fees.

Considering the impact of Operating Expenses, which decreased by 3.9% Y/Y, Retail Banking generated **Gross Operating Income** of about **EUR 488 mln** (+11.2% Y/Y). Net impairment (losses)/reversals on loans and financial assets totalled **EUR -156 mln** (EUR -214 mln as at 30 September 2018).

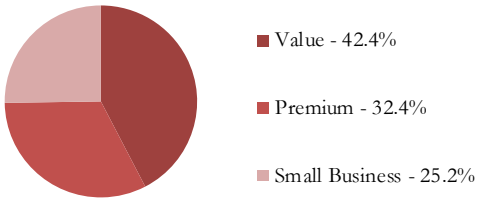
The **Net Operating Income** recorded since the beginning of the year is **positive, amounting to around EUR 332 mln**.

The **cost-income ratio** of the Operating Segment is **71.2%** (74.1% at the end of September 2018).

RETAIL BANKING - PROFIT AND LOSS AGGREGATES				
			Chg. Y/Y	
(EUR mln)	30/09/19	30/09/18	Abs.	%
Net interest income	*746.4*	*727.5*	*19.0*	*2.6%*
Net fee and commission income	*879.1*	*945.0*	*-65.9*	*-7.0%*
Other income	*58.2*	*4.4*	*53.7*	*n.s.*
Other operating expenses/income	*11.5*	*18.2*	*-6.7*	*n.s.*
Total Income	**1,695.2**	**1,695.1**	**0.1**	**0.0%**
Operating expenses	*(1,207.7)*	*(1,256.8)*	*49.1*	*-3.9%*
Pre Provision Profit	**487.6**	**438.3**	**49.2**	**11.2%**
Net impairment losses (reversals) on loans and financial assets	(156.0)	(213.8)	57.9	-27.1%
Net Operating Income	**331.6**	**224.5**	**107.1**	**47.7%**

N.B.: The Group has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 16, thus the figures for 2018 are not fully comparable. Moreover, as from 2019, the cost allocation model for the identified operating segments was updated, thus, in order to make the comparison meaningful, the 2018 values were drafted on a pro-forma basis

Consumer banking - Distribution network
Breakdown of revenues



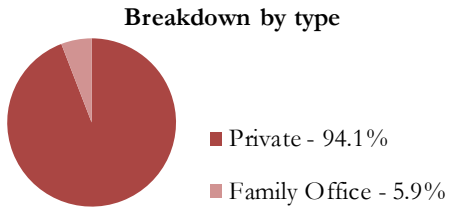
Wealth Management

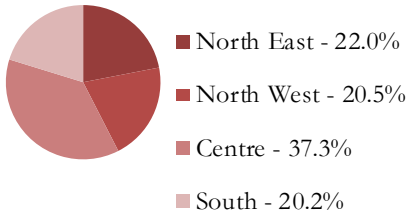
Business areas

- Funding, lending, provision of insurance products, financial and non-financial services to private banking customers.
- Services and products for high-standing customers in the areas of wealth management, financial planning, consultancy on non-strictly financial services (tax planning, real estate, art & legal advisory).
- Fiduciary and trust services (through the subsidiary MPS Fiduciaria).

Customers

There are around 36 thousand private customers.





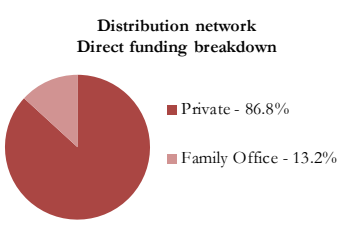
Income statement and balance sheet results

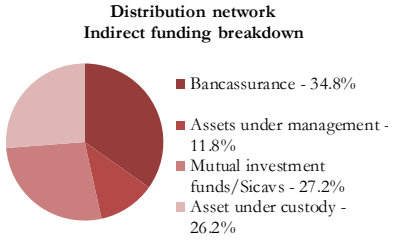
As at 30 September 2019, **Total Funding** for Wealth Management amounted to approximately **EUR 18.9 bn**, up compared to the end of the year (EUR +0.8 bn) and by around EUR 0.2 bn against 30 June 2019. More specifically:

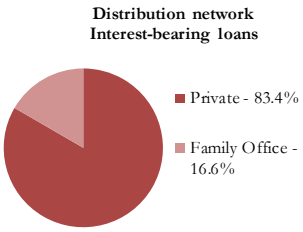
- **Direct Funding** came to **EUR 3.6 bn**, marking a recovery compared to 31 December 2018 (EUR +0.4 bn) and compared to June 2019 (EUR +0.2 bn);
- **Indirect Funding**, amounting to about **EUR 15.3 bn**, was up by EUR 0.3 bn compared to the end of the previous year and in line with 30 June 2019;
- **Interest-bearing loans** to Wealth Management customers were essentially in line with both December 2018 and 30 June 2019, reaching roughly **EUR 0.5 bn**.

WEALTH MANAGEMENT - BALANCE SHEET AGGREGATES

(EUR mln)	30/09/19	30/06/19	31/12/18	30/09/18	Chg Abs Q/Q	Chg % Q/Q	Chg Abs 31/12	Chg % 31/12	Chg Abs Y/Y	Chg % Y/Y
Deposits from customers and debt securities issued	**3,598**	**3,382**	**3,178**	**3,300**	**216**	**6.4%**	**420**	**13.2%**	**298**	**9.0%**
Assets under management	*11,308*	*11,125*	*10,826*	*11,473*	*183*	*1.6%*	*482*	*4.5%*	*-165*	*-1.4%*
Assets under custody	*4,018*	*4,235*	*4,151*	*4,289*	*-217*	*-5.1%*	*-132*	*-3.2%*	*-271*	*-6.3%*
Indirect Funding	**15,326**	**15,360**	**14,976**	**15,762**	**-34**	**-0.2%**	**350**	**2.3%**	**-436**	**-2.8%**
Total Funding	**18,924**	**18,742**	**18,154**	**19,062**	**182**	**1.0%**	**770**	**4.2%**	**-138**	**-0.7%**
Interest-Bearing Loans to Customers	**492**	**495**	**535**	**552**	**-4**	**-0.7%**	**-43**	**-8.1%**	**-60**	**-10.9%**







With regard to profit and loss, in the first nine months of 2019 Wealth Management achieved total **Revenues** of approx. **EUR 107 mln**, up 14.9% compared to the same period of last year. A breakdown of the aggregate shows:

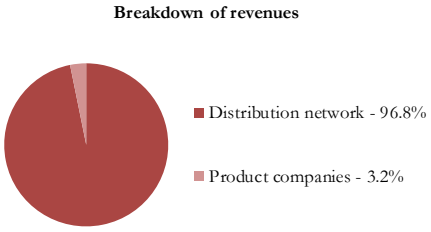
- Net Interest Income amounted to approx. EUR 11 mln, up by EUR 6 mln compared to the same period of the previous year, impacted by the recovery in the contribution of direct funding;
- Net Fee and Commission income totalled approximately EUR 81 mln, down compared to the previous year (-8.5%) as a result of the decline in the product segment, for the continuing operations and placement components.

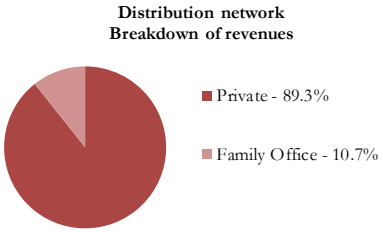
Considering the impact of Operating Expenses, which decreased by 3.4% Y/Y, Wealth Management generated **Gross Operating Income** of about **EUR 34 mln** (+95.8% Y/Y). Including net impairment (losses)/reversals on loans and financial assets equal to about EUR +2.0 mln, the **Net Operating Income** totalled roughly **EUR 36 mln**.

The **cost-income ratio** of the Operating Segment is **68.5%** (81.5% at the end of September 2018).

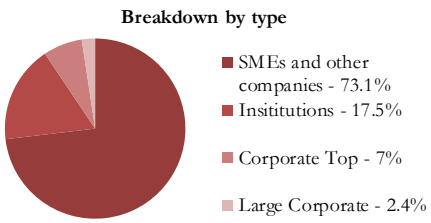
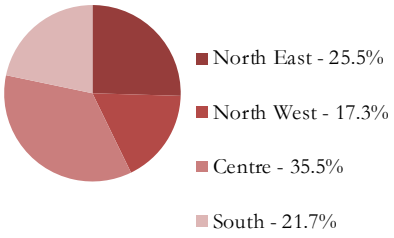
WEALTH MANAGEMENT - PROFIT AND LOSS AGGREGATES				
			Chg. Y/Y	
(EUR mln)	30/09/19	30/09/18	Abs.	%
Net interest income	*10.6*	*4.5*	*6.2*	*n.s.*
Net fee and commission income	*80.9*	*88.4*	*-7.5*	*-8.5%*
Other income	*15.7*	*0.3*	*15.5*	*n.s.*
Other operating expenses/income	*0.2*	*0.3*	*-0.2*	*n.s.*
Total Income	**107.4**	**93.5**	**14.0**	**14.9%**
Operating expenses	*(73.6)*	*(76.2)*	*2.6*	*-3.4%*
Pre Provision Profit	**33.8**	**17.3**	**16.6**	**95.8%**
Net impairment losses (reversals) on loans and financial assets	2.0	(2.6)	4.6	n.s.
Net Operating Income	**35.9**	**14.7**	**21.2**	**n.s.**

N.B.: The Group has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 16, thus the figures for 2018 are not fully comparable. Moreover, as from 2019, the cost allocation model for the identified operating segments was updated, thus, in order to make the comparison meaningful, the 2018 values were drafted on a pro-forma basis.





Corporate Banking

Business areas	Customers
• Lending and offering financial products and services to businesses, including through strategic partnerships with trade associations and Confidi (credit guarantee consortia), with Guarantee Institutions (including public) and Institutional Entities, through which funding is acquired at favourable terms. • Offer of integrated leasing and factoring packages for businesses, artisans and professionals (through the subsidiary MPS Leasing & Factoring). • Corporate finance - medium-long term credit facilities, corporate finance, capital markets and structured finance also through the subsidiary MPS Capital Services. • Custody and deposit services for dairy products on behalf of third parties (through the subsidiary Magazzini Generali Fiduciari di Mantova S.p.A., which is also authorised to issue documents of title to the merchandise, providing for easier access to bank lending).	About 47,500 Corporate and large group customers of the Parent Company, directly followed by Corporate Banking.  

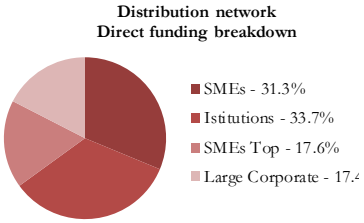
Income statement and balance sheet results

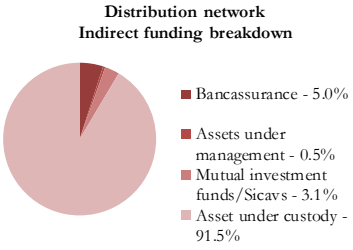
As regards the results of the subsidiary BMP Belgio, which were kept in the original items in the Corporate Banking operating segment, please refer to the Income statement and balance sheet reclassification principles sections.

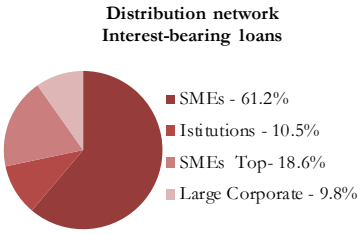
Total Funding from Corporate Banking amounted to **EUR 33.8 bn**, in line with December 2018 and down compared to 30 June 2019 by EUR 0.6 bn, primarily as a result of the decline in direct funding (EUR -0.7 bn), partially offset by growth in indirect funding.

With regard to lending, as at 30 September 2019, Corporate Banking **interest-bearing loans** to customers stood at approximately **EUR 32.1 bn** (EUR -0.9 bn on 31 December 2018 and EUR -0.6 bn compared to the previous quarter).

CORPORATE BANKING - BALANCE SHEET AGGREGATES										
(EUR mln)	30/09/19	30/06/19	31/12/18	30/09/18	Chg Abs Q/Q	Chg % Q/Q	Chg Abs 31/12	Chg % 31/12	Chg Abs Y/Y	Chg % Y/Y
Deposits from customers and debt securities issued	**17,339**	**18,064**	**18,399**	**19,449**	**-725**	**-4.0%**	**-1,060**	**-5.8%**	**-2,110**	**-10.8%**
Assets under management	*1,402*	*1,429*	*1,472*	*1,510*	*-26*	*-1.8%*	*-70*	*-4.7%*	*-107*	*-7.1%*
Assets under custody	*15,044*	*14,874*	*13,872*	*14,396*	*170*	*1.1%*	*1,171*	*8.4%*	*647*	*4.5%*
Indirect Funding	**16,446**	**16,302**	**15,345**	**15,906**	**144**	**0.9%**	**1,101**	**7.2%**	**540**	**3.4%**
Total Funding	**33,785**	**34,366**	**33,743**	**35,355**	**-581**	**-1.7%**	**42**	**0.1%**	**-1,570**	**-4.4%**
Interest-Bearing Loans to Customers	**32,076**	**32,643**	**32,963**	**36,582**	**-566**	**-1.7%**	**-887**	**-2.7%**	**-4,505**	**-12.3%**







For profit and loss aggregates, in the first nine months of 2019, Corporate Banking **Revenues** came to approximately **EUR 563 mln** (-10.9% YoY). A breakdown of the aggregate shows:

- Net Interest Income was approximately EUR 358 mln, down 15.6% annually due to the decrease in returns on commercial assets;
- Net Fee and Commission Income decreased by 6.0% YoY, amounting to approximately EUR 220 mln, mainly penalised by the downward trend in proceeds from the use of loans;
- Other revenues from banking and insurance business amounted to approx. EUR -2.8 mln (EUR -16 mln as at 30 September 2018), with growth attributable to trading activities.

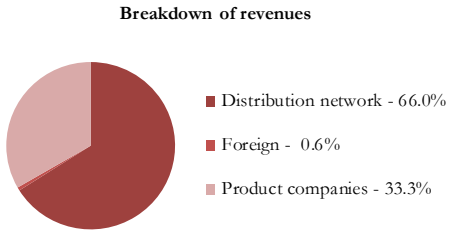
Considering the impact of Operating Expenses, down by 6.6% compared to 30 September 2018, the **Gross Operating Income** came to about **EUR 231 mln** (-16.5% Y/Y).

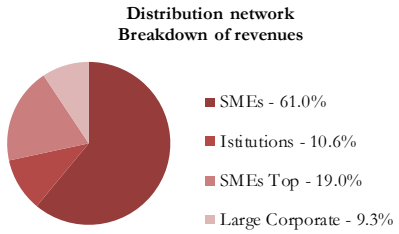
Net Operating Income amounted to **EUR 29 mln** (EUR 121 mln in the same period of the previous year), also due to the deterioration in impairment (losses)/reversals on loans and financial assets, which stood at EUR -201 mln.

The Corporate Banking **cost-income ratio** stands at **59.0%** (56.3% as at 30 September 2018).

CORPORATE BANKING - PROFIT AND LOSS AGGREGATES				
			Chg. Y/Y	
(EUR mln)	30/09/19	30/09/18	Abs.	%
Net interest income	*358.5*	*424.9*	*-66.4*	*-15.6%*
Net fee and commission income	*220.0*	*234.0*	*-14.0*	*-6.0%*
Other income	*(2.8)*	*(16.0)*	*13.2*	*-82.6%*
Other operating expenses/ income	*(12.6)*	*(10.8)*	*-1.7*	*n.s.*
Total Income	**563.1**	**632.1**	**-68.9**	**-10.9%**
Operating expenses	*(332.3)*	*(355.7)*	*23.4*	*-6.6%*
Pre Provision Profit	**230.8**	**276.4**	**-45.5**	**-16.5%**
Net impairment losses (reversals) on loans and financial assets	(201.5)	(155.5)	-45.9	29.5%
Net Operating Income	**29.4**	**120.8**	**-91.5**	**-75.7%**

N.B.: The Group has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 16, thus the figures for 2018 are not fully comparable. Moreover, as from 2019, the cost allocation model for the identified operating segments was updated, thus, in order to make the comparison meaningful, the 2018 values were drafted on a pro-forma basis





Results of the main subsidiaries

- **MPS Capital Services**: profit before taxes of EUR 125 mln and profit for the period of EUR 144 mln, up by EUR 97 mln compared to 30 September 2018, mainly due to the growth in Other revenues from banking business and Net fee and commission income.
- **MPS Leasing & Factoring**: profit before taxes of EUR 15 mln and profit for the period of EUR 16 mln (EUR +18 mln compared to the first nine months of 2018).
- **Foreign banks**[8]: **MP Banque**'s profit for the period was basically null compared to a profit of EUR 3 mln in the same period of the previous year; as regards **BMP Belgio S.A.**, the loss for the period of EUR -5 mln was unchanged compared to the first half of 2019 due to the completion of the sale in June.

[8] The profit reported for foreign subsidiaries is that determined on an operational basis. Please recall that in 2018 the Parent Company approved the run-off of MP Banque while the sale of BMP Belgio S.A. was completed in June 2019.

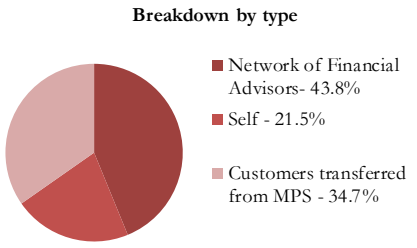
Banca Widiba

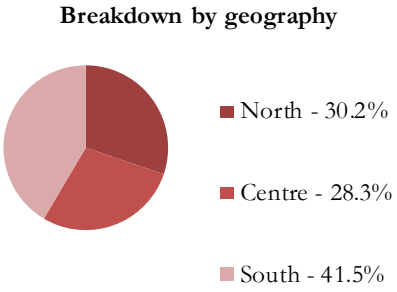
Business areas

- Banking products and services, deposit account, cards and advanced payment systems; customer self-service through the bank's digital channels or in assisted mode with the support of a Financial Advisor.
- Fully customisable online platform that relies on a network of 551 Financial Advisors present throughout the country.
- Funding and Global advisory services and financial planning through the advanced WISE platform and the skills of the Financial Advisor Network.
- Mortgages, credit facilities and personal loans.
- Innovative interaction through computers, smartphones, tablets, watches and TV.

Customers

There were roughly 343,200 customers as at 30 September 2019, of which around 150,300 in the Financial Advisor Network channel, around 73,800 in the self-service channel, and around 119,100 customers migrated from the MPS branch network. There were approx. 299,173 customers managed exclusively by Banca Widiba.





Income statement and balance sheet results

As at 30 September 2019, Total Funding for Widiba amounted to around **EUR 8.1 bn**, up by EUR 432 mln from the start of the year and EUR 382 mln compared to 30 September of the previous year. As at 30 September, the customer base was substantially confirmed at the levels at the start of the year, while overall there was growth in commercial volumes brokered during the third quarter, particularly with reference to Direct Funding and Loans (mortgages). More specifically:

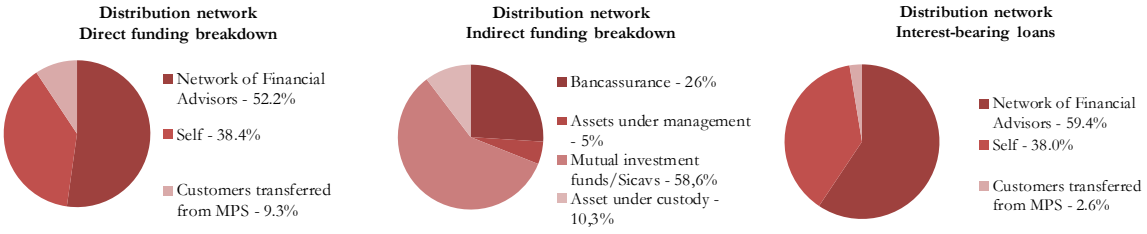
- **Direct Funding** of **EUR 3.1 bn**, is up compared to the values at the start of the year as well as those of 2Q19, marking an increase concentrated in demand funding (current accounts). Overall, growth in the third quarter amounted to EUR +59 mln (equal to +2.0%), due to positive net funding flows from both the self-customer channel and the Financial Advisor Network. Also in the third quarter, the development of volumes was accompanied by careful monitoring of the cost of funding, which was down slightly during the quarter. Campaigns also continued for the direct deposit of wages, credit card applications and the Telepass product, along with offers dedicated to developing the customer segment migrated from the MPS branches, in order to boost cross-selling. The consolidation of assistance processes supporting the business and customers through the Widiba Media Centre structure made it possible to act on conversion rates and the effectiveness of outbound campaigns, as well as improve inbound customer service levels, continuing with the trend of achieving significant economies of scale as well as with ever increasing cross-selling rates;
- **Indirect Funding**, amounting to approx. **EUR 5.0 bn**, is up compared to the figure in 4Q18 (EUR +121 mln, or +2.5%), also due to the favourable performance of the financial markets,

while the stock declined compared to 30 September 2018 (EUR -233 mln or -4.4%). In fact, in the first nine months, an almost complete recovery (equal to approx. EUR 390 mln) was recorded in the negative market effect of the previous year (approx. EUR 400 mln). In the first nine months there was a decline in net flows of Indirect funding on the Financial Advisor Network channel, although there was a recovery in volumes of Assets under Management in 3Q19. 11 new Financial Advisors were hired since the start of the year.

Interest-bearing loans to Widiba customers rose from roughly EUR 472 mln as at 31 December 2018 to **EUR 626 mln** as at 30 September 2019. The segment's net overall growth mainly refers to the consolidation of the range of mortgage loans offered by Widiba, with new disbursements of EUR 176 mln from the start of the year.

WIDIBA BANK - BALANCE SHEET AGGREGATES

(EUR mln)	30/09/19	30/06/19	31/12/18	30/09/18	Chg Abs Q/Q	Chg % Q/Q	Chg Abs 31/12	Chg % 31/12	Chg Abs Y/Y	Chg % Y/Y
Deposits from customers and debt securities issued	**3,060**	**3,001**	**2,749**	**2,445**	**59**	**2.0%**	**311**	**11.3%**	**615**	**25.2%**
Assets under management	*4,491*	*4,398*	*4,325*	*4,714*	*94*	*2.1%*	*167*	*3.9%*	*-223*	*-4.7%*
Assets under custody	*517*	*568*	*562*	*527*	*-51*	*-9.0%*	*-45*	*-8.0%*	*-10*	*-1.9%*
Indirect Funding	**5,008**	**4,966**	**4,887**	**5,241**	**42**	**0.9%**	**121**	**2.5%**	**-233**	**-4.4%**
Total Funding	**8,068**	**7,967**	**7,635**	**7,686**	**101**	**1.3%**	**432**	**5.7%**	**382**	**5.0%**
Interest-Bearing Loans to Customers	**626**	**581**	**472**	**384**	**45**	**7.7%**	**154**	**32.7%**	**242**	**62.9%**



With regard to profit and loss, as at 30 September 2019 Widiba achieved total Revenues of approx. EUR 51.8 mln, up EUR +3.2 mln (+6.6%) compared to the first nine months of the previous year. It should be noted that the Revenues from 2018 were influenced by a positive non-recurring extraordinary component of EUR 0.6 mln referring to a financial transaction with the Parent Company and, therefore, the increase in pro-forma Revenues compared to the previous year would be EUR +3.8 mln (equal to +8%). The 3Q19 trend shows further growth in Net Interest Income, accompanied by a decline in Net Fee and Commission Income by EUR 0.8 mln compared to 2Q19. In particular, a breakdown of the aggregate shows:

- **Net Interest Income** amounted to **EUR 43.9 mln**, marking a significant increase (+20.4%) compared to the previous year. With regard to the components of net interest income, a positive contribution was made by both financial assets (due to higher average volumes of +20% YoY) and by commercial assets (due to higher average volumes corresponding to around EUR 244 mln), together with a lower cost of funding for the first nine months (-9 bps on average). These trends led to an improvement in performance in 3Q19 (equal to EUR 14.8 mln, the best year to date; +14.9%) also with respect to the quarterly average in 2018 (corresponding to EUR 12.9 mln);
- **Net Fee and Commission Income**, amounting to **EUR 8.2 mln**, was down compared to 2018 (EUR -4.0 mln; -32.7%) mainly due to the delay accumulated in the Indirect Funding segment and by higher expenses relating to the loyalty programme for the Financial Advisor Network. In detail,

in terms of Gross Revenues, the decline was more moderate and stood at approx. EUR -0.2 mln (-0.4%), noting in particular, on one hand, a decrease in revenues of assets under management (EUR -3.8 mln), also resulting from the negative market effect of the last quarter of 2018 and on the other, a marked increase in commissions from services relating to the banking and e-money segment (EUR +3.1 mln, +306%). Lastly, Net Fee and Commission Income for the period was affected by lower ordinary commission charges for approx. EUR 2.7 mln compared to the lower commission income generated, confirming the flexibility of the model of the Financial Advisor Network, and higher charges relating to the loyalty programme for the Network of approx. EUR 6.5 mln.

Operating Expenses, at EUR 14.7 mln in 3Q, were down by more than 1 mln compared to 1Q as well as 2Q. In the first nine months, they were slightly higher than in the previous year (up by a total of EUR 1.7 mln, equivalent to 3.7%) due to higher personnel expenses (EUR +1.0 mln due to the increased workforce), and higher other administrative expenses and amortisation/depreciation (a total of EUR +0.7 mln) as a result of the growing operating apparatus in terms of customers (roughly +98 thousand customers compared to 3Q18), operations, products and continuous evolutions in the technological platform.

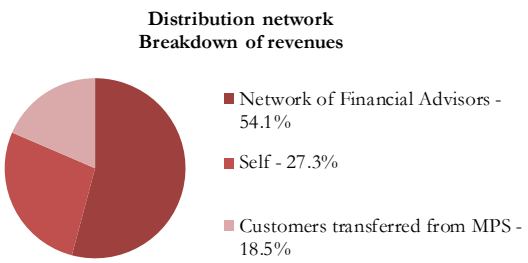
The **Gross Operating Income** therefore amounted to **EUR 5.3 mln**, up by EUR 1.6 mln compared to the same period of the previous year.

The **Net Operating Income** (EUR 2.3 mln in 3Q, in line with the previous quarter and higher than 1Q by around EUR 2 mln), including the effect of impairment on loans of EUR 0.3 mln, also marked a positive trend (EUR 5.0 mln year to date), up EUR +1.9 mln compared to 2018. Lastly, in consideration of the above-mentioned non-recurring component of Revenues in 2018, the Net Operating Income would have increased compared to the previous year by EUR +2.5 mln.

WIDIBA BANK - PROFIT AND LOSS AGGREGATES

(EUR mln)	30/09/19	30/09/18	Chg. Y/Y Abs.	Chg. Y/Y %
Net interest income	*43.9*	*36.5*	*7.5*	*20.4%*
Net fee and commission income	*8.2*	*12.2*	*-4.0*	*-32.7%*
Other income	*0.0*	*0.0*	*0.0*	*n.s.*
Other operating expenses/income	*(0.3)*	*(0.1)*	*-0.3*	*n.s.*
Total Income	**51.8**	**48.6**	**3.2**	**6.6%**
Operating expenses	*(46.6)*	*(44.9)*	*-1.7*	*3.7%*
Pre Provision Profit	**5.3**	**3.7**	**1.6**	**42.8%**
Net impairment losses (reversals) on loans and financial assets	(0.3)	(0.6)	0.3	-55.7%
Net Operating Income	**5.0**	**3.1**	**1.9**	**60.6%**

N.B.: The Group has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 16, thus the figures for 2018 are not fully comparable.



Corporate Centre

The Corporate Centre includes:

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

In addition to cancellation of intragroup entries, the Corporate Centre also collects the results of companies consolidated by the equity method and those in the process of being disposed, as well as the results of operational branches that are individually below the minimum parameters for external disclosure requirements.

Prospects and outlook on operations

The effects of the tariffs imposed by the US and the compensatory measures taken by the countries involved, destabilising geopolitical factors (hard Brexit the outcome of which is uncertain, the political crises in Argentina and Venezuela, the military escalation on the border between Turkey and Syria) and the Chinese economic slowdown are continuing to have a negative impact on the cycle and global trade in 2019.

In this context, the Italian economy is expected to be in stagnation (according to the International Monetary Fund[9], GDP growth of +0% in 2019 and +0.5% in 2020), but it could benefit in the medium term from the shift towards policies more coordinated with European partners, which has already triggered a considerable reduction in the spread and a resulting downsizing of public debt expense.

As concerns the Italian banking system, in 2019 a positive household lending scenario is confirmed; loans have been driven by consumer credit and the expansion of mortgages for the purchase of homes. Demand for household lending will continue to be favoured by the expectation of low rates until the end of the year, as well as housing prices which are still at a considerable discount.

The demand for loans by businesses will continue to remain modest in 2019, negatively affected by the weakness of the economy and by the climate of uncertainty. Lending trends will be supported by the favourable rates applied by banks and the new improved conditions applied in September to the TLTRO-III transactions[10], operations intended to preserve favourable bank lending conditions for the private sector and the steady transmission of monetary policy.

Funding will remain up as the climate of uncertainty and significant liquidity will attract and fuel higher current account balances. Restricted forms of funding will continue to be penalised by low returns. The reorganisation of the aggregate towards the more liquid and less onerous components, together with monetary policy measures, should contribute to keeping the average cost of funding limited for banks.

We expect that the reference money market rates will remain stable around the current values until the end of 2019, as will borrowing rates. Lending rates are down.

Based on the information available to date, regarding the outlook for operations, during the next few months, the following is expected:

- the progressive achievement of the Plan targets in terms of headcount size;

- along with "ordinary" sales activities on individual properties performed by the Parent Company, on last 12 July a competitive "extraordinary" process began concerning the disposal of a real estate portfolio consisting of 28 assets, with respect to which multiple counterparties have expressed interest. As part of the selection process, the Bank has identified a short list of investors invited to submit a binding offer by the end of November 2019;

- the closing of the disposal of bad leasing loans for approx. EUR 0.5 bn (which will be added to the tranches of approx. EUR 0.4 bn concluded in the first half of the year) and the continuation of the plan for the assignment of loans classified as unlikely to pay, in line with the schedule;

- the reduction in the overall risk index, through an acceleration of the non-performing loan disposal plan for 2019. In particular, the Group is assessing an additional disposal of bad loans for a total gross exposure of EUR 2 bn.

[9] World Economic Outlook, October 2019

[10] On 12 September 2019 an extension of the maturity of TLTRO III transactions from two to three years was announced, in addition to the fact that banks will not have to pay a spread on the refinancing rate for the operations.

Finally, it should be noted that the Draft Budgetary Plan 2020 envisages the reintroduction of ACE, which could lead to significant devaluations of DTAs on non-convertible fiscal losses and to negative effects on current year results. The amount of recorded DTAs in fact depends on expected taxable income; the evolution of the macroeconomic scenario and the aforementioned fiscal measures could reduce expected taxable income and lead to write-downs of DTAs. Write-downs of DTAs on non-convertible fiscal losses have no significant impact on capital ratios.

DECLARATION OF THE FINANCIAL REPORTING OFFICER

Pursuant to para. 2, article 154-bis of the Consolidated Law on Finance, the Financial Reporting Officer, Mr. Nicola Massimo Clarelli, declares that the accounting information contained in this Interim Report on Operations as at 30 September 2019 corresponds to the underlying documentary evidence and accounting records.

Siena, 6 November 2019

Signed by the

Financial Reporting Officer

Nicola Massimo Clarelli