

Monte dei Paschi di Siena Bank Annual Report 2018



**MONTE
DEI PASCHI
DI SIENA**
BANK SINCE 1472



Separate Financial Statements at 31 december 2018



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

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

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

MPS VAT Group - VAT no. 01483500524

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

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





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GOVERNING AND CONTROL BODIES

BOARD OF DIRECTORS

Stefania BARIATTI	Chairman
Antonino TURICCHI	Deputy Chairman
Marco MORELLI	Chief Executive Officer
Maria Elena CAPPELLO	Director
Roberta CASALI	Director
Marco GIORGINO	Director
Fiorella KOSTORIS	Director
Roberto LANCELLOTTI	Director
Nicola MAIONE	Director
Stefania PETRUCCIOLI	Director
Salvatore Fernando PIAZZOLLA	Director
Angelo RICCABONI	Director
Michele SANTORO	Director
Giorgio VALERIO	Director

BOARD OF STATUTORY AUDITORS

Elena CENDERELLI	Chairman
Raffaella FANTINI	Standing Auditor
Paolo SALVADORI	Standing Auditor
Daniele Federico MONARCA	Alternative Auditor

SENIOR MANAGEMENT

Marco MORELLI	General Manager
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<u>INDEPENDENT AUDITORS</u>	EY S.p.A.
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REPORT ON OPERATIONS

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

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Results in brief

REPORT ON OPERATIONS Highlights at 31/12/2018			
INCOME STATEMENT AND BALANCE SHEET FIGURES			
MONTE DEI PASCHI DI SIENA BANK			
INCOME STATEMENT FIGURES	31/12/18	31/12/17*	Chg.
Net interest income	1,530.5	1,741.4	-12.1%
Net fee and commission income	1,473.5	1,546.6	-4.7%
Other operating income	9.8	656.7	-98.5%
Total Revenues	3,013.8	3,944.7	-23.6%
Net impairment losses (reversals) on financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income	(562.5)	(4,477.4)	-87.4%
Net operating income	236.0	(2,940.1)	n.s.
Net profit (loss) for the year	(111.9)	(2,857.4)	-96.1%

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

BALANCE SHEET FIGURES AND INDICATORS	31/12/18	31/12/17 *	Var.
Total assets	124,857.6	129,499.0	-3.6%
Loans to customers	72,766.5	71,473.5	1.8%
Direct funding	82,040.5	87,087.0	-5.8%
Indirect funding	92,567.5	91,941.5	0.7%
of which: assets under management	51,265.3	53,331.7	-3.9%
of which: assets under custody	41,302.2	38,609.8	7.0%
Group net equity	8,312.1	9,647.5	-13.8%
OPERATING STRUCTURE	31/12/18	31/12/17	Var.
Total head count - end of period	21,074	21,376	-302
Number of branches in Italy	1,529	1,745	-216

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

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

REPORT ON OPERATIONS Highlights at 31/12/2018			
ALTERNATIVE PERFORMANCE MEASURES			
MONTE DEI PASCHI DI SIENA BANK			
PROFITABILITY RATIOS (%)	31/12/18	31/12/17 *	Chg.
Cost/Income ratio	73.50	61.03	12.5
R.O.E.	-1.25	-39.65	38.4
Return on Assets (RoA) ratio	-0.09	-2.20	2.10
ROTE (Return on tangible equity)	-1.25	-39.65	38.4

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



KEY CREDIT QUALITY RATIOS (%)	31/12/18	31/12/17 *	Chg.
Net non-performing loans / Loans to Customers	8.0	15.0	-7.0
Gross NPL ratio	15.2	34.6	-19.4
Growth rate of gross NPL	-0.6	n.d.	n.d.
Coverage non-performing loans	51.6	66.9	-15.3
Bad loans / Loans to Customers	3.3	7.4	-4.1
Loans to Customers measured at amortised cost - Stage 2/Performing exposures measured at amortised cost	14.0	n.d.	-
Coverage bad loans	60.5	77.6	-17.1
Net impairment losses on loans measured at amortised cost/ Loans to Customers measured at amortised cost (Provisioning)	0.8	5.8	-5.0
Texas Ratio	84.2	105.1	-20.9

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

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 of the Net profit for the year to the average between the shareholders' equity (including Profit and Valuation Reserves) at the end of the year and the shareholders' equity at the end of the previous year.

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

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

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

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

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

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

REPORT ON OPERATIONS

Highlights at 31/12/2018

REGULATORY MEASURES

MONTE DEI PASCHI DI SIENA BANK

CAPITAL RATIOS (%)	31/12/18	31/12/17 *	Chg.
Common Equity Tier 1 (CET1) ratio	17.0	18.0	-1.0
Total Capital ratio	18.8	18.2	0.6

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



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

Reclassified accounts

Income statement and balance sheet reclassification principles

Reclassified income statement

- a) Item **“Net interest income”** was cleared of the negative contribution (equal to EUR -9 mln) of the Purchase Price Allocation (PPA), which was reclassified to a specific item.
- b) **“Dividends, similar income and gains (losses) on equity investments”** incorporates item 70 “Dividends and similar income”. Dividends earned on securities other than equity investments have been eliminated from the aggregate (EUR 0.1 mln) and reclassified in the item “Net profit (loss) from trading and financial assets/liabilities”.
- c) The item **“Net profit (loss) from trading and financial assets/liabilities measured at amortised cost and measured at fair value through profit and loss”** includes item 80 “Net profit (loss) from trading”, item 100 “Gains (losses) on disposal/repurchase of: a) financial assets measured at amortised cost and measured at fair value through other comprehensive income and b) financial liabilities” and 110 “Net profit (loss) from financial assets and liabilities measured at fair value”. The item incorporates dividends earned on securities other than equity investments (EUR 0.1 mln).
- d) The item **“Other operating income (expenses)”** includes the balance of item 200 “Other operating expenses/income” net of i) the recovery of stamp duties and client expenses, which are stated under the item “Other administrative expenses” (EUR 269 mln) and ii) the recovery of “Fees (DTA)” collected from the subsidiaries reclassified to the item “DTA Fee” (EUR 9 mln).
- e) The item **“Personnel expenses”** decreased by a net amount of EUR 116 mln (EUR -147 mln relating to provisions for early retirement incentives/solidarity fund pursuant to the agreement with the trade unions of 31 December 2018, EUR +35 mln for recoveries obtained from Inps on the amounts allocated due to early retirement/solidarity fund initiatives in 2017 and EUR -4 mln for extraordinary expenses relating to the closure of foreign branches), due to the reclassification of these amounts to the item “Restructuring costs/One-off costs”.
- f) The item **“Other administrative expenses”** includes the balance of income statement item 160b “Other administrative expenses”, reduced by the following cost items:
 - expenses, amounting to EUR 108 mln, resulting from the EU Deposit Guarantee Schemes Directive (hereinafter “DGSD”) and Bank Recovery Resolution Directive (hereinafter “BRRD”) for the resolution of bank crises (posted under the reclassified item “Risks and charges associated with the Single Resolution Fund (SRF), Deposit Guarantee Schemes (DGS) and similar schemes”);
 - DTA fee attributable to Banca MPS convertible into tax credit posted to the reclassified item “DTA fee” (EUR 71 mln), inclusive of the fees of subsidiaries;
 - extraordinary charges, relating to project initiatives also aimed at complying with the commitments undertaken with the European Commission Directorate General for Competition (hereinafter, “DG Comp”), including the closure of domestic and foreign branches, for EUR 14 mln (stated under reclassified item “Restructuring costs/One-off costs”).

This item includes also the portion of stamp duty and client expenses recovery (EUR 269 mln) posted under item 200 “Other operating expenses/income”.



- g) Item **“Net adjustments to (recoveries on) property, plant and equipment/ Net adjustments to (recoveries on) intangible assets”** was cleared of the negative contribution (equal to EUR -25 mln) of the Purchase Price Allocation (PPA), which was reclassified to a specific item.
- h) Item **“Net impairment losses (reversals) on financial assets measured at amortised cost”** includes income statement items 130a **“Net impairment (losses)/reversals on financial assets measured at amortised cost”** and 140 **“Modification gains/ (losses)”**.
- i) The item **“Net provisions for risks and charges, of which relating to commitments and guarantees issued”** was cleared of the allocation for expenses relating to commitment initiatives for EUR 5 mln, re-allocated to the reclassified item **“Restructuring costs/One-off costs”**.
- j) **“Restructuring costs/One-off costs”** mainly encompass the restructuring costs set aside for early retirement incentives/solidarity fund signed on 31 December 2018 for EUR 147 mln, partially offset by recoveries recognised by INPS for previous early retirement/solidarity fund manoeuvres (EUR +35 mln) and the charges relating to projects, also seeking to implement the commitments made with DGComp (for a total of EUR -23 mln).
- k) Item **“Risks and charges associated with SRF, DGS and similar schemes”** includes expenses deriving from the EU Deposit Guarantee Schemes Directive (DGSD) and the Bank Recovery and Resolution Directive (BRRD), posted in the financial statements under item 160b **“Other administrative expenses”**. As at 31 December 2018, there were charges recognised for SRF (EUR 53 mln), NRF (EUR 20 mln) and DGS (EUR 35 mln).
- l) The item **“DTA fee”** includes the expenses related to the fees paid on DTA, which can be converted into tax credit as set forth in art. 11 of Law Decree no. 59 of 3 May 2016, converted into Law no. 119 of 30 June 2016, totalling EUR 62 mln and recognised in item 160b **“Other administrative expenses”** (EUR 71 mln), net of the share recovered from subsidiaries, accounted for under **“Other operating income/expense”** (EUR 9 mln).
- m) Item **“Tax expense (recovery) on income from continuing operations”** was 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 11 mln.
- n) 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 -9 mln and **“Net adjustments to (recoveries on) property, plant and equipment/ Net adjustments to (recoveries on) intangible assets”** for EUR -25 mln, net of a theoretical tax burden of EUR +11 mln which was added to the item).

A conventional and simplified reclassification was carried out, exclusively for 2017 income statement figures, on the basis of the first-time adoption of IFRS 9, with comparative data reclassified in the new accounting statements set forth in the 5th update of Bank of Italy's Circular 262; in particular, the balances relating to former item 130d **“Net impairment losses (reversals) on other financial transactions”** were reclassified to item 170a **“Net provisions for risks and charges: commitments and guarantees issued”** (see annexes).

Reclassified balance sheet

- a) 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”**.
- b) Asset item **“Other assets”**, includes balance sheet items 50 **“Hedging derivatives”**, 60 **“Change in value of macro-hedged financial assets (+/-)”**, 100 **“Tax assets”**, 110 **“Non-current assets and groups held for sale and discontinued operations”** and 120 **“Other assets”**.
- c) Liability item **“Deposits from customers and securities issued”**, includes balance sheet items 10b **“Financial liabilities measured at amortised cost - deposits from customers”**, 10c **“Financial**



liabilities measured at amortised cost – Loans to customer” and 30 “Financial liabilities designated at fair value”.

- d) 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 discontinued operations” and 80 “Other liabilities”.

A conventional and simplified reclassification was carried out, exclusively for 2017 balance sheet figures, with comparative data reclassified in the new accounting statements set forth in the 5th update of Bank of Italy’s Circular 262; in particular, the balance of the item “**Other assets**”, as the portion of the real estate warehouse, was reclassified in item 90 “**Property, plant and equipment**” and the balance of the item “**Other liabilities**” as the portion of commitments and guarantees, was reclassified to item 100a “**Provisions for risks and charges: financial guarantees and other commitments**”.

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



Reclassified income statement

Reclassified Income Statement				
	31/12/18	31 12 2017*	Change	
MONTE DEI PASCHI DI SIENA BANK			Abs.	%
Net interest income	1,530.5	1,741.4	(210.9)	-12.1%
Net fee and commission income	1,473.5	1,546.6	(73.1)	-4.7%
Income from banking activities	3,004.0	3,288.0	(284.0)	-8.6%
Dividends, similar income and gains (losses) on equity investments	99.2	29.9	69.3	n.s.
Net profit (loss) from trading and financial assets/liabilities measured at amortised cost and measured at fair value through profit and loss	(40.9)	654.9	(695.8)	n.s.
Net profit (loss) from hedging	(17.0)	(18.2)	1.2	-6.6%
Other operating income (expenses)	(31.5)	(9.9)	(21.6)	n.s.
Total Revenues	3,013.8	3,944.7	(930.9)	-23.6%
Administrative expenses:	(2,139.0)	(2,338.0)	199.0	-8.5%
a) personnel expenses	(1,336.6)	(1,440.8)	104.1	-7.2%
b) other administrative expenses	(802.3)	(897.2)	94.9	-10.6%
Net adjustments to (recoveries on) property, plant and equipment / Net adjustments to (recoveries on) intangible assets	(76.3)	(69.4)	(6.9)	10.0%
Operating expenses	(2,215.3)	(2,407.4)	192.1	-8.0%
Pre Provision Profit	798.5	1,537.3	(738.7)	-48.1%
Net impairment losses (reversals) on:	(562.5)	(4,477.4)	3,914.9	-87.4%
a) financial assets measured at amortised cost	(567.6)	(4,387.7)	3,820.1	-87.1%
b) Financial assets measured at fair value through other comprehensive income	5.1	(89.7)	94.8	n.s.
Net operating income	236.0	(2,940.1)	3,176.2	n.s.
Net provisions for risks and charges	(70.5)	(268.5)	198.0	-73.7%
<i>of which commitments and guarantees issued**</i>	8.1	(53.9)	62.0	n.s.
Gains (losses) on investments	(333.8)	(102.9)	(230.9)	n.s.
Restructuring costs / One-off costs	(135.6)	(326.7)	191.1	-58.5%
Risks and charges related to the SRF, DGS and similar schemes	(108.3)	(75.2)	(33.1)	43.9%
DTA Fee	(61.7)	(61.7)	0.0	-0.1%
Gains (losses) on disposal of investments	0.5	522.7	(522.2)	-99.9%
Profit (loss) before tax from continuing operations	(473.4)	(3,252.7)	2,779.3	-85.4%
Tax expense (recovery) on income from continuing operations	383.7	420.8	(37.0)	-8.8%
Profit (loss) for the year before PPA	(89.7)	(2,831.8)	2,742.1	-96.8%
PPA (Purchase Price Allocation)	(22.2)	(25.6)	3.4	-13.1%
Net profit (loss) for the year	(111.9)	(2,857.4)	2,745.5	-96.1%

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

** The item "Net provisions for risks and charges" encompasses, for the comparative figures, what was previously booked under "Net impairment (losses)/ reversals: other transactions".



Revenue trends

In 2018, the Bank recorded Total **revenues** of **EUR 3,014 mln**, down by 24% compared to 31 December 2017, particularly due to the downturn in Net profit (loss) from trading and financial assets/liabilities measured at amortised cost and fair value through profit and loss, which had benefitted in 2017 from the effects of burden-sharing.

Net interest income in 2018 amounted to **EUR 1,531 mln**, down by 12% compared to the same period in 2017, mainly due to the negative trend of interest-bearing assets, in particular commercial loans (reduction in average volumes and decline in the related returns). The effect of this trend was partially mitigated by the decrease in interest expenses following the reduction in the cost of commercial funding and the repayment of bonds with more costly conditions (including those relating to burden sharing).

Items	31 12 2018	31 12 2017*	Chg. Y/Y	
			Abs.	%
Loans to customers measured at amortised cost	1,518.0	1,774.7	(256.7)	-14.5%
Securities issued	(263.5)	(386.5)	123.0	-31.8%
Net Differentials on hedging derivatives	22.7	32.3	(9.6)	-29.7%
Loans to Banks measured at amortised cost	74.1	107.6	(33.5)	-31.1%
Trading portfolios	18.2	22.3	(4.1)	-18.4%
Portfolios measured at fair value	32.5	44.9	(12.4)	-27.6%
Financial assets measured at fair value through other comprehensive income	129.7	147.1	(17.4)	-11.8%
Other net interest income	(1.2)	(1.0)	(0.2)	20.0%
Net interest income	1,530.5	1,741.4	(210.9)	-12.1%
<i>of which: interest income on impaired financial assets**</i>	218.8	389.0	(170.2)	-43.8%

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

** Interest income on impaired financial assets is shown on a gross basis for 2017.



Net fees and commissions income totalled **EUR 1,474 mln**, down by 4.7% compared to 2017, primarily due to lower income from traditional services, in particular on payment services (Bancomat and cards) following the disposal of the merchant acquiring business unit on 30 June 2017. Services connected with asset management were also down, primarily due to lower income from product placement, offset only in part by growth in continuing business.

Services/values	31 12 2018	31 12 2017	Variazione Y/Y	
			ass.	%
Assets under management fees	599.3	653.3	(53.9)	-8.3%
Product placement	216.8	302.2	(85.4)	-28.2%
Continuing fees	301.1	275.3	25.8	9.4%
Placement of securities	36.3	38.5	(2.3)	-5.9%
Sales of Protection	45.1	37.2	7.9	21.3%
Fee and commission from traditional activities	999.8	1,053.4	(53.7)	-5.1%
Credit fees	475.1	459.9	15.1	3.3%
Fees from foreign service	53.1	58.6	(5.5)	-9.3%
Other services	471.6	534.9	(63.3)	-11.8%
Other fee and commission income	(125.6)	(160.1)	34.5	-21.5%
Net fee and commission income	1,473.5	1,546.6	(73.1)	-4.7%

Dividends, similar income and gains (losses) on equity investments, up with respect to 31 December 2017, totalled **EUR 99 mln** and are represented primarily by dividends distributed by the investee companies AXA MPS Danni and AXA MPS Vita.

Net profit (loss) from trading and financial assets/liabilities measured at amortised cost and at fair value through profit and loss in 2018 totalled **EUR -41 mln** (detailed below), down from the same period of the previous year (EUR 655 mln), which included the effects relating to the burden-sharing operation. An analysis of the main aggregates shows the following:

- **Net profit (loss) from trading amounting to EUR +32 mln**, marking growth over 31 December 2017;
- **Net profit (loss) from financial assets/liabilities measured at fair value through profit and loss was a negative EUR 113 mln** (as at 31 December 2017, the profit was EUR +1 mln), attributable to the negative net results of assets/liabilities measured at fair value as per mandatory requirements;
- **Gains on disposals/repurchases for a positive EUR 39 mln**, down against the same period last year (EUR 635 mln in 2017), which had been impacted by the effects of the burden-sharing operation.



Items	31 12 2018	31 12 2017*	Chg. Y/Y	
			Abs.	%
Financial assets held for trading	1.0	4.2	(3.2)	-75.6%
Financial trading liabilities	-	-	-	-
Exchange rate effects	16.0	19.3	(3.3)	-17.1%
Derivatives	15.4	(5.1)	20.5	n.s.
Trading results	32.4	18.4	14.0	76.2%
Net profit (loss) from financial assets and liabilities measured at fair value through profit and loss	(112.6)	1.1	(113.7)	n.s.
Disposal / repurchase	39.3	635.4	(596.1)	-93.8%
Net profit (loss) from trading and financial assets and liabilities measured at fair value through profit and loss	(40.9)	654.9	(695.8)	n.s.

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

The following items also make up Revenues:

- **Net profit (loss) from hedging amounting to EUR -17 mln**, a slight improvement compared to 31 December 2017;
- **Other operating income/expense was negative for EUR 32 mln** (EUR -10 mln at the end of 2017), an increase with respect to 2017 due to higher expenses for rulings, settlement agreements and contingent liabilities.



Operating expenses

Operating expenses totalled **EUR 2,215 mln** in 2018, down 8.0% on the previous year due to the trend in personnel expenses and other administrative expenses. A closer look at the individual aggregates reveals the following:

- **Administrative expenses** were **EUR 2,139 mln** (-8.5% Y/Y). A breakdown of the aggregate shows:
 - **Personnel Expenses**, which totalled **EUR 1,337 mln**, declined year on year by 7.2% (EUR -104 mln) mainly as a result of workforce downsizing, also due to the Solidarity Fund initiatives of 1 May and 1 November 2017.
 - **Other Administrative Expenses** stood at **EUR 802 mln**, down by 10.6% against 2017, attributable to structural cost control measures which involved, in particular, the management of the real estate segment, and of legal expenses connected to debt collection.
- **Net value adjustments to property, plant and equipment and intangible assets** amounted to EUR 76 mln in 2018, higher than the values from 2017 due to higher write-downs on property, plant and equipment.

Type of transaction	31 12 2018	31 12 2017	Chg Y/Y	
			Abs.	%
Wages and salaries	(1,008.6)	(1,088.9)	80.3	-7.4%
Social-welfare charges	(275.0)	(293.2)	18.2	-6.2%
Other personnel expenses	(53.0)	(58.7)	5.6	-9.6%
Personnel expenses	(1,336.6)	(1,440.8)	104.1	-7.2%
Taxes	(202.2)	(230.5)	28.3	-12.3%
Furnishing, real estate and security expenses	(222.6)	(236.5)	13.9	-5.9%
General operating expenses	(175.3)	(183.3)	8.0	-4.4%
Information technology expenses	(23.9)	(17.3)	(6.6)	38.2%
Legal and professional expenses	(115.2)	(148.8)	33.6	-22.6%
Indirect personnel costs	(9.4)	(10.2)	0.8	-7.8%
Insurance	(40.2)	(27.5)	(12.7)	46.2%
Advertising, sponsorship and promotions	(2.6)	(6.0)	3.4	-56.7%
Other	(280.3)	(340.7)	60.4	-17.7%
Expenses recovery	269.4	303.6	(34.2)	-11.3%
Other administrative expenses	(802.3)	(897.2)	94.9	-10.6%
Tangible assets	(76.2)	(69.3)	(6.9)	10.0%
Intangible assets	(0.1)	(0.1)	(0.0)	0.0%
Amortization and impairment losses	(76.3)	(69.4)	(6.9)	10.0%
Operating costs	(2,215.3)	(2,407.4)	192.1	-8.0%

As a result of these factors, the Bank's **Gross Operating Income** totalled **EUR 799 mln** (EUR 1,537 mln as at 31 December 2017).



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

As at 31 December 2018, the Bank accounted for **Net impairment (losses)/reversals on financial assets measured at amortised cost and at fair value through other comprehensive income** for **EUR 563 mln**, down EUR 3.9 bn from those recorded in 2017, which primarily included adjustments to loans recorded on the perimeter of bad loans transferred following the adjustment to their realisable value.

The ratio of net impairment losses on loans to total Loans to Customers as at 31 December 2018 shows a **Provisioning Rate of 78 bps**.

Items	31 12 2018	31 12 2017*	Chg. Y/Y	
			Abs.	%
Loans to banks measured at amortised cost	(1.5)	(1.7)	0.2	-11.8%
- Loans	(2.0)	(2.2)	0.2	-9.1%
- Debt securities	0.5	0.5	-	0.0%
Loans to customers measured at amortised cost	(557.9)	(4,386.0)	3,828.1	-87.3%
- Loans	(554.4)	(4,386.2)	3,831.8	-87.4%
- Debt securities	(3.5)	0.2	(3.7)	n.s.
Gains (losses) due to modifications in contractual cash flows without derecognition	(8.2)	-	(8.2)	n.s.
Impairment loss on loans measured at amortised cost	(567.6)	(4,387.7)	3,820.1	-87.1%
Financial assets measured at fair value through comprehensive income	5.1	(89.7)	94.8	n.s.
Total adjustments due to credit risk	(562.5)	(4,477.4)	3,914.9	-87.4%

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

The Bank's **Net Operating Income** in 2018 was **approximately EUR +236 mln**, compared to EUR -2,940 mln in the previous year.



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

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

- **Net provisions for risks and charges of EUR -71 mln**, net negative impact attributable primarily to the provisions for legal actions and commitments assumed by the bank in relation to transactions with customers, partly offset by the revaluation of the commitment assumed to cover the hedging costs of the vehicle with regard to the disposal of bad loans as per the binding agreement signed on 26 June 2017 with Quaestio, charged to the transferor. As at 31 December 2017, a negative balance of EUR 269 mln was registered, adversely impacted by the higher provisions for legal actions and the negative valuation of the commitment undertaken vis-à-vis the above vehicle.
- **Losses on investments of roughly EUR -334 mln**, for the most part represented by write-downs on the subsidiaries MPS Capital Services and MPS Leasing & Factoring, partially offset by revaluations of the investments held in Banca Monte Paschi Belgio S.A and Monte Paschi Banque. As at 31 December 2017, the aggregate was negative for EUR 103 mln. For more details, please refer to the discussion provided in the Part C of the Notes to the financial statements - "Profit/loss on equity investments".
- **Restructuring costs/One-off costs**, totalling **EUR -136 mln**, mainly encompass the costs set aside for early retirement incentives/solidarity fund for EUR 147 mln, partially offset by recoveries recognised by INPS for previous early retirement/solidarity fund manoeuvres (EUR +35 mln) and the charges relating to projects, also seeking to implement the commitments made with DGComp (for a total of EUR -23 mln).
- **Risks and charges related to SRF, DGS and similar schemes**, amounting to **EUR -108 mln**, comprised of i) the ordinary contribution of EUR 53 mln to the Single Resolution Fund (SRF), ii) the additional amount of EUR 20 mln to the National Resolution Fund (NRF) and iii) the total contribution of EUR 35 mln recognised to the DGS.
- **DTA Fee**, amounting to **EUR -62 mln**. This amount, determined according to the criteria set forth in Law Decree 59/2016, converted into Law no. 119 of 30 June 2016, represents the fee on DTA (Deferred Tax Assets) as at 31 December 2018 that can be converted into a tax credit, net of the portion recovered from subsidiaries (EUR 71 mln and EUR 9 mln, respectively).
- **Gains (losses) on disposal of investments** for an amount of **EUR 0.5 mln**, down with respect to 2017 (EUR 523 mln), which benefitted from the gain on the sale of the merchant acquiring business unit.

Due to the changes discussed above, the Group's **Loss before tax from continuing operations** was **EUR -473 mln**. In 2017, the Bank posted a loss of EUR -3,253 mln.

Tax expense (recovery) on income from continuing operations amounted to **EUR +384 mln**. This result can essentially be attributed to the new tax regulations introduced by the Financial Measure for 2019, the assessment of DTAs from tax losses accrued but not recognised in previous years and the ACE deduction attributable to the year.

Considering the net effects of the PPA (EUR -22 mln), the **loss for the year** of Banca Monte dei Paschi di Siena for 2018 amounted to **EUR -112 mln**, compared to a loss of EUR 2,857 mln in 2017.



Reclassified balance sheet

Reclassified Balance Sheet				
ASSETS	31 12 2018	31 12 2017*	Chg	
			abs.	%
Cash and cash equivalents	934.3	4,083.9	(3,149.6)	-77.1%
Financial assets measured at amortised cost :				0.0
a) Loans to customers	72,766.5	71,473.5	1,293.0	1.8%
b) Loans to banks	28,836.8	24,927.4	3,909.4	15.7%
Financial assets measured at fair value	13,085.3	15,922.0	(2,836.7)	-17.8%
Equity investments	2,653.3	3,079.2	(425.9)	-13.8%
Property, plant and equipment / Intangible assets	1,040.3	1,103.9	(63.6)	-5.8%
Other assets	5,541.1	8,909.1	(3,368.0)	-37.8%
Total assets	124,857.6	129,499.0	(4,641.4)	-3.6%
LIABILITIES	31 12 2018	31 12 2017*	Chg	
			abs.	%
Payables				
a) Deposits from customers and securities issued	82,040.5	87,087.0	(5,046.5)	-5.8%
b) Deposits from banks	28,063.4	26,675.3	1,388.1	5.2%
Financial liabilities held for trading	623.0	802.5	(179.5)	-22.4%
Provisions for specific use	-	-	-	0.0%
a) Provisions for staff severance indemnities	185.5	192.5	(7.0)	-3.6%
b) Provisions related to guarantees and other commitments given	243.5	223.3	20.2	9.0%
c) Pensions and other post retirement benefit obligation	33.4	44.2	(10.8)	-24.4%
d) Other provisions	1,108.0	974.1	133.9	13.7%
Other liabilities	4,248.2	3,852.6	395.6	10.3%
Bank net equity	8,312.1	9,647.5	(1,335.4)	-13.8%
a) Valuation reserves	(276.9)	(61.5)	(215.4)	n.s.
c) Equity instruments	-	-	-	-
d) Reserves	(1,441.7)	2,423.8	(3,865.5)	n.s.
e) Share premium	-	-	-	-
f) Share capital	10,328.6	10,328.6	-	-
g) Treasury shares (-)	(186.0)	(186.0)	-	-
h) Net profit (loss) for the year	(111.9)	(2,857.4)	2,745.5	-96.1%
Total Liabilities and Shareholders' Equity	124,857.6	129,499.0	(4,641.4)	-3.6%

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



Customer funding

As at 31 December 2018, the Bank's **Total funding** volumes amounted to around **EUR 174.6 bn**, down compared to the result at the end of 2017 (-2.5%), principally due to the decrease in volumes from direct funding.

Customer Funding				
	31/12/18	31/12/17	Chg Y/Y	
			Abs.	%
Direct funding	82,040.5	87,087.0	-5,046.5	-5.8%
Indirect funding	92,567.5	91,941.5	626.0	0.7%
assets under management	51,265.3	53,331.7	-2,066.4	-3.9%
assets under custody	41,302.2	38,609.8	2,692.4	7.0%
Total funding	174,608.0	179,028.5	-4,420.5	-2.5%

Volumes of **Direct Funding**, which stood at **EUR 82.0 bn** at the end of 2018, recorded a decrease of EUR 5.0 bn compared to the end of December 2017, primarily due to the drop in the bond component, impacted by burden sharing, only partially offset by growth in current accounts and repurchase agreements.

The following table shows a breakdown of major types of direct funding from customers:

Direct funding				
Type of transaction	31/12/18	31/12/17	Change Y/Y	
			Abs.	%
Current accounts	50,379.1	49,287.8	1,091.3	2.2%
Time deposits	7,136.5	8,817.7	(1,681.2)	-19.1%
Reverse repurchase agreements	5,874.0	1,848.2	4,025.8	n.s.
Bonds	11,354.9	18,002.7	(6,647.8)	-36.9%
Other types of direct funding	7,296.0	9,130.6	(1,834.6)	-20.1%
Total	82,040.5	87,087.0	(5,046.5)	-5.8%

Indirect funding came to **EUR 92.6 bn** at the end of December, a slight increase from 31 December 2017 (EUR +0.6 bn), due mainly to assets under custody, which was influenced by the movement in a large corporate position. On the other hand, assets under management were down (**EUR -2.1 bn**), also impacted by the negative market effect. The Funds and SICAVs component was especially down.

Indirect Funding				
	31/12/18	31/12/17	Change Y/Y	
			Abs.	%
Assets under management	51,265.3	53,331.7	(2,066.4)	-3.9%
<i>Mutual Funds/ Sicav</i>	23,394.9	25,123.8	(1,728.9)	-6.9%
<i>Individual Portfolio under Management</i>	4,812.7	5,693.7	(881.0)	-15.5%
<i>Insurance Products</i>	23,057.8	22,514.2	543.6	2.4%
Assets under custody	41,302.2	38,609.8	2,692.4	7.0%
Total funding	92,567.5	91,941.5	626.0	0.7%



Loans to customers

The book value of Loans to Customers in 2018 was impacted by both:

- the effects of the reclassification attributable to the introduction of IFRS 9, which led to a total net reduction of EUR 2 mln, due to decreases following reclassifications to other financial assets measured at fair value as per mandatory requirements (EUR 819 mln), partially offset by increases following reclassifications of bond securities from financial assets available for sale, formerly AFS (EUR +817 mln); and
- the negative impact stemming from the transition from IAS 39 to IFRS 9, connected to the new provisions regarding impairment (higher Expected Credit Losses – ECL) of cash exposures (in addition to endorsement credit exposures), amounting to EUR 1.1 bn, before the tax effect, booked to equity.

As at 31 December 2018, the Bank's **Loans to customers** stood at **EUR 72.8 bn**, up EUR +1.3 bn compared to the end of December 2017, within which an increase was registered by securities (primarily as a result of the recognition of senior notes deriving from the securitisation transaction and the purchase of government bonds) and mortgages, partially offset by the decrease in non-performing loans (EUR -2.1 bn), repurchase agreements, current accounts and other loans. As already noted above, this item was affected by the negative impact of the transition from IAS 39 to IFRS 9.

Loans to customers				
Type of transaction	31/12/18	31 12 2017*	Change Y/Y	
			Abs.	%
Current accounts	4,957.7	5,820.1	(862.4)	-14.8%
Mortgages	42,738.2	41,459.2	1,279.0	3.1%
Other forms of lending	12,608.4	15,245.0	(2,636.6)	-17.3%
Repurchase agreements	-	124.7	(124.7)	-100.0%
Securities lending	6,795.6	1,052.9	5,742.7	n.s.
Non performing loans	5,666.6	7,771.7	(2,105.1)	-27.1%
Total	72,766.5	71,473.5	1,293.0	1.8%
Stage 1	57,687.1			
Stage 2	9,412.8			
Stage 3	5,666.6			

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



Non-performing loans

As at 31 December 2018, the Bank's **net exposure to non-performing loans** totalled around **EUR 6.0 bn**, down EUR 5.2 bn compared to the end of December 2017, primarily as a result of the deconsolidation of bad loans subject to disposal. Specifically, there was a decline in all risk categories: bad loans (EUR -3.2 bn), unlikely to pay (EUR -1.9 bn), and non-performing past due exposures (EUR -0.2 bn).

In the table below, non-performing financial assets include all cash exposures regardless of the accounting portfolio they belong to, with the exception of equity securities, UCITS, assets held for trading and hedging derivatives. Moreover, the gross value and the adjusting provisions of non-performing financial assets are shown net of arrears interest 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	Performing exposures	Total	- of which forbore impaired	- of which forbore not impaired
31 12 18	Gross exposure	6,165.6	6,051.3	134.9	12,351.8	68,862.9	81,214.7	4,539.5	1,790.4
	Provisions	3,729.8	2,620.9	26.6	6,377.3	489.3	6,866.6	1,909.2	140.6
	Net exposure	2,435.8	3,430.4	108.3	5,974.5	68,373.6	74,348.1	2,630.3	1,649.8
	Coverage ratio	60.5%	43.3%	19.7%	51.6%	0.7%	8.5%	42.1%	7.9%
	% on Loans to customer	3.3%	4.6%	0.1%	8.0%	92.0%	100.0%		
31 12 17*	Gross exposure	24,999.4	8,592.7	420.6	34,012.6	64,234.8	98,247.4	6,345.6	1,650.3
	Provisions	19,407.9	3,267.1	89.2	22,764.1	419.6	23,183.7	2,748.0	66.3
	Net exposure	5,591.5	5,325.6	331.4	11,248.5	63,815.2	75,063.7	3,597.6	1,584.0
	Coverage ratio	77.6%	38.0%	21.2%	66.9%	0.7%	23.6%	43.3%	4.0%
	% on Loans to customer	7.4%	7.1%	0.4%	15.0%	85.0%	100.0%		

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



Capital adequacy

Regulatory capital and statutory requirements

Categories / Values	Risk Weighted Assets		Chg. 31 12 2017	
	31 12 2018	31 12 2017	Abs.	%
OWN FUNDS				
Common Equity Tier 1 (CET1)	7,736.0	8,649.9	(913.8)	-10.56%
Tier 1 (T1)	7,736.0	8,649.9	(913.8)	-10.56%
Tier 2 (T2)	819.2	78.0	741.2	n.s.
Total capital (TC)	8,555.2	8,727.8	(172.7)	-1.98%
RISK ASSETS				
Credit and Counterparty Risk	36,755.1	38,749.0	(1,993.9)	-5.15%
Credit valuation adjustment risk	168.1	85.6	82.5	96.45%
Settlement risk	-	-	-	
Market risks	64.1	60.2	3.8	6.35%
Operational risk	8,584.3	8,927.6	(343.2)	-3.84%
Other prudential requirements	-	-	-	
Other calculation elements	-	-	-	
Risk-weighted assets	45,571.6	47,822.4	(2,250.8)	-4.71%
CAPITAL RATIOS				
	-			
CET1 capital ratio	16.98%	18.09%	-1.11%	
Tier1 capital ratio	16.98%	18.09%	-1.11%	
Total capital ratio	18.77%	18.25%	0.52%	



Prospects and outlook on operations

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



Annexes

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



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

Accounts in Reclassified Profit and Loss Statement - Montepaschi Group	43465	Accounts in the Profit and Loss Statement - Montepaschi Group	31/12/18
Net interest income	1530.5	Interest income and similar revenues	Item 10 2,186.6
Net fee and commission income	1473.5	Interest expense and similar charges	Item 20 -464.7
		Fee and commission income	Item 40 1,661.3
		Fee and commission expense	Item 50 -187.8
		0	0
Income from banking activities	3004.0	Dividends and similar income	Item 70 99.3
Dividends, similar income and gains (losses) on equity investments	99.2		
Net profit (loss) from trading and financial assets/liabilities measured at	-40.9	Net profit (loss) from trading	Item 80 32.3
		Gains/losses on disposal/repurchase of:	
		a) financial assets measured at amortised cost	Item 100 39.3
		b) financial assets measured at fair value through	4.3
		comprehensive income	24.5
		c) financial liabilities	10.5
		Net profit (loss) from financial assets and liabilities	Item 110 -412.6
		designated at fair value	
		a) financial asset and liabilities measured at fair value	4.0
		b) other financial assets measured at fair value	-416.6
		mandatory	
Net profit (loss) from hedging	-17.0	Net profit (loss) from hedging	Item 90 -17.0
Other operating income (expenses)	-31.5	Other operating income (expenses)	Item 200 247.1
Total Revenues	3013.8	Total Revenues	Item 200 3,283.8
Administrative expenses	-2130.0	Administrative expenses	Item 160 -2,171.9
a) personnel expenses	-1336.6	a) Personnel expenses	Item 160 a) -1,452.6
b) other administrative expenses	-802.3	b) Other administrative expenses	Item 160 b) 4,265.3
			0.0
			0.0
Net adjustments to (recoveries on) property, plant and equipment / Net	-76.3	Net losses/reversal on impairment on property, plant and equipment	Item 180 -76.2
adjustments to (recoveries on) intangible assets		Net adjustments to (recoveries on) intangible assets	Item 190 -24.7
Operating expenses	-2215.3		-2,218.8
Pre Provision Profit	798.5		465.0
Net impairment losses (reversals) on:	-562.5	Net impairment losses (reversals) on:	Item 130 -554.3
a) financial assets measured at amortised cost	-567.6	a) financial assets measured at amortised cost	Item 130a -559.4
b) financial assets measured at fair value through other comprehensive income	5.1	b) financial assets measured at fair value through other comprehensive income	Item 130b 5.1
		Modification gains/(losses)	Item 140 -8.2
Net operating income	236.0	Net provisions for risks and charges	Item 170 -97.5
Net provisions for risks and charges	-20.3	Net provisions for risks and charges	Item 170 -25.7
a) financial guarantees and other commitments	8.1	a) financial guarantees and other commitments	Item 170 a) 29.7
b) other provisions	-28.6	b) other provisions	Item 170 b) -79.6
Gains (losses) on investments	-333.8	Gains (losses) on investments	Item 220 -333.8
Restructuring costs / One-off costs	-135.6		
Risks and charges related to the SRF, DGS and similar schemes	-108.3		
DTA fee	-61.7		
Gains (losses) on disposal of investments	0.5	Gains (losses) on disposal of investments	Item 250 0.5
Profit (loss) before tax from continuing operations	-473.4	Profit (loss) before tax from continuing operations	Item 250 -506.6
Tax expense (recovery) on income from continuing operations	383.7	Tax expense (recovery) on income from continuing operations	Item 270 394.7
Profit (loss) after tax from continuing operations	-89.7	Profit (loss) after tax from continuing operations	-111.9
Profit (loss) after tax from groups of assets held for sale and discontinued operations	-89.7	Profit (loss) after tax from groups of assets held for sale and discontinued operations	Item 290
Profit (loss) for the year before PPA	-89.7		-111.9
PPA (Purchase Price Allocation)	-22.2		
Net profit (loss) for the year	-111.9	Net profit (loss) for the year	Item 260 -111.9

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

BANCA MONTE DEI PASCHI DI SIENA



Reconciliation between the reclassified balance sheet and related statutory accounts

Balance-sheet Items - Assets	31 12 2018	31 12 2017*	Reclassified balance-sheet items - Assets
	934.3	4,083.9	Cash and cash equivalents
Item 10 – Cash and cash equivalents	934.3	4,083.9	
Financial assets measured at amortised cost:			Receivables
	72,766.5	71,473.5	a) Loans to customers
Item 40 – Loans to customers	72,766.5	71,473.5	
	28,836.8	24,927.4	b) Loans to banks
Item 40 – Loans to banks	28,836.8	24,927.4	
	13,085.3	15,922.0	Financial assets measured at fair value
Item 20 – Financial assets measured at fair value through profit and loss	2,552.1	901.3	
Item 30 – Financial assets measured at fair value through other comprehensive income	10,533.2	15,020.7	
	2,653.3	3,079.2	Equity investments
Item 70 – Equity investments	2,653.3	3,079.2	
	1,040.3	1,103.9	Property, plant and equipment / Intangible assets
Item 90 – Property, plant and equipment	1,026.3	1,065.3	
Item 100 – Intangible assets	14.0	38.6	
	5,541.1	8,909.1	Other assets
Item 50 – Hedging Derivatives	257.7	333.3	
Item 60 – Change in value of macro-hedged financial assets (+/-)	165.7	56.9	
Item 110 – Tax assets	3,319.2	3,072.3	
Item 120 – Non-current assets held for sale and discontinued operations	71.7	3,600.2	
Item 130 – Other assets	1,726.8	1,846.4	
Total Assets	124,857.6	129,499.0	Total Assets



Balance-sheet Items - Liabilities	31 12 2018	31 12 2017*	Reclassified balance-sheet items - Liabilities
			Payables
	82,040.5	87,087.0	a) Deposits from customers and securities issued
Item 10 – Deposits from customers	68,343.9	66,718.2	
Item 10 – Debt securities issued	13,326.4	19,953.6	
Item 30 – Financial liabilities designated at fair value	370.2	415.2	
	28,063.4	26,675.3	b) Deposits from banks
Item 10 – Deposits from banks	28,063.4	26,675.3	
	623.0	802.5	Financial liabilities held for trading
Item 40 – Financial liabilities held for trading	623.0	802.5	
		-	Provisions for specific use
Item 90 – Provision for employee severance pay	185.5	192.5	a) Provision for employee severance pay
Item 100 - Provisions for risks and charges - a) financial guarantees and other commitments	243.5	223.3	b) Provision for pension
Item 100 - Provisions for risks and charges - a) pension and similar obligations	33.4		
Item 100 - Provisions for risks and charges - b) other provisions	1,108.0	974.1	c) Other provisions
	4,248.2	3,852.6	Other liabilities
Item 40 – Hedging Derivatives	907.6	833.6	
Item 50 – Change in value of macro-hedged financial liabilities (+/-)	18.1	(0.8)	
Item 60 – Tax liabilities	-	0.7	
Item 70 – Liabilities associated to disposal groups held for sale	-	-	
Item 80 – Other liabilities	3,322.5	3,019.1	
	8,312.1	9,647.5	Bank net equity
Item 110 – Valuation reserves	(276.9)	(61.5)	a) Valuation reserves
Item 140 – Reserves	(1,441.7)	2,423.8	d) Reserves
Item 150 – Share premium reserve	-	-	e) Share premium reserve
Item 160 – Share Capital	10,328.6	10,328.6	f) Share Capital
Item 170 Treasury shares (-)	(186.0)	(186.0)	g) Treasury shares
Item 180 – Profit (loss) for the year (+/-)	(111.9)	(2,857.4)	h) Profit (loss) for the year
Total liabilities and shareholders' equity	124,857.6	129,499.0	Total liabilities and shareholders' equity

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



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Balance Sheet

Assets	31 12 2018	31 12 2017*
10. Cash and cash equivalents	934,343,468	4,083,948,406
20. Financial assets measured at fair value through profit and loss	2,552,063,507	901,297,688
a) financial assets held for trading	800,567,990	901,297,688
c) other financial assets measured at fair value mandatory	1,751,495,516	-
30. Financial assets measured at fair value through other comprehensive income	10,533,159,628	15,020,745,447
40. Financial assets measured at amortised cost	101,603,299,471	96,400,902,429
a) Loans to banks	28,836,807,852	24,927,358,098
b) Loans to customers	72,766,491,619	71,473,544,331
50. Hedging derivatives	257,675,737	333,295,169
60. Change in value of macro-hedged financial assets (+/-)	165,689,537	56,878,368
70. Equity investments	2,653,300,592	3,079,196,911
80. Property, plant and equipment	1,026,254,912	1,065,298,436
90. Intangible assets	13,991,121	38,620,679
100. Tax assets	3,319,249,166	3,072,335,223
a) current	583,878,179	529,292,388
b) deferred	2,735,370,987	2,543,042,835
110. Non-current assets and groups of assets held for sale and discontinued operations	71,682,737	3,600,130,535
120. Other assets	1,726,899,432	1,846,313,003
Total assets	124,857,609,308	129,498,962,294

* The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9; in addition, the comparative data were reclassified on the basis of the new accounting statements set forth in the 5th update of Bank of Italy Circular 262.

*continued: Balance Sheet*

Total Liabilities and Shareholders' Equity		31 12 2018	31 12 2017*
10.	Financial liabilities measured at amortised cost	109,733,724,900	113,347,177,306
-	a) loans to banks	28,063,446,258	26,675,292,287
-	b) loans to customers	68,343,924,860	66,718,244,647
-	c) debts securities issued	13,326,353,782	19,953,640,372
20.	Financial liabilities held for trading	623,032,334	802,506,687
30.	Financial liabilities designated at fair value	370,199,542	415,215,413
40.	Hedging derivatives	907,617,281	833,623,443
50.	Fair value change of financial liabilities in hedged portfolio (+/-)	18,145,090	(788,287)
60.	Tax liabilities	-	650,902
-	a) current	-	650,902
80.	Other liabilities	3,322,426,667	3,018,861,283
90.	Provision for employees severance pay	185,483,335	192,525,201
100.	Allowances for risks and charges:	1,384,836,669	1,241,651,192
-	a) financial guarantees and other commitments	243,454,586	223,325,000
-	b) post-employment benefits	33,392,233	44,213,006
-	c) other provisions	1,107,989,850	974,113,186
110.	Valuation reserves	(276,918,630)	(61,469,886)
-	discontinued operations	-	-
120.	Redeemable shares	-	-
130.	Equity instruments	-	-
140.	Reserves	(1,441,676,532)	2,423,788,969
150.	Share premium reserve	-	-
160.	Share capital	10,328,618,260	10,328,618,260
170.	Treasury shares (-)	(185,957,994)	(185,957,994)
180.	Profit (loss) (+/-)	(111,921,614)	(2,857,440,195)
Total Liabilities and Shareholders' Equity		124,857,609,308	129,498,962,294

*The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9; in addition, the comparative data were reclassified on the basis of the new accounting statements set forth in the 5th update of Bank of Italy Circular 262.



Income Statement

Items	31 12 2018	31 12 2017*
10. Interest income and similar revenues	2,186,632,336	2,584,962,004
<i>of which interest income calculated applying the effective interest rate method</i>	<i>2,101,311,797</i>	<i>-</i>
20. Interest expense and similar charges	(664,705,411)	(855,974,744)
30. Net interest income	1,521,926,925	1,728,987,260
40. Fee and commission income	1,661,259,978	1,796,528,626
50. Fee and commission expense	(187,843,875)	(262,462,879)
60. Net fee and commission income	1,473,416,103	1,534,065,747
70. Dividends and similar income	99,282,738	34,313,915
80. Net profit (loss) from trading	32,296,958	13,954,006
90. Net profit (loss) from hedging	(16,999,867)	(18,247,548)
100. Gains/(losses) on disposal/repurchase of:	39,305,237	635,423,853
a) financial assets measured at amortised cost	4,331,226	(5,621,039)
b) Financial assets measured at fair value through other comprehensive income	24,502,652	85,890,553
c) financial liabilities	10,471,359	555,154,339
110. Net profit (loss) from financial assets and liabilities measured at fair value through other comprehensive income	(112,641,530)	1,113,735
a) financial assets and liabilities measured at fair value	3,958,608	1,113,735
b) other financial assets mandatorily at fair value through profit or loss	(116,600,138)	-
120. Net interest and other banking income	3,036,586,564	3,929,610,968
130. Net impairment (losses)/reversals on	(554,325,478)	(4,477,420,640)
a) financial assets measured at amortised cost	(559,426,018)	(4,387,724,012)
b) financial assets measured at fair value through other comprehensive income	5,100,540	(89,696,628)
140. Modification gains/(losses)	(8,184,379)	-
150. Net income from banking activities	2,474,076,707	(547,809,672)
160. Administrative expenses:	(2,717,915,547)	(3,102,022,792)
- a) personnel expenses	(1,452,567,532)	(1,720,232,528)
- b) other administrative expenses	(1,265,348,015)	(1,381,790,264)
170. Net provision for risks and charges:	(75,699,768)	(268,432,661)
a) commitments and guarantees issued	2,891,057	(53,851,306)
b) other net provisions	(78,590,825)	(214,581,355)
180. Net adjustments to/recoveries on property, plant and equipment	(76,224,401)	(69,348,501)
190. Net adjustments to/recoveries on intangible assets	(24,672,423)	(25,936,474)
200. Other operating expenses/income	247,059,078	302,923,341
210. Operating expenses	(2,647,453,061)	(3,162,817,087)
220. Gains (losses) on investments	(333,753,633)	(102,929,923)
250. Gains (losses) on disposal of investments	482,430	522,683,770
260. Profit (loss) before tax from continuing operations	(506,647,557)	(3,290,872,912)
270. Tax (expense)/recovery on income from continuing operations	394,725,943	433,432,717
280. Profit (loss) after tax from continuing operations	(111,921,614)	(2,857,440,195)
300. Profit (loss)	(111,921,614)	(2,857,440,195)

*The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9; in addition, the comparative data were reclassified on the basis of the new accounting statements set forth in the 5th update of Bank of Italy Circular 262.

**Statement of Comprehensive Income**

Items	31 12 2018	31 12 2017*
10. Profit (loss)	(111,921,614)	(2,857,440,195)
Other comprehensive income after tax not recycled to profit and loss	19,140,628	(151,245,191)
20. Equity instruments measured at fair value through other comprehensive income	7,100,916	-
30. Financial liabilities measured at fair value through other comprehensive income	6,332,985	(154,914,055)
70. Actuarial gains (losses) on defined benefit plans	5,706,727	3,585,982
80. Non-current assets and groups of assets held for sale and discontinued operations	-	82,882
Other comprehensive income after tax recycled to profit and loss	(230,915,535)	97,515,630
100. Hedges on foreign investments	-	-
110. Exchange differences	2,887,515	(6,158,794)
120. Cash flow hedges	(17,402,286)	37,132,042
140. Fair value changes of debt instruments measured at fair value through other comprehensive income	(216,400,764)	81,972,133
150. Non-current assets and disposal groups classified as held for sale	-	(15,429,751)
170. Total other comprehensive income after tax	(211,774,907)	(53,729,561)
180. Total comprehensive income (Item 10+170)	(323,696,521.00)	(2,911,169,756)

*The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9; in addition, the comparative data were reclassified on the basis of the new accounting statements set forth in the 5th update of Bank of Italy Circular 262.



Statement of Changes in Equity - 2018

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

* The column "Changes in opening balances" includes the effects of First-Time Adoption (F-TA) in applying the IFRS 9 and IFRS 15 accounting standards, as described in further detail in the section "Disclosure on first-time adoption of the accounting standards IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers".



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

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

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

1. in the column "Changes in reserves", the item "Reserves a) from profits" includes the reversal of the OCI reserve due to the sale of certain securities, totalling EUR 26.4 mln;
2. "Valuation reserves" show an overall negative change amounting to EUR 211.8 mln, the details of which are available in the statement of comprehensive income.



Statement of Changes in Equity - 2017

	Balance as at 31 12 2014*	Change in opening balances	Balance as at 01 01 2017	Allocation of profit from prior year		Changes during the year					Total comprehensive income for 31 12 2017	Total equity as at 31 12 2017
				Reserves	Dividends and other payout	Changes in reserves	Issue of new share	Extraordinary distribution of dividends	Change in equity instruments	Stock options Treasury shares derivatives	Changes in equity investments	
Share capital:	7,365,674,050	-	7,365,674,050	-	-	(5,364,181,091)	8,327,125,301	-	-	-	-	10,328,618,260
a) ordinary shares	7,365,674,050	-	7,365,674,050	-	-	(5,364,181,091)	8,327,125,301	-	-	-	-	10,328,618,260
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-
Share premium	-	-	-	-	-	-	-	-	-	-	-	-
Reserves:	1,322,720,205	(190,604,150)	1,132,116,055	(3,722,770,706)	-	5,018,366,616	(3,922,996)	-	-	-	-	2,423,788,969
a) from profits	-	(190,604,150)	(190,604,150)	(2,324,050,501)	-	2,510,924,397	-	-	-	-	-	(3,730,254)
b) other	1,322,720,205	-	1,322,720,205	-1,398,720,205	-	2,507,442,219	(3,922,996)	-	-	-	-	2,427,519,223
Valuation reserves	(198,344,475)	190,604,150	(7,740,325)	-	-	-	-	-	-	-	-	(61,469,886)
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	-	-185,957,994	-	-	-	-	(185,957,994)
Net profit (loss)	(3,722,770,706)	-	(3,722,770,706)	3,722,770,706	-	-	-	-	-	-	-	(2,857,440,195)
Total equity	4,767,279,074	-	4,767,279,074	-	-	(345,814,475)	8,137,244,311	-	-	-	-	9,647,539,154



As at 31 December 2017 the Bank's net equity amounts to EUR 9,647.5 mln, as compared to EUR 4,767.3 mln as at 31 December 2016, with a total increase of EUR 4,880.2 mln.

Please note that the column "Changes in opening balances" includes the impact deriving from the early application of IFRS 9, limited to the treatment of the creditworthiness of fair value option financial liabilities (for additional information, please refer to the "Accounting policies" section).

The most significant phenomena impacting the net equity, in addition to the EUR 2,857.4 mln loss for the year, were the following.

1. The loss for the year 2016, equal to EUR 3,722.8 mln, was covered to the extent of EUR 1,398.7 mln during the same year through a share capital reduction in the corresponding amount in accordance with the shareholders' resolution of 24 November 2016 and by carrying forward the remaining EUR 2,324.0 mln.
2. The Bank's share capital increase was completed in August 2017 following the issue on 27 July 2017 of the Ministry of Economy and Finance ("MEF") decrees relating to:
 - "Capital strengthening initiatives of Banca Monte dei Paschi di Siena, pursuant to art. 18, paragraph 2 of Law Decree no. 237 of 23 December 2016 converted, with amendments, by Law no. 15 of 17 February 2017" and
 - "Capital strengthening initiatives of Banca Monte dei Paschi di Siena, pursuant to art. 18, paragraph 3 of Law Decree no. 237 of 23 December 2016 converted, with amendments, by Law no. 15 of 17 February 2017", published in Official Gazette no. 175 on 28 July 2017.

These decrees provided for:

- an increase in the Bank's share capital, in the amount of EUR 4,472.9 mln, through the issue of 517,099,404 ordinary shares fully subscribed as a result of the conversion into ordinary shares of the AT1 and AT2 bond issues; and
- an increase in the Bank's share capital for the subscription of 593,869,870 shares by the MEF, for a total of EUR 3,854.2 mln.

As a result of the above-mentioned events, the changes laid out below took place.

"New share issue" column:

- the item "Share capital - a) ordinary shares" increased by a total of EUR 8,327.1 mln;
- the item "Reserves - other" decreased by EUR 3.9 mln due to the costs of the share capital increase, net of the relative taxes;
- the item "Treasury shares", a negative component of net equity, rose by EUR 186.0 mln, associated with the conversion of the AT1 bond issues present in the Bank's balance sheet assets.

"Changes in reserve" column:

- "Share capital - a) ordinary shares": the reduction of EUR 5,364.2 mln is due to the shareholders' resolution passed by the Bank on 18 December 2017 relating to the coverage of the total loss of EUR 5,364.2 mln (of which EUR 2,506.0 mln referring to the loss recognised as at 30 September 2017, EUR 534.1 mln for other equity adjustments and lastly EUR 2,324 mln concerning previous losses) by reducing the share capital by a corresponding amount;
- "Reserves - a) from profits": the increase by a total of EUR 2,510.9 mln is due to:
 - a. the increase of EUR 2,485.5 mln due to the coverage of previous losses and of part of the adjustments made to net equity;
 - b. the increase of EUR 76.8 mln deriving from the closure of the creditworthiness reserve of the fair value option liabilities involved in the conversion into ordinary shares;
 - c. the decrease of EUR 51.7 mln resulting from taxes previously recognised on negative components of net equity, which translated into a tax loss with unrecognisable DTAs;
 - d. the decrease generated during the year of EUR 371.2 mln as the difference between the fair value of the ordinary shares assigned to holders of the AT1 and AT2 bond issues subject to conversion and the value of conversion into share capital;
 - e. the coverage of the amount pursuant to the previous point.
- "Reserves - b) other": coverage of the loss of the Bank recognised as at 30 September 2017 for EUR 2,506 mln and of part (EUR 1.4 mln) of the costs incurred for the share capital increase.

"Valuation reserves" show overall a negative change amounting to EUR 53.7 mln, the details of which are available in the statement of comprehensive income.



Cash Flow Statement - indirect method

A. OPERATING ACTIVITIES	31 12 2018	31 12 2017*
1. Cash flow from operations	774,554,268	1,129,661,764
profit (loss) (+/-)	(111,921,614)	(2,857,440,195)
capital gains/losses on financial assets held for trading and on assets/liabilities measured at fair value (+/-)	108,976,603	16,066,215
net profit (loss) from hedging	16,999,867	18,247,548
net losses (recoveries) on impairment (+/-)	843,964,500	4,271,643,038
net losses/reversal on impairment on property, plant and equipment and on intangible assets (+/-)	104,027,667	95,284,975
net provisions for risks and charges and other costs/revenues (+/-)	360,474,460	228,965,682
tax expense (recovery) on income from continuing operations	(394,067,648)	(433,575,002)
other adjustments	(153,899,567)	(209,530,497)
2. Cash flow from (used in) financial assets	271,096,380	15,270,054,067
financial assets held for trading	83,293,070	469,552,227
other financial assets measured at fair value mandatory	(619,488,375)	-
Financial assets measured at fair value through other comprehensive income	3,280,729,842	1,347,055,332
Financial assets measured at amortised cost	(3,445,010,512)	12,655,346,365
other assets	971,572,355	798,100,143
3. Cash flow from (used in) financial liabilities	(4,305,566,885)	(17,372,713,103)
Financial liabilities measured at amortised cost	(3,606,978,642)	(13,604,370,509)
Financial liabilities held for trading	(179,474,352)	(236,840,270)
Financial liabilities designated at fair value	(45,015,871)	(1,251,009,775)
other liabilities	(474,098,020)	(2,280,492,549)
Net cash flow from (used in) operating activities	(3,259,916,237)	(972,997,272)
B. INVESTMENT ACTIVITIES		
1. Cash flow from	158,455,847	550,558,046
sales of equity investments	55,815,909	20,000,000
dividends collected on equity investments	89,239,823	2,239,971
sales of property, plant and equipment	13,400,115	2,967,957
sales of subsidiaries and undertakings	-	525,350,118
2. Cash flow used in	(48,144,550)	(65,030,969)
purchase of property, plant and equipment	(48,144,550)	(64,904,223)
purchase of intangible assets	-	(126,746)
Net cash flow from (used in) investment activities	110,311,297	485,527,077

**C. FUNDING ACTIVITIES**

issue/purchase of treasury shares	-	3,850,289,460
dividend distribution and other	-	(348,475,658)
Net cash flow from (used in) funding activities	-	3,501,813,802

NET CASH FLOW FROM (USED IN) OPERATING, INVESTM	(3,149,604,940)	3,014,343,607
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Reconciliation

Accounts	31 12 2018	31 12 2017*
Cash and cash equivalents at beginning of period	4,083,948,406	1,069,604,797
Net increase (decrease) in cash and cash equivalents	(3,149,604,938)	3,014,343,609
Cash and cash equivalents: foreign exchange effects	-	-
Cash and cash equivalents at end of period	934,343,468	4,083,948,406

**The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9; in addition, the comparative data were reclassified on the basis of the new accounting statements set forth in the 5th update of Bank of Italy Circular 262.*

The “distribution of dividends and other purposes” line - in section C. 2017 funding activities - shows the difference between the fair value of the ordinary shares assigned to holders of the AT1 and AT2 financial instruments subject to conversion, in compliance with the provisions of art. 23, paragraph 3 of Law Decree 237, as well as art. 2 of the Burden Sharing Decree, and the value of conversion into share capital.

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



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A.1 – General

Section 1 - Statement of compliance with international accounting principles

Pursuant to Legislative Decree no. 38 of 28 February 2005, these separate accounts were prepared in accordance with the international accounting principles issued by the International Accounting Standards Board (IASB) including interpretations by the IFRS Interpretations Committee, as endorsed by the European Commission, pursuant to EC Regulation no. 1606 of 19 July 2002 which was effective as at 31 December 2018.

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

Failing a principle or an interpretation specifically applicable to a certain transaction, event or circumstance, the Bank’s Management used its own judgment in developing and applying the accounting principles for the purpose of providing a report which is:

- relevant for the purpose of economic decision-making by the users;
- reliable so that the Financial Statements:
 - result in a true and fair view of the Bank’s assets, financial position, profit and loss and cash flows;
 - reflect the economic substance - and not merely the juridical form - of transactions, other events and circumstances;
 - are neutral, that is with no prejudice;
 - are conservative;
 - are complete in all relevant respects.

In its judgement, the Bank’s Management made reference to and considered the applicability of the following provisions, listed in a hierarchically decreasing order:

- the provisions and implementation guidance contained in the principles and interpretations dealing with similar or related cases;
- the definitions, recognition and measurement criteria for the accounting of assets, liabilities, income and expenses contained in the Framework.

In making its judgement, the Bank’s Management may also take account of:

- the most recent provisions set forth by other entities in charge of establishing the accounting principles which use a conceptually similar Framework for the purpose of developing the accounting principles;
- other accounting literature;
- consolidated practices of the banking industry.

In compliance with art. 5 of Legislative Decree no. 38 of 28 February 2005, if – in exceptional cases – the application of a provision set forth in the international accounting standards proved to be non-compliant with a true and fair view of the Group’s financial situation, then such provision would not be applied. The reasons for deviation and its impact on the representation of the financial situation would, in such a case, be explained in the notes to the financial statements.

In the separate financial statements, any profits arising from this deviation are posted to a reserve which is only distributable in proportion to the value recovered.



Section 2 - General accounting standards

The Separate Financial Statements have been prepared in accordance with the IAS/IFRS International accounting standards issued by the International Accounting Standards Board (IASB) including the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), as endorsed by the European Union with mandatory application from the 2018 financial year, as well as consistent with the general assumptions envisaged in the Framework for the preparation and presentation of financial statements developed by IASB. No exceptions were made in applying the IAS/IFRS accounting standards.

For an overview of the standards endorsed during 2018 or those endorsed in previous years, whose application is scheduled for 2018 (or future years), please refer to “Section 4 - Other Aspects” below, which also describes the main impacts for the Bank.

Moreover, to the extent applicable, the communications of supervisory authorities (Bank of Italy, Consob and ESMA) were considered, which provide recommendations on disclosures to be included in the financial statements on the most significant issues or on the accounting treatment of specific transactions.

The Separate Financial Statements as at 31 December 2018 have been prepared based on the provisions contained in Circular no. 262 of 22 December 2005 issued by the Bank of Italy “Bank financial statements: layout and rules for compilation”, as amended by the fifth update on 22 December 2017.

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

The Separate Financial Statements are prepared with transparency and provide a true and fair view of the financial situation and results for the year.

The notes to the financial statements contain all information required by the international accounting standards and provisions contained in Bank of Italy Circular no. 262, together with other non-compulsory information deemed necessary to provide a true and fair, relevant, reliable, comparable and intelligible view of the Bank’s performance.

The balance sheet, income statement, and statement of comprehensive income consist of items (marked with numbers), sub-items (marked with letters) and further details (under “including/of which” in the items and sub-items). Items, sub-items and their details constitute the accounts.

Each item in the balance sheet, income statement and statement of comprehensive income also indicates the amount for the prior year.

In consideration of the first application of the IFRS 9 and IFRS 15 standards, whose relative impacts have been reflected through an adjustment of opening net equity balances as at 1 January 2018, note that Banca MPS elected not to restate the comparative data, as permitted in the provisions of the aforementioned standards. Therefore, the balance sheet and income statement balances for the previous year are not entirely comparable with the new accounting categories and with the related measurement criteria introduced by the new standard, as they were developed with specific reference to financial instruments in compliance with the previous IAS 39 standard (that is, accounting standards in effect as at 31 December 2017 and used to prepare the related financial statements, to which reference should be made). In the issuing deed for the 5th update of Circular no. 262, the supervisory authority left to the competent corporate bodies the right to independently determine the form and content of the disclosure regarding the IFRS 9 transition. Hence, Banca MPS, in order to restate the comparative data as at 31 December 2017 within the new official schedules established by the 5th update of Bank of Italy Circular 262, in effect from 1 January 2018, performed the following reclassifying transactions, on a purely conventional basis and without changing the corresponding values.



With regard to the asset and liability items in the balance sheet:

- item 20 “*Financial assets held for trading*” has been reclassified under item 20 “*Financial assets measured at fair value through profit and loss, a) Financial assets held for trading*”;
- items 60 and 70 “*Loans to banks*” and “*Loans to customers*” have been reclassified under item 40 “*Financial assets measured at amortised cost*”, in sub-items *a)* and *b)*, respectively;
- item 40 “*Financial assets available for sale*” has been reclassified under item 30 “*Financial assets measured at fair value through other comprehensive income*”;
- items 10 “*Deposits from banks*”, 20 “*Deposits from customers*” and 30 “*Debt securities issued*”, have been reclassified under item 10 “*Financial liabilities measured at amortised cost*”, respectively in sub-items *a)*, *b)* and *c)*;
- item 120 “*Other assets*”, in relation to “Real Estate Warehouse”, was reclassified into item 80 “*Property, plant and equipment*”;
- the new item 100 “*Provisions for risks and charges*”, sub-item “*a) commitments and financial guarantees given*”, which did not exist in the 2017 schedules, includes the relative balances from item 100 “*Other liabilities*”.

With reference to the income statement:

- under item 130 “*Net impairment (losses)/ reversals for credit risk*”, the previous sub-item “*a) loans*” has been reclassified under sub-item “*a) financial assets measured at amortised cost*” and the previous sub-item “*b) financial assets available for sale*” has been reclassified under “*b) financial assets measured at fair value through other comprehensive income*”.
- item 130 “*Net impairment (losses)/ reversals for credit risk*”, sub-item “*d) other financial transactions*” was reclassified in the new item 170 “*Net provisions for risks and charges*”, sub-item “*a) for credit risk related to commitments and guarantees issued*”.

At the same time, the comparative balances as at 31 December 2017 included in the tables in Part B “Information on the balance sheet” and Part C “Information on the income statement” of the explanatory notes, have been shown according to the aforementioned reclassifications.

The section “Disclosure on first-time adoption of the IFRS 9 and FRS 15 accounting standards” includes the reconciliation statements that provide details on the reclassifications made between the previous items of the official schedules and those of the new official schedules envisaged in Circular 262.

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

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

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

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

The statement of changes in equity shows the breakdown and changes in net equity accounts during the year and the previous year, broken down between share capital (ordinary shares), capital reserves, profit



reserves and reserves from the valuation of assets or liabilities, equity instruments and profit and loss. Treasury shares in the portfolio are deducted from equity.

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

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

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

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

Disclosure on first-time adoption of IFRS 15 “Revenue from Contracts with Customers”

Regulation no. 1905 of 22 September 2016 endorsed the new international accounting standard IFRS 15 “Revenue from Contracts with Customers”, with compulsory application from 1 January 2018, which introduced a single reference framework for recognising revenue deriving from contracts with customers, replacing IAS 18 “Revenue” and IAS 11 “Construction Contracts” and related interpretations (IFRIC 13, IFRIC 15, IFRIC 18, and SIC 31).

This standard proposes a model according to which an entity must recognise revenue to accurately depict the transfer of promised goods or services to customers at the amount that reflects the remuneration the entity expects to receive in exchange for those goods or services. In this regard, the standard establishes five steps:

1. identify the contract with the customer, defined as an agreement (written or verbal) with commercial substance between two or more parties that generates legally enforceable rights and obligations with the customer;
2. identify the performance obligations in the contract;
3. determine the transaction price, i.e., the amount an entity expects to receive in exchange for the transfer of goods and services in line with the techniques set forth in the standard and based on any financial components that may be included;
4. allocate the transaction price to the performance obligations in the contracts;
5. recognise revenue when (or as) the entity satisfies a performance obligation, taking into consideration that services may be rendered either over time or at a point in time.

The services that resulted in the recognition in the income statement of fee and commission income were analysed, with the objective of verifying the proper method for recognising revenue, as the Bank did not have other types of revenue that fell under the scope of IFRS 15. More specifically, the analysis focused on the “variable” revenue components and on those subject to possible reversal, in particular attributable to the placement of third-party products.

Based on the analyses performed, it was found that the methods for recognising revenue introduced by the new accounting standard are essentially consistent with the accounting treatment that was previously in force.



Bearing in mind that IFRS 15 specifies the need to recognise a liability for amounts collected that may later be reversed (known as “refund liabilities”), an estimate was made of the relative amounts, which, for the Bank is generated by the placement of certain products linked to consumer credit for which, if the products are repaid in advance, the placement bank must reimburse a portion of the placement fees collected at the time proportional to the residual duration. This liability was quantified by making reference to historical data on early repayments and amounts to EUR 25.6 mln. Considering the related tax effect of EUR 8.4 mln, the reduction in net equity amounts to EUR 17.2 mln.

For a more immediate indication of the impacts on the Bank’s balance sheet, please refer to the reconciliation schedule between the balance sheet at 31 December 2017 and the reclassified balance sheet as at 1 January 2018, shown below.

In addition to quantitative impacts, the new standard requires greater disclosure on the nature, amount, timing, and degree of uncertainty for revenue, as well as on the cash flows generated by contracts with customers.

Disclosure on first-time adoption of IFRS 9 “Financial Instruments”

Regulatory provisions

Regulation no. 2067 of 22 November 2016 endorsed the new international accounting standard IFRS 9 “Financial Instruments”, with compulsory application from 1 January 2018, which regulates the classification and measurement, impairment and hedge accounting related to financial instruments, replacing IAS 39 “Financial Instruments: recognition and measurement”.

IFRS 9 is divided into the three different areas for classification and measurement of financial instruments, impairment, and hedge accounting.

Classification and measurement requirements for financial assets and liabilities according to IFRS 9

IFRS 9 establishes that the classification of financial assets depends on the combination of the two following drivers:

1. The entity’s business model: which reflects the objectives that management intends to achieve by holding the financial assets. More specifically:
 - “Held to collect” (HTC), if the objective is to receive contractual cash flows, holding the financial instrument until maturity;
 - “Held to collect and Sell” (HTC&S), if the financial assets are held with the objective of receiving the contractual cash flows throughout the duration of the asset, and to collect proceeds from its sale;
 - “Other”: if the objectives are different from those described in the previous points, attributable to, for example, the desire to collect cash flows through a negotiation (“Sell”).
2. Contractual characteristics of cash flows: depending on whether the cash flows are based solely on principal and interest (known as “Solely Payments of Principal and Interest”, or SPPI) or if they also depend on other variables (e.g., profit participation, such as dividends, or repayment of invested capital based on the issuer’s financial performance, etc.). The assessments conducted in order to ascertain the contractual characteristics of cash flows are indicated with the term “SPPI test”.

Based on the various combinations of the business model and contractual characteristics of the cash flows, the following accounting categories can be identified:

- financial assets measured at amortised cost: these include debt instruments (loans and securities) with a “Held to collect” business model, whose contractual terms are represented solely by the payment of principal and interest (passing the SPPI test);



- financial assets measured at fair value through other comprehensive income, with the measurement and realisation components charged to the income statement: these include debt instruments (loans and securities) with a “Held to collect and Sell” business model, whose contractual terms are represented solely by the payment of principal and interest (passing the SPPI test);
- financial assets measured at fair value through profit and loss: these comprise all trading assets, including non-hedging derivatives and, regardless of the business model, those assets that must be valued at fair value since the cash flows do not represent solely the payment of principal and interest (failing the SPPI test). Hence, this category includes all equity securities, unless the entity chooses the irrevocable option of classifying them in the category of financial assets measured at fair value through other comprehensive income, without any recharges to the income statement for the measurement and realisation components (with the exception of dividends, which continue to be recognised in the income statement).

In addition to the categories described above, there is also the option to use the accounting category of financial assets measured at fair value through profit and loss; this option is irrevocable and is only permitted to eliminate or significantly reduce an inconsistency in the measurement or recognition that would otherwise result from the valuation of assets or liabilities or from the recognition of the related profits and losses on different bases (or “accounting asymmetry”).

For the new classification rules based on cash flow characteristics, IFRS 9 eliminates the rules for unbundling implicit derivatives in financial assets that are not measured at fair value through profit and loss.

With reference to financial liabilities, the new IFRS 9 accounting standard confirms the classification and measurement rules envisaged by IAS 39, on the basis of which they are measured at amortised cost, with the exception of financial liabilities held for trading, including derivative liabilities, and financial liabilities for which the option to measure at fair value through profit and loss is chosen. In relation to the latter type of liabilities, IFRS 9 envisages that changes in fair value associated with the entity’s own creditworthiness must be recognised as an offsetting entry to a specific equity reserve, , that will never be reversed to the income statement, even if the liability expires or lapses. If changes in fair value associated with the entity’s own creditworthiness creates or amplifies an accounting asymmetry in profit and loss, the entire change in the liability’s fair value must be recognised in the income statement

IFRS 9 impairment methodology based on expected losses (ECL)

According to IFRS 9, all financial assets not measured in the financial statements at fair value through profit and loss, represented by debt securities and loans, and off-balance sheet exposures (commitments and guarantees issued) must use the new impairment model based on expected losses (ECL - Expected Credit Losses). The objective of the new approach is to ensure a more timely recognition of losses with respect to the previous IAS 39 model, according to which losses were recognised only if there was objective evidence that emerged after the initial recognition of the asset (known as “incurred losses” model).

More specifically, the impairment model introduced by IFRS 9 is based on the concept of “forward-looking” measurement, i.e., on the notion of expected loss (Expected Credit Loss), either calculated at 12 months (Stage 1) or for the entire residual life of the asset (lifetime loss for Stage 2 and Stage 3). In particular, the model provides that financial assets must be classified in three distinct “stages” that correspond to different measurement criteria:

- Stage 1: to be assessed based on an estimate of expected loss over a one-year time horizon. Stage 1 includes performing financial assets for which there has been no significant increase in credit risk with respect to the initial recognition date;



- Stage 2: to be assessed based on an estimate of expected loss over the entire residual life of the financial asset. Stage 2 includes financial assets that have incurred a significant increase in credit risk with respect to the initial recognition date;
- Stage 3: to be assessed based on an estimate of expected loss that assumes a 100% probability of default. Stage 3 includes financial assets that are considered non-performing.

According to the Expected Credit Losses calculation model, losses must be recorded not only with reference to the objective evidence of losses in value that are already apparent at the reporting date, but also based on expectations of future losses of value for which there is not yet evidence, which must reflect:

- the probability of various scenarios taking place;
- the effect of discounting through the use of the effective interest rate;
- historical data and current and future valuations.

Hedge Accounting

With reference to the accounting for hedging transactions ("hedge accounting"), the new rules introduced by IFRS 9 have the objective of ensuring greater alignment between the accounting representation of hedges and the underlying management logic (risk management); however, these rules pertain to the macro-hedging model, for which an *ad hoc* project has been launched, separate from IFRS 9, which has not yet resulted in an accounting standard.

Decisions made by Banca MPS

It is appropriate to state a premise about the "general" decisions made by Banca MPS related to the early application permitted by the standard, recognition of impacts from applying the new impairment rules on own funds according to recent amendments introduced to prudential regulations, and the presentation of comparative balances for the first year that standard is adopted:

- as the regulation requirements were met, the Bank decided to apply in advance, starting in 2017, the new rules envisaged in the IFRS 9 accounting standard relative to the presentation of profits and losses on fair value option liabilities attributable to changes in own creditworthiness. The accounting treatment for these liabilities envisages that changes in fair value associated with the entity's own creditworthiness must be recognised as an offsetting entry to a specific equity reserve ("Valuation reserve"), unless this treatment creates or amplifies an accounting asymmetry in profit and loss; in this case, the entire change in the liability's fair value must be recognised in the income statement.
- with reference to the methods for representing the effects of first adoption of the standard, the Bank has exercised the option envisaged in paragraph 7.2.15 of IFRS 9 and paragraphs E1 and E2 of IFRS 1 "First-Time Adoption of International Financial Reporting Standards", according to which - without prejudice to retrospective application of the new measurement and presentation rules required by the standard - it is not mandatory to restate the comparison data for the financial statements on a similar basis upon first application of the new standard. As stated in the instructions contained in the issuing deed for the 5th update of Circular 262 "Bank financial statements: layout and rules for compilation", banks that take advantage of the exemption from the obligation to recalculate the comparative values must, however, include, in the first financial statements drawn up based on the new Circular 262, a reconciliation schedule that illustrates the methodology used and provides a reconciliation between the data of the last approved financial statements and the first financial statements prepared according to the new provisions. However, the form and content of this disclosure are left to the discretion of the competent corporate bodies.

Moreover, note that the investments in associates Axa Mps Assicurazioni Danni S.p.A. and Axa Mps Assicurazioni Vita S.p.A., as entities whose business predominantly consists of insurance activities,



decided to take advantage of the option to apply the “Deferral Approach” (or Temporary Exemption), according to which the financial assets and liabilities of insurance companies will continue to be recognised in their financial statements consistent with IAS 39 rules, pending the entry into force of the new international accounting standard on insurance contracts (IFRS 17), currently expected in 2022. Pursuant to par. 20O (a) of the document “Applying IFRS 9 ‘Financial Instruments’ with IFRS 4 ‘Insurance Contracts’ - Amendments to IFRS 4”, the Group is exempt, until 2022, from applying the equity method, from using homogeneous accounting policies for the two associate insurance companies and will provide appropriate disclosure of this fact pursuant to paras. 39I and 39J of the aforementioned document.

The following is a brief review of the main areas of impact of the new accounting standard as defined above, as well as the principal choices made by the Bank in this regard.

Classification and Measurement

Based on the discussion above, as part of the transition to IFRS 9, the Bank defined the financial instrument classification in accordance with the new accounting categories envisaged in IFRS 9 - taking into account the “business model” as at 1 January 2018 and the characteristics of the instrument’s contractual cash flows at its origination date - and to perform a new measurement of these instruments based on the respective measurement criteria.

The “business model” is defined taking into consideration all relevant information, including historical data on past sales, methods for measuring and reporting the performance of financial assets, methods of managing and measuring risks that may influence the performance of financial assets, and remuneration policies of senior management. Specific guidelines were then developed to define the Bank’s business model and its possible changes. For the portfolio of financial assets measured at amortised cost, considering that the business model’s objective is to collect the related cash flows, the eligibility criteria for sales were defined under certain circumstances (such as a significant increase in credit risk or sales close to maturity) or in relation to their immateriality in terms of amount or frequency.

For the SPPI test, the Group’s methodological approach was defined and target models were implemented, in terms of procedures and processes, to conduct the test for all financial assets, for both debt securities and loans. As part of the aforementioned methodological approach, a specific procedure was determined to verify that the “Benchmark Cash Flow Test” had been passed, required for financial instruments that have a changed time value of money, represented, for example, by a misalignment between the schedule for setting the interest rate for the payment of the respective instalment (fixing) and the reference rate (tenor).

The analyses that were performed in accordance with a specific, internally developed tool are presented below, based on a check list of indicators designed to verify that the instruments pass the SPPI test, rather than based on information from external providers.

For the portfolio of debt securities outstanding as at 31 December 2017 under a Held to collect business model rather than Held to collect and Sell, the SPPI test was carried out to verify the possibility of classifying the securities in question in the accounting categories of “Financial assets measured at amortised cost” and “Financial assets measured at fair value through other comprehensive income”, respectively. The analyses conducted found that a very limited percentage of debt instruments did not pass the test, both in terms of number and value, represented by subordinated or structured securities; therefore, these instruments were classified in the accounting category of “Other financial assets measured at fair value through profit and loss as per mandatory requirements”.

For financial instruments represented by loans, the analysis approach was differentiated based on whether they refer to standard products, codified as such in catalogues or product sheets, typical of the



retail and small business sector, rather than “tailor-made” disbursements¹. For the first type, the analysis focused on reviewing the fact sheets for the products currently on sale. For the second type, the analysis focused on a detailed review of individual loan contracts. The inquiries conducted resulted in the identification of specific types of standard products (which represent a marginal number of financial instruments compared to the Bank’s overall exposures) and some “tailor-made” contracts which, by virtue of specific contractual clauses, do not pass the test.

The assets represented by units of UCITS have been classified as “other financial assets measured at fair value as per mandatory requirements”, also on the basis of the clarifications provided by the IFRIC, as will be better explained below. As part of equity securities held for purposes of a strategic investment, not for trading and not classified as exclusive control, associate, or joint control, the instruments were identified for which the option to designate at fair value through other comprehensive income would be chosen.

IFRS 9 impairment methodology based on expected losses (ECL)

With regard to impairment:

- methods were defined for measuring the trend (or “tracking”) of credit quality of positions in financial asset portfolios measured at amortised cost and at fair value with an offsetting entry in shareholders’ equity;
- parameters were established for determining a significant increase in credit risk, for the purpose of properly allocating performing exposures into stage 1 or stage 2. Instead, with reference to impaired exposures, the definitions of accounting and regulatory default - which were already aligned - makes it possible to consider the current rationale for classification of exposures in the “non-performing” category as identical to the approach for classification of exposures in stage 3;
- models - including forward-looking information - were developed to be used both for stage assignment (lifetime PD) and to calculate expected credit loss at one year (to be applied to exposures in stage 1) and lifetime (to be applied to exposures in stage 2 and stage 3).

With reference to credit quality “tracking”, a detailed analysis of the credit quality of each individual relationship was performed (both in the form of certificate exposure and credit exposure), for purposes of identifying possible “significant increases” in credit risk from the date of initial recognition and the resulting need for classification in stage 2, as well as, conversely, of the conditions for returning to stage 1 from stage 2. The decision made envisages, on a case-by-case basis and at each reporting date, the comparison - for purposes of “staging” - of the credit quality of the financial instrument at the time it is measured with that of the initial moment of delivery or purchase. In relation to the above, the elements that constitute the main determining factors to be taken into consideration for assessing the “transfers” between different stages are as follows:

- change (beyond established thresholds) in the lifetime probability of default compared to when the financial instrument was initially recognised in financial statements. Therefore, it is an assessment performed by adopting a “relative” criterion, which is the main “driver”;
- presence of an exposure that has been past due for at least 30 days, without prejudice to the materiality thresholds identified in regulations. If there is such a case, in other words, the credit risk of the exposure is presumed to be “significantly increased”, unless proven otherwise and, consequently, it is “transferred” to stage 2 (where the exposure was previously included in stage 1);

¹ “Tailor-made” products - which were analysed for purposes of the SPPI test - include all exposures managed by specialised units of the Group, related both to customised disbursements based on specific financial needs of the customers, typically corporate, as well as exposures that had been restructured, whose specific characteristics required intervention by the aforementioned specialised units.



- presence of forbearance measures, which - again on a discretionary basis - entail the classification of exposures among those whose credit risk is “significantly increased” compared to the initial recognition;
- some of the indicators of credit monitoring systems, in particular the reference, are to “watch-lists”, that is, to those credit monitoring systems which, based on the current credit quality of the borrowing counterparty, show performing exposures above an established risk level (High Risk and Requalification management perimeter as well as borrowers with negative EBITDA).

With particular reference to the relative quantitative criterion applicable to credit exposures with customers, the Bank has determined as a reference the change between the lifetime forward-looking cumulative probability of default (PD), calculated at the beginning of the contractual relationship and the probability of default recorded at the measurement date. In developing the model, specific internal thresholds of variation were identified between the PD at the beginning of the contractual relationship and the PD recognised at the valuation date, broken down by counterparty, initial rating class and vintage. If these thresholds are exceeded, it signifies a significant increase in credit risk and the resulting transfer of the individual credit line from stage 1 to stage 2. The comparison is based on the homogeneous residual durations² and on homogeneous PD models, for example, if the definition of default changes over time, the original lifetime forward-looking cumulative PD is recalculated to take account of said new definition of default. Cumulative PDs subject to comparison are based on the same model used for ECL purposes (e.g. definition of PIT (Point in Time) PD, macroeconomic scenarios, expected life/contractual life). In order to obtain a unique classification result, use is made of a cumulative PD resulting from the weighted average of the cumulative PDs calculated for the individual prospective scenarios using the probabilities of the scenarios as weights. The threshold of significance is determined by historically measuring, through quantile regression analysis per cluster, that level of ratio, between the lifetime forward-looking cumulative PD at the reporting date and that at the origination date, which may be considered predictive of the classification as NPE³. The threshold is determined so as to minimise so-called false positives and false negatives and maximise true positives and true negatives.

The “staging” of securities entails some unique considerations. In fact, unlike loans, for this type of exposure, purchase and sale transactions subsequent to the first purchase (made with reference to the same ISIN) can typically fall under the ordinary activity of position management (with consequent need to identify a methodology to adopt for the identification of sales and reimbursements in order to determine the residual quantities of the individual transactions to which a credit quality/rating is associated that will be compared with that of the reporting date). In this context, using the “first-in-first-out” or “FIFO” methodology (for the transfer to the income statement of the recognised ECL, in the case of sales and reimbursements) contributes to more transparent portfolio management, including from the perspective of front-office operators, allowing, simultaneously, a continuous updating of the assessment of creditworthiness based on new purchases.

Finally, for securities that, at the transition date, had an “investment grade” rating (or similar quality), the “low credit risk exemption” envisaged in IFRS 9 was used, based on which all exposures with the above characteristics were identified as low risk exposures and classified in stage 1, regardless of the precise measurement of the change in credit risk; the latter is therefore relevant for staging purposes only in the event in which the rating is sub-investment grade at the reporting date.

For these latter cases, the relative quantitative criterion is based on the variation in lifetime forward-looking cumulative PD between the reporting date and the origination date above a certain threshold. For corporate issuers, the multi-year PD curve is the corporate one estimated entirely by the Bank; for government issues, the multi-year PD curve is the one prepared on the basis of the Moody’s matrix of 1-year defaults of government bonds. Cumulative PDs subject to comparison are adjusted based on macroeconomic scenarios. In order to obtain a unique classification result, use is made of a cumulative

² Therefore, the valuation at 31/12/T of the significant increase in credit risk of a thirty-year mortgage disbursed on 31/12/T-5 is carried out by comparing the lifetime forward-looking cumulative PDs over the residual life of 25 years.

³ The classification as NPE is measured over multi-year time horizons.



PD resulting from the weighted average of the cumulative PDs calculated for the individual prospective scenarios using the probabilities of the scenarios as weights. The exposures are classified into stage 2 if the ratio between the lifetime forward-looking cumulative PD at the reporting date and that of the origination date exceeds a given threshold of significance equal, both for corporate bonds and government bonds, to that used for corporate exposures in the form of loans.

Once the assignment into the various credit risk stages has been defined, the expected losses (ECL) are calculated, at the level of individual transaction or security tranche, starting from IRB/management modelling, based on the parameters of Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD), to which appropriate adjustments are made, in order to ensure compliance with the specific requirements of IFRS 9. In particular, these interventions include the adoption of a Point in Time (PIT) PD against the Through the Cycle (TTC) PD, used for Basel regulatory purposes, the PD estimate and, if applicable, multi-year LGD to determine, where necessary, the expected loss for the entire residual life of the financial instrument, the removal from the LGD calculation of the component linked to an adverse economic cycle (or downturn), as well as the use, in the discounting process, of the effective interest rate of the individual positions.

Furthermore, the measurement of financial assets - both those performing and those included in stage 3 - reflects the best estimate of the effects of future conditions, especially in relation to the economic context, on which the forward-looking PD and LGD are dependent. With reference to incorporating this information in determining the impairment of a loan, a useful indication was received from the IFRS Transition Resource Group for impairment of financial instruments (ITG or TRG) which, among other things, addressed the following issues: (i) if it is sufficient to use a single scenario, or should several scenarios be incorporated in the impairment estimates; (ii) in the event that it is necessary to incorporate several scenarios, which methodology should be adopted for this purpose. With regard to issue (i), the TRG observed that, when there is a non-linear relationship between macroeconomic variables and losses in value, a single macroeconomic scenario is not representative of the entire distribution of possible scenarios; therefore, the estimate of losses in value must be based on several scenarios. With regard to issue (ii), the TRG noted that two methods can be used, alternatively:

- a) estimate of losses in each scenario considered and calculation of the average of these losses, weighted by the probability that each scenario will occur;
- b) estimate of losses based on the “most likely” scenario, and subsequent adjustment of the amount thus obtained through the application of an “add-on” (also called “overlay adjustment”) to take into account scenarios that are less likely.

The information on future macroeconomic scenarios in which the Bank may operate affects the situation of borrowers in reference to both the “riskiness” that exposures migrate to lower quality classes (thus referring to “staging”) as well as recoverable amounts (thus the calculation of expected loss on exposures).

From a methodological perspective, several possible alternative approaches have been analysed in order to take these elements into consideration. With regard to the various alternatives considered, the Bank decided to adopt approach a), applied using the procedures described below:

- forecasted values for macroeconomic factors deemed relevant in estimating the Bank’s risk factors with a future time horizon of three years under different scenarios are considered;
- these values are used as the inputs for appropriate models, developed internally by the Parent Company, in order to incorporate macroeconomic and forward-looking information in the PD (“Satellite Model”) and LGD (Sensitivity Analysis) risk parameters;
- expected loss is calculated in relation to each scenario, considering the multi-year PDs and the LGD adjusted in accordance with the specific scenario;
- starting from these expected losses relating to each scenario, the expected loss was determined as the average of the relative losses weighted for the likelihood of occurrence of each scenario.

This approach permits any non-linearity in the relationship between macroeconomic factors, risk parameters, and expected loss to be considered.



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

Special considerations apply to exposures classified in stage 3 (those corresponding - as indicated above - to the current perimeter of non-performing assets). As regards more specifically to non-performing loans, note that, despite the fact that the definition of a non-performing loan (credit-impaired financial asset) in IFRS 9 is essentially the same as the previous accounting standard, the methods for calculating the lifetime ECL have entailed changes in the methodology, including for purposes of measurements to be carried out in this area, mainly in relation to:

- inclusion of forward-looking information, such as that relating to macroeconomic scenarios, estimates and recovery timing, the probability of transfer to lower ranked classes, as well as those that may influence the value of collateral or the expected duration of the relative collection;
- consideration of alternative collection scenarios, such as the sale of credit assets, in connection with possible sales of units of the non-performing portfolio, in relation to business objectives to reduce non-performing assets, to which a realisation probability must be attributed, as part of the overall measurement.

With regard to the inclusion of forward-looking information, note that the same methodological framework applies to non-performing exposures that is also used for performing loans. Therefore, the same three macroeconomic scenarios are considered in the time horizon of the subsequent three years, according to the procedures indicated above. As previously stated, the forward-looking scenario component is designed to capture the non-linearity of the relationship between the macroeconomic variables and ECL measurement, by analysing forecast uncertainty for the variables used to develop the scenario.

Turning to the analysis of alternative collection scenarios, note that, for the objectives of reducing the stock of outstanding non-performing loans included in the business plans and the commitments undertaken with supervisory authorities, with specific reference to the NPL Strategy, the Bank considers the sale of certain portfolios as the strategy that can, under certain conditions, maximise the recovery of cash flows, also in consideration of collection times.

Supporting this sales scenario with the ordinary collection scenario through internal management therefore responds to the requests received from supervisory authorities. This change in strategy envisaged in the new plan was taken into consideration in the first application of IFRS 9, a standard that, as already discussed, entails important innovations compared to IAS 39. In addition to the above, note that TRG - on the impairment of financial instruments - confirmed that cash flows from the sale of a loan in default must be considered in estimating impairment losses, provided that:

- the sale of the loan is one of the collection methods that the entity expects to undertake;
- the entity does not have any legal or operating restrictions that would influence its ability to sell the loan;
- the entity has reasonable and adequate information supporting the disposal scenario.

Moreover, TRG observes that:

- in order to support the entity’s expectations regarding the assumption that sales to third parties represent a collection method in the event of default, both the entity’s past behaviour and



future expectations must be assessed, and that the latter may deviate from the behaviour previously observed;

- to determine the recoverable amount, the relevant market information on credit exchange prices must be considered;
- amounts recoverable through the sale can be included in estimates of expected losses for financial instruments classified in all stages (1, 2 and 3); this is due to the fact that, in measuring expected losses, IFRS 9 states that all possible scenarios should be considered, regardless of the stage in which the loan is classified.

Given the above, in measuring non-performing loans in accordance with the IFRS 9 impairment model, the Bank has included the various collection strategies assumed in order to proportionally align them to a probability of sale defined in line with the Bank's NPL Plan. With reference to the loans classified in stages 1 and 2, the Bank assigned a zero probability to the sales scenario as a strategy for collecting these loans, given that the probability that the disposals envisaged in the business plans should be considered as non-recurring in the context of typical credit collection methods, as they are in response to a specific request from the supervisory authority to reduce the stock of non-performing loans and, therefore, constitute a qualifying constraint in the Restructuring Plan.

As a result, for non-performing loans, the "ordinary" scenario, which assumes a recovery strategy based on the collecting credit, typically through legal actions, mandates with collection companies, and realisation of mortgage guarantees, has been supported by the scenario of a sale of the loan itself, as a collection strategy. In light of this, for a defined perimeter of bad and unlikely to pay loans that can be sold, in order to determine the overall expected loss on exposures, the recoverable values based on the ordinary internal collection process and the amounts recoverable from the sale, estimated based on mass transactions on similar portfolios and single names carried out by the Bank or transactions executed on the market in recent years, were weighted according to the portion of the portfolio held for sale, envisaged by the NPL Strategy, with respect to the total portfolio that can be sold.

The perimeter of non-performing transferable loans was determined by including positions with a certain attractiveness on the market, indicated by the fact that other banks have already carried out sales and expressions of interest that have already been received, as well as additional positions resulting from assessments of economic benefit performed by the Bank's competent bodies (e.g., presence of extended bad loans or high danger rate).

In particular, the recoverable amount of non-performing transferable loans was quantified as the average value of (i) the "value assuming sale" (fair value) and (ii) the "value assuming collection", using as the relative weights, respectively, the percentage of transferable loans that management expects to sell, as defined in the NPL Plan approved by the Board of Directors, and the percentage it intends to keep in the portfolio. Note that the "value assuming collection" was calculated according to the ordinary procedures used for impairment of bad and unlikely to pay loans, i.e., based on an analytical valuation for exposures above a defined threshold (equal to EUR 500 thousand) and on analytical-statistical measurement for the remainder. The analytical-statistical measurement of the "below-threshold" exposures entails grouping them in homogeneous clusters of credit risk. As described previously above, note that the "value assuming sale" was measured through historical analyses carried out by the Bank as well as using market benchmarks.

For the sake of completeness, note that a specific "IFRS 9 Impairment Methodological Framework" document was prepared in compliance with the provisions of IFRS 9, approved by the competent governance levels.

Hedge Accounting

Upon first application, the Bank elected to use the "opt out" option, i.e., to take advantage of the possibility of continuing to manage hedging transactions according to the hedge accounting rules envisaged by IAS 39, currently endorsed (in the "carve-out" version). This choice will be subject to a new measurement for reporting subsequent to 2018.



Governance of the transition to the new standard

The first application of the new IFRS 9 accounting standard required significant implementations - in terms of processes, procedures, methodologies, information systems - that were governed by the establishment, beginning in 2016, of a specific project led by the Head of Administration and Financial Statements Area, actively assisted by representatives of the Risks, Loans, Sales, Organisation, IT, Finance, Planning and Control and Internal Audit functions.

The project's main decisions were made by a Steering Committee and an Operating Committee, made up of all the heads of the business functions involved directly and indirectly in the implementation of the new rules.

The process of determining and reporting value adjustments is governed by two sets of business rules: IFRS 9 Impairment Methodological Framework which, in conjunction with the Bank's accounting rules, defines the metrics and algorithms for estimating expected losses in value.

The activities for calculating ECL on performing and non-performing loans have been modified and supplemented in compliance with the Bank's current governance, in which the areas of the Chief Lending Officer and the Chief Risk Officer are responsible, respectively, for determining losses of analytical value on non-performing loans, the latter responsible for measuring, with statistical procedures, the expected losses on performing loans as well as additional non-analytical measurements of non-performing loans (e.g., scenario add-ons).

The activities to calculate expected losses involve, as an essential step, the definition of the expected scenarios; the definition of basic assumptions is the responsibility of the Research function. As stated, the CRO Area is responsible for developing and implementing the models necessary for calculating loan losses; these models and methods are then validated by the Risk Validation Service, a function independent of both business structures as well as structures that develop and implement the models. The validation involved the review of documentation concerning the design and development of the models, data validation, and re-execution of the calculations.

The classification process for financial instruments was regulated by updating the Bank's accounting policies, approved by the Board of Directors. These accounting rules define and describe the constituent elements of the various business models under which the Bank operates and, together with the methodology used to perform the SPPI test described in the Bank's accounting rules, determine the correct measurement approach for financial assets. Instead, the process rules define the processes, actions, behaviours and controls of the organisational units involved in the process.

In particular, with reference to loans, note that the processes for granting credit have been supplemented to (i) manage the execution of the SPPI test, carried out based on the methodology developed internally and described in the specific tool available to business structures, and (ii) outline the business model associated with each loan disbursement.

Finally, the methodology for determining the fair value of loans (input data, models, etc.) was integrated within the aforementioned IFRS 9 Impairment Methodological Framework document.



Transition to the IFRS 9 and IFRS 15 accounting standards

As indicated in the “General accounting standards” section, the Bank has chosen to apply the option, envisaged in IFRS 9, not to restate comparative data in the financial statements upon first application of IFRS 9. In order to reclassify 2017 comparative data in the line items provided for in the new official schedules set out in Circular 262, the necessary transfers were performed, without changing the values, based on the criteria indicated below. This section also provides the reconciliations of accounting balances as at 1 January 2018 as a result of the application of the new classification and measurement rules required by IFRS 9.

Methods of reclassifying comparative data of financial statements to take account of the 5th update to Bank of Italy Circular no. 262.

The comparative balances of 2017 of the consolidated balance sheet and income statement have been attributed on the basis of the new items of IFRS 9 introduced by the 5th update of the Bank of Italy Circular no. 262, with the following conventions:

- balance sheet - assets:
 - ◊ item 20 “*Financial assets held for trading*” has been reclassified under item 20 “*Financial assets measured at fair value through profit and loss*”, sub-item “*a) Financial assets held for trading*”;
 - ◊ items 60 and 70 “*Loans to banks*” and “*Loans to customers*” have been reclassified under item 40 “*Financial assets measured at amortised cost*”, in sub-items *a)* and *b)*, respectively;
 - ◊ item 40 “*Financial assets available for sale*” has been reclassified under item 30 “*Financial assets measured at fair value through other comprehensive income*”;
 - ◊ item 80 “*Property, plant and equipment*” includes the balance relative to “*Real estate warehouse*”, which was previously classified under item 120 “*Other assets*” in the 2017 financial statements.
- balance sheet – liabilities:
 - ◊ items 10 “*Deposits from banks*”, 20 “*Deposits from customers*” and 30 “*Debt securities issued*”, have been reclassified under item 10 “*Financial liabilities measured at amortised cost*”, respectively in sub-items *a)*, *b)* and *c)*;
 - ◊ the new item 100 “*Provisions for risks and charges*”, sub-item “*a) commitments and financial guarantees given*”, which did not exist in the 2017 schedules, includes the relative balances from item 100 “*Other liabilities*”.
- income statement:
 - ◊ under item 130 “*Net impairment (losses)/reversals for credit risk*”, the previous sub-item “*a) loans*” has been reclassified under sub-item “*a) financial assets measured at amortised cost*” and the previous sub-item “*b) financial assets available for sale*” has been reclassified under “*b) financial assets measured at fair value through other comprehensive income*”.
 - ◊ item 130 “*Net impairment (losses)/reversals for credit risk*”, sub-item “*d) other financial transactions*” was reclassified in the new item 170 “*Net provisions for risks and charges*”, sub-item “*a) for credit risk related to commitments and guarantees issued*”.



Items according to the 4th update of Bank of Italy Circular No. 262/2005	31 12 2017	Reclassifications	31/12/2017*	Items according to the 5th update of Bank of Italy Circular No. 262/2005
10 Cash and cash equivalents	4,083,948	-	4,083,948	10 Cash and cash equivalents
	-	-	901,298	20 Financial assets measured at fair value through profit and loss (IFRS 7 par. 8 lett. a))
20 Financial assets held for trading	901,298	-	901,298	a) <i>financial assets held for trading</i>
30 Financial assets designated at fair value	-	-	-	b) <i>financial assets designated at fair value</i>
	-	-	-	c) <i>other financial assets measured at fair value mandatory</i>
40 Financial assets available for sale	15,020,745	-	15,020,745	Financial assets measured at fair value through other comprehensive income (IFRS 7 par. 8 lett. h))
50 Financial assets held to maturity	-	-	-	
	€	-	96,400,902	Financial assets measured at amortised cost (IFRS 7 par. 8 lett. f))
60 Loans to banks	24,927,358	-	24,927,358	a) <i>Loans to banks</i>
70 Loans to customers	71,473,544	-	71,473,544	b) <i>Loans to customers</i>
80 Hedging derivatives	333,295	-	333,295	50 Hedging derivatives
90 Change in value of macro-hedged financial assets (+/-)	56,878	-	56,878	60 Change in value of macro-hedged financial assets (+/-)
100 Equity investments	3,079,197	-	3,079,197	70 Equity investments
110 Property, plant and equipment	1,035,041	30,257	1,065,298	80 Property, plant and equipment
120 Intangible assets	38,621	-	38,621	90 Intangible assets
of which: goodwill	-	-	-	- of which goodwill
130 Tax assets	3,072,335	-	3,072,335	100 Tax assets
a) <i>current</i>	529,292	-	529,292	a) <i>current</i>
b) <i>deferred</i>	2,543,043	-	2,543,043	b) <i>deferred</i>
under Law. 214/2011	1,107,350	-	-	
140 Non-current assets and groups of assets held for sale and discontinued operations	3,600,131	-	3,600,131	110 Non-current assets and groups of assets held for sale and discontinued operations
150 Other assets	1,876,570	30,257	1,846,313	120 Other assets
Total Assets	129,498,962	30,257	129,498,962	Total Assets

* Comparative 2017 figures for balance sheet items that were reclassified under the new IFRS 9 items



BALANCE SHEET - Total Liabilities and Shareholders' Equity

Items according to the 4th update of Bank of Italy Circular No. 262/2005	31 12 2017	Reclassifications	31 12 2017 *	Items according to the 5th update of Bank of Italy Circular No. 262/2005
10 Loans to banks	-	-	113,347,177	10 Financial liabilities measured at amortised cost
20 Loans to customers	26,675,292	-	26,675,292	a) loans to banks
30 Debt securities issued	66,718,245	-	66,718,245	b) loans to customers
40 Financial liabilities held for trading	19,953,640	-	19,953,640	c) debt securities issued
50 Financial liabilities designated at fair value	802,507	-	802,507	20 Financial liabilities held for trading
60 Hedging derivatives	415,215	-	415,215	30 Financial liabilities designated at fair value
70 Fair value change of financial liabilities in hedged portfolio (+/-) (+/-)	833,623	-	833,623	40 Hedging derivatives
80 Tax liabilities	(788)	-	(788)	50 Fair value change of financial liabilities in hedged portfolio (+/-)
a) current	651	-	651	60 Tax liabilities
b) deferred	651	-	651	a) current
90 Liabilities associated with non-current assets held for sale and discontinued operations	-	-	-	b) deferred
100 Other liabilities	3,242,186	(223,325)	3,018,861	70 Liabilities associated with non-current assets held for sale and discontinued operations
110 Provision for employees severance pay	192,525	-	192,525	80 Other liabilities
120 Provision for risks and charges:	1,018,326	223,325	1,241,652	90 Provision for employees severance pay
a) post-employment benefits	-	223,325	223,325	100 Provision for risks and charges:
b) other provisions	44,213	-	44,213	a) financial guarantees and other commitments
130 Valuation reserves	974,113	-	974,113	b) post-employment benefits
140 Redemable shares	(61,470)	-	(61,470)	c) other provisions
150 Equity instruments	-	-	-	110 Valuation reserves
160 Reserves	2,423,789	-	2,423,789	120 Redemable shares
170 Share premium reserve	-	-	-	130 Equity instruments
180 Share capital	10,328,618	-	10,328,618	140 Reserves
190 Treasury shares (-)	(185,958)	-	(185,958)	150 Share premium reserve
200 Profit (loss) (+/-)	(2,857,440)	-	(2,857,440)	160 Share capital
Total liabilities and Shareholders' equity	129,498,962	-	129,498,962	170 Treasury shares (-)
				180 Profit (loss) (+/-)
				Total liabilities and Shareholders' equity

* Comparative 2017 figures for balance sheet items that were reclassified under the new IFRS 9 items



Items according to the 4th update of Bank of Italy Circular No. 262/2005	31 12 2017	Reclassifications	31 12 2017 *	Items according to the 5th update of Bank of Italy Circular No. 262/2005	note
10 Interest income and similar revenues	2,584,962	-	2,584,962	10 Interest income and similar revenues <i>of which interest income calculated applying the effective interest rate method</i>	
20 Interest expense and similar charges	(855,975)	-	(855,975)	20 Interest expense and similar charges	
30 Net interest income	1,728,987	-	1,728,987	30 Net interest income	
40 Fee and commission income	1,796,529	-	1,796,529	40 Fee and commission income	
50 Fee and commission expense	(262,463)	-	(262,463)	50 Fee and commission expense	
60 Net fee and commission income	1,534,066	-	1,534,066	60 Net fee and commission income	
70 Dividends and similar income	34,314	-	34,314	70 Dividends and similar income	
80 Net profit (loss) from trading	13,954	-	13,954	80 Net profit (loss) from trading	
90 Net profit (loss) from hedging	(18,248)	-	(18,248)	90 Net profit (loss) from hedging	
100 Gains/(losses) on disposal/repurchase of:	635,424	-	635,424	100 Gains/(losses) on disposal/repurchase of:	
<i>a) loans</i>	<i>(5,621)</i>	-	<i>(5,621)</i>	<i>a) financial assets measured at amortised cost (IFRS 7 par. 20 lett a) vi))</i>	
<i>b) financial assets available for sale</i>	<i>85,891</i>	-	<i>85,891</i>	<i>b) Financial assets measured at fair value through other comprehensive income (IFRS 7 par 20 lett a) viii))</i>	
<i>d) financial liabilities</i>	<i>555,154</i>	-	<i>555,154</i>	<i>c) financial liabilities</i>	
	-	-	1,114	Net profit (loss) from financial assets and liabilities measured at fair value through other comprehensive income (IFRS 7 par. 20 lett a) i))	
110 Net profit (loss) from financial assets and liabilities designated at fair value	1,114	-	1,114	<i>a) financial assets and liabilities measured at fair value</i>	
	-	-	-	<i>b) other financial assets mandatorily at fair value through profit or loss</i>	
120 Net interest and other banking income	3,929,611	-	3,929,611	120 Net interest and other banking income	
130 Net impairment (losses)/reversals on	(4,531,272)	53,851	(4,477,421)	130 Net impairment (losses)/reversals on	
<i>a) loans</i>	<i>(4,387,724)</i>	-	<i>(4,387,724)</i>	<i>a) financial assets measured at amortised cost</i>	
<i>b) financial assets available for sale</i>	<i>(89,697)</i>	-	<i>(89,697)</i>	<i>b) financial assets measured at fair value through other comprehensive income (IAS 1 par 82 lett ba))</i>	
<i>d) other financial transactions</i>	<i>(53,851)</i>	53,851	-		a)
	-	-	-	140 Modification gains/(losses)	
140 Net income from banking activities	(601,661)	53,851	(547,810)	150 Net income from banking activities	
150 Administrative expenses:	(3,102,023)	-	(3,102,023)	160 Administrative expenses:	
<i>a) personnel expenses</i>	<i>(1,720,233)</i>	-	<i>(1,720,233)</i>	<i>a) personnel expenses</i>	
<i>b) other administrative expenses</i>	<i>(1,381,790)</i>	-	<i>(1,381,790)</i>	<i>b) other administrative expenses</i>	
	-	(53,851)	(268,433)	170 Net provision for risks and charges:	
	-	(53,851)	(53,851)	<i>a) commitments and guarantees issued</i>	a)
160 Net provision for risks and charges	(214,581)	-	(214,581)	<i>b) other net provisions</i>	
170 Net adjustments to/recoveries on property, plant and equipment	(69,349)	-	(69,349)	180 Net adjustments to/recoveries on property, plant and equipment	
180 Net adjustments to/recoveries on intangible assets	(25,936)	-	(25,936)	190 Net adjustments to/recoveries on intangible assets	
190 Other operating expenses/income	302,923	-	302,923	200 Other operating expenses/income	
200 Operating expenses	(3,108,966)	(53,851)	(3,162,817)	210 Operating expenses	
210 Gains (losses) on investments	(102,930)	-	(102,930)	220 Gains (losses) on investments	
220 Valuation differences on property, equipment and intangible assets	-	-	-	230 Valuation differences on property, equipment and intangible assets	
230 Impairment on goodwill	-	-	-	240 Impairment on goodwill	
240 Gains (losses) on disposal of investments	522,684	-	522,684	250 Gains (losses) on disposal of investments	
250 Profit (loss) before tax from continuing operations	(3,290,873)	-	(3,290,873)	260 Profit (loss) before tax from continuing operations	
260 Tax (expense)/recovery on income from continuing operations	433,433	-	433,433	270 Tax (expense)/recovery on income from continuing operations	
270 Profit (loss) after tax from continuing operations	(2,857,440)	-	(2,857,440)	280 Profit (loss) after tax from continuing operations	
280 Profit (loss) after tax from groups of assets held for sale and discontinued operations	-	-	-	290 Profit (loss) after tax from groups of assets held for sale and discontinued operations	
290 Profit (loss)	(2,857,440)	-	(2,857,440)	300 Profit (loss)	

* Comparative 2017 figures for income statement items that were reclassified under the new IFRS 9 items.

**Effects of transition as at 1 January 2018 to IFRS 9 and IFRS 15 accounting standards**

The schedules shown below present the reconciliation between the balance sheet as at 31 December 2017 (former IAS 39), which includes the reclassifications in accordance with the new classification rules established by IFRS 9, previously explained, and the balance sheet as at 1 January 2018 (IFRS 9). In these schedules, the accounting balances as at 31 December 2017 (values calculated according to IAS 39) are modified to reflect the application of the new measurement and impairment procedures, in order to determine the opening balances in compliance with IFRS 9.

The schedules include both the effects of the transition to IFRS 9 and IFRS 15 accounting standards, and some reclassifications specifically provided for by the 5th update of Circular 262.



Voci dell'attivo circ.262 4° aggiornamento	31.12.2017 SALDI Valori in migliaia di euro	Riclassifiche	IFRS 9			IFRS 15	01.01.2018 SALDI Valori in migliaia di euro	Voci dell'attivo circ.262 5° aggiornamento	note
			Classificazione	Misurazione	Impairment				
10 Cash and cash equivalents	4,083,948	-	-	-	-	-	4,083,948	10 Cash and cash equivalents	
	-	-	1,189,921	33,626	-	-	2,124,845	20 Financial assets measured at fair value through profit and loss (IFRS 7 par. 8 lett. a))	
20 Financial assets held for trading	901,298	-	-	-	-	-	901,298	a) financial assets held for trading	
30 Financial assets designated at fair value	-	-	-	-	-	-	-	b) financial assets designated at fair value	a)
	-	-	1,189,921	33,626	-	-	1,223,547	c) other financial assets measured at fair value mandatory	
40 Financial assets available for sale	15,020,745	-	(1,203,105)	-	-	-	13,817,640	Financial assets measured at fair value through other comprehensive income (IFRS 7 par. 8 lett. h))	b)
50 Financial assets held to maturity	-	-	13,184	148,473	(1,102,028)	-	95,460,532	Financial assets measured at amortised cost (IFRS 7 par. 8 lett. f))	c)
60 Loans to banks	24,927,358	-	14,669	(5,315)	2,346	-	24,939,058	a) Loans to banks	
70 Loans to customers	71,473,544	-	(1,485)	153,788	(1,104,374)	-	70,521,474	b) Loans to customers	
80 Change in value of macro-hedged financial assets (+/-)	333,295	-	-	-	-	-	333,295	Change in value of macro-hedged financial assets (+/-)	
90 Equity investments	56,878	-	-	-	-	-	56,878	Equity investments	
100 Technical insurance reserves reassured with third parties	3,079,197	-	-	-	-	-	3,079,197	Technical insurance reserves reassured with third parties	
110 Property, plant and equipment	1,035,041	30,257	-	-	-	-	1,065,298	80 Property, plant and equipment	d)
120 Intangible assets	38,621	-	-	-	-	-	38,621	90 Intangible assets	
of which: goodwill	-	-	-	-	-	-	-	- of which goodwill	
130 Tax assets	3,072,335	-	(3,405)	(14,234)	9,208	8,421	3,072,325	100 Tax assets	c)
a) current	529,292	-	-	-	-	-	529,292	a) current	
b) deferred	2,543,043	-	(3,405)	(14,234)	9,208	8,421	2,543,033	b) deferred	
under Law 214/2011	1,107,350	-	-	-	-	-	-		
140 Non-current assets and groups of assets held for sale and discontinued operations	3,600,131	-	-	-	-	-	3,600,131	Non-current assets and groups of assets held for sale and discontinued operations	
150 Other assets	1,876,570	(30,257)	-	-	-	-	1,846,313	120 Other assets	d)
Total Assets	129,498,962	-	(3,405)	167,865	(1,092,820)	8,421	128,579,023	Total Assets	



- a) The impact of the classification to the item 20 “*c) other financial assets measured at fair value as per mandatory requirements*”, is EUR 1,181.5 mln and is attributable to securities and loans that failed the SPPI (Solely Payments of Principal and Interest) test.
The causes of failure of the SPPI test for loans are due mainly to non-recourse assets, under repayment methods that are subject to liquidity events and/or “pay if you can” clauses or “now instead of then” waivers. Other instruments that failed the SPPI test mainly include units of UCITS, securities with clauses that allow the non-payment of interest and mandatory convertible bonds. The reclassifications also concerned the equity tranches of securitisations, participative financial instruments and other equity securities, other than shares, involving an insignificant amount.
The subsequent recognition at fair value, rather than at amortised cost, involved a total increase of EUR 33.6 mln (see measurement column - other) in the value of reclassified financial instruments.
- b) The decrease of EUR 1,194.7 mln is due: i) to financial instruments such as UCITS that failed the SPPI test and non-share equity securities, for EUR 362.8 mln and ii) the classification of bonds, predominantly government, relating to the Held to Collect (HTC) business model, for EUR 831.9 mln. For these securities valued at amortised cost, previously measured at fair value in the “Financial assets available for sale” portfolio, the disclosure required by IFRS 7 (paras. 42M and 42N) is provided, regarding the effects of the reclassification of amortised cost from accounting categories previously measured using a different criterion and for instruments reclassified to assets measured at fair value through other comprehensive income previously measured at fair value through profit and loss⁴. As at 31 December 2018, the securities that were reclassified would have had a fair value of EUR 760.0 mln if they had not been reclassified, and valuation reserves, before the relative tax, would have been EUR -226.0 mln.
- c) The classification under “Financial assets measured at amortised cost”, with a positive impact of EUR 13.2 mln, reflects: i) EUR +831.9 mln of the former “Financial assets available for sale” classified at amortised cost as they relate to the perimeter of the HTC business model, and ii) EUR -818.7 mln in securities and loans that failed the SPPI test.
The positive impact of measurement, amounting to EUR 148.5 mln, other than impairment, is due primarily to the shift from the fair value method to the amortised cost method of the government bonds in the former “Financial assets available for sale” (EUR 154.2 mln).
By contrast, as regards the effect of the introduction of the new impairment model, a negative impact of EUR 1,104.4 mln was recorded on loans to customers, attributable for EUR 1,103.7 mln to loans and EUR 0.7 mln to securities. The impact was a positive EUR 2.3 mln for loans to banks.
- d) The 5th update to Bank of Italy Circular 262 specifies that the “Property, plant and equipment” also include inventories of property, plant and equipment regulated by IAS 2: therefore, inventories of goods of EUR 30.3 mln were reclassified from “Other assets” to “Property, plant and equipment”.
- e) The impacts on the item “Tax assets” are due mainly to the component “b) deferred”; in particular, the latter decreased by EUR 14.2 mln, primarily due to the elimination of the negative valuation reserve of securities in the former “Financial assets available for sale”, reclassified at amortised cost and increased, also due to the positive effect of the probability test, for EUR 9.2 mln.

⁴ As is evident in the schedule above, the Bank did not reclassify in FTA financial instruments from portfolios measured at fair value recognised in profit/loss for the year (e.g., “Financial assets held for trading” and “Financial assets measured at fair value”) and other portfolios.



The following is detailed information that reconciles, by type of financial instrument, the accounting categories of financial assets as at 31 December 2017 (IAS 39 values) with the financial asset accounting categories as at 1 January 2018 (IAS IFRS 9), as required by IFRS 7.42O:

Items according to the 4th update of Bank of Italy Circular No. 262/2005 4° aggiornamento	31 12 2017 Total	Debt securities	Ucits	Loans	Equity instruments	01 01 2018 Total	Items according to the 5th update of Bank of Italy Circular No. 262/2005 4° aggiornamento
	-	399,073	178,191	453,233	184,623	2,116,417	20 Financial assets measured at fair value through profit and loss:
20 Financial assets held for trading	901,298	-	-	-	-	901,298	a) financial assets held for trading
30 Financial assets measured at fair value	-	-	-	-	-	-	b) financial assets designated at fair value
	-	399,073	178,191	453,233	184,623	1,215,120	c) other financial assets measured at fair value mandatory
40 Financial assets available for sale	15,020,745	(831,864)	(178,191)	-	(184,623)	13,826,068	30 Financial assets measured at fair value through other comprehensive income
50 Financial assets held to maturity	-	-	-	-	-	-	
	-	-	-	-	-	95,460,532	40 Financial assets measured at amortised cost
60 Loans to banks	24,927,358	7,961	-	3,739	-	24,939,058	a) loans to banks
70 Loans to customers	71,473,544	605,544	-	(1,557,614)	-	70,521,474	b) loans to customers
80 Hedging derivatives	333,295	-	-	-	-	333,295	50 Hedging derivatives



BALANCE SHEET - Total Liabilities and Shareholders' Equity

DIFERENZA DEDUZIONI - TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY																		
Items according to the 4th update of Bank of Italy Circular No. 262/2005			31.12.2017		Reclassifications		IFRS 9			IFRS 15		01.01.2018		Items according to the 5th update of Bank of Italy Circular No. 262/2005		notes		
			Total				Classification		Measurement		Impairment		Total					
			-	-	-	-	-	-	-	-	-	-	-	113,347,177	Financial liabilities measured at amortised cost			
10	Loans to banks		26,675,292	-	-	-	-	-	-	-	-	-	-	26,675,292	a) loans to banks			
20	Loans to customers		66,718,245	-	-	-	-	-	-	-	-	-	-	66,718,245	b) loans to customers			
30	Debt securities issued		19,953,640	-	-	-	-	-	-	-	-	-	-	19,953,640	c) debt securities issued			
40	Financial liabilities held for trading		802,507	-	-	-	-	-	-	-	-	-	-	802,507	Financial liabilities held for trading			
50	Financial liabilities designed at fair value		415,215	-	-	-	-	-	-	-	-	-	-	415,215	Financial liabilities designed at fair value			
60	Hedging derivatives		833,623	-	-	-	-	-	-	-	-	-	-	833,623	Hedging derivatives			
70	Fair value change of financial liabilities in hedged portfolio (+/-) (+/-)		(788)	-	-	-	-	-	-	-	-	-	-	(788)	Fair value change of financial liabilities in hedged portfolio (+/-) (+/-)			
80	Tax liabilities		651	-	-	-	(2,296)	(2,014)	5,873	-	-	-	-	2,214	Tax liabilities			
	a) current		651	-	-	-	(1,020)	11,126	(370,151)	-	-	-	-	(359,394)	a) current			
	b) deferred		-	-	-	-	(2,296)	(2,014)	5,873	-	-	-	-	1,564	b) deferred			
90	Liabilities associated with non-current assets held for sale and discontinued operations		-	-	-	-	-	-	-	-	-	-	-	-	Liabilities associated with non-current assets held for sale and discontinued operations			
100	Provision for employees severance pay		3,242,186	(223,325)	-	-	-	-	-	-	-	-	-	3,018,861	Provision for employees severance pay		a)	
110	Provision for employees severance pay		192,525	-	-	-	-	-	-	-	-	-	-	192,525	Provision for employees severance pay			
120	Provision for risks and charges:		1,018,226	223,325	-	-	-	-	-	34,959	-	-	-	1,302,246	Provision for risks and charges:		b)	
	a) post-employment benefits		44,213	-	-	-	-	-	-	-	-	-	-	258,285	a) financial guarantees and other commitments			
	b) other provisions		974,113	-	-	-	-	-	-	-	-	-	-	44,213	b) post-employment benefits			
130	Valuation reserves		(61,470)	-	-	-	(116,446)	99,609	13,073	-	-	-	-	(65,144)	Reserve da valutazione		c)	
	AIFX Equity instruments gross value		116,182	-	-	-	(155,880)	-	-	-	-	-	-	(39,704)	OCI Equity instruments gross value			
	AIFX Debt instruments gross value		(53,247)	-	-	-	(920)	148,473	19,468	-	-	-	-	113,774	OCI Debt instruments gross value		d)	
	Tax effects		2,1576	-	-	-	40,360	(48,773)	(6,395)	-	-	-	-	6,767	Tax effects			
	Others gross value		(145,981)	-	-	-	-	-	-	-	-	-	-	(145,981)	Others gross value			
140	Share capital		-	-	-	-	-	-	-	-	-	-	-	-	Share capital			
150	Profit (loss) (+/-)		-	-	-	-	115,337	70,180	(1,146,725)	(17,214)	-	-	-	1,445,367	Profit (loss) (+/-)		e)	
160	Reserves		2,423,789	-	-	-	156,806	33,626	(1,156,456)	(25,635)	-	-	-	(991,659)	Reserves			
	Share premium reserve		-	-	-	-	-	-	-	-	-	-	-	-	Share premium reserve			
170	Share capital		10,328,618	-	-	-	-	-	-	-	-	-	-	10,328,618	Share capital			
180	Treasury shares (-)		(185,958)	-	-	-	-	-	-	-	-	-	-	(185,958)	Treasury shares (-)			
200	Profit (loss) (+/-)		(2,857,440)	-	-	-	-	-	-	-	-	-	-	(2,857,440)	Profit (loss) (+/-)			
Total liabilities and Shareholders' equity			129,498,962	-	-	-	(3,405)	167,866	(1,092,820)	8,421	-	-	-	128,579,023	Total liabilities and Shareholders' equity			



- a) Provisions for risks regarding commitments to disburse funds and the financial guarantees given, subject to the measurement rules of IFRS 9, are accounted for under the new item “100a) Provisions for risks and charges: commitments and financial guarantees given. Therefore, reclassified provisions for risks on commitments and guarantees were reclassified to this new sub-item, amounting to EUR 223.3 mln, previously stated under “Other liabilities”.
- b) Item 100 “Provisions for risks and charges” was impacted not only by the reclassification of EUR 223.3 mln, pursuant to the previous point, but i) EUR 35.0 mln in higher write-downs on commitments to disburse funds and the financial guarantees given, due to the application of model IFRS 9, and ii) EUR 25.6 mln in provisions due to the application of IFRS 15.
- c) Item 110 “Valuation reserves” was impacted negatively, net of tax effects, for an amount of EUR 3.6 mln, attributable: i) to a different valuation model, for EUR 99.7 mln (due mainly to the elimination of the securities valuation reserves with the HTC business model), ii) the variation in the portfolio, amounting to EUR -116.4 mln (mostly due to the elimination of IAS 39 write-downs on OCI option equity securities⁵), and iii) the accounting of adjustments on “Financial assets measured at fair value through other comprehensive income” for EUR +13.1 mln (and, at the same time, EUR -13.1 mln on the FTA earnings reserve).
- d) Valuation reserves on debt securities was subject to the already mentioned positive impact of measurement, amounting to EUR 148.5 mln, due mainly to the elimination of the valuation reserves of the securities reclassified at amortised cost (EUR 154.2 mln).
- e) The negative impact, totalling EUR 978.3 mln, net of the tax effect, on the item 140 “Reserves” is attributable, for EUR 961.1 mln, to the transition to IFRS 9 and, for EUR 17.2 mln, to the transition to IFRS 15.

The impact on the item 140 “Reserves” relating to the transition to IFRS 9 is represented, in summary, by the following cases:

- EUR -1,156.4 mln before tax for the application of the new impairment model, of which:
 - EUR -208.5 mln for performing cash exposures due mainly to the inclusion of lifetime expected losses on performing assets classified as stage 2 as a result of the significant increase of the borrower’s credit risk with respect to that existing at the moment of initial recognition of the loan in the financial statements;
 - EUR -891.3 mln for non-performing balance sheet exposures, due primarily to the inclusion of the sale scenario for those portfolios that are expected to be sold;
 - EUR -35.0 mln for off-balance sheet exposures relating to commitments to disburse funds and guarantees given;
 - EUR -21.6 mln in impairment on debt securities.
- EUR +33.6 mln as the effect of the measurement at fair value resulting from the reclassification of securities and receivables from “financial assets measured at amortised cost” to “financial assets measured at fair value as per mandatory requirements”, due to the fact that certain financial instruments did not pass the SPPI test.
- EUR +156.8 mln for the reclassification under valuation reserves (of equity securities for EUR 155.9 mln and debt securities for EUR 0.9 mln) and FTA earnings reserves.

The increase recorded in IFRS 9 loss provisions at the time of transition as at 1 January 2018 is attributable to the new provisions regarding impairment (higher Expected Credit Losses – ECL) on

⁵ At the time of initial recognition, the entity can irrevocably choose to present, under other comprehensive income, any subsequent changes in the fair value of an investment in an equity instrument falling under the scope of application of IFRS 9, that is neither held for trading nor a contingent consideration recorded by a purchaser in a business combination to which IFRS 3 is applied.



cash and unsecured exposures. A reconciliation of gross exposures and loss provisions of the portfolios subject to impairment is reported hereunder (values expressed in mln of euro).



Riconciliazione esposizioni lorde e fondi IAS 39 - IFRS 9 (rif. IFRS7 par. 42P)

IAS 39 voce 40 - Attività finanziarie disponibili per la vendita voce 60 - Crediti verso banche voce 70 - Crediti verso clientela voce 140 - Attività non correnti e gruppi di attività in via di dismissione	Mora (diversa presentazione Circ. 262)	Riclassifiche voci 00+70 IAS39 Crediti a voce 20 IFRS9 Att finanz @fv	Riclassifiche voci 40 IAS39 Att finanz disp per vendita a voce 20 IFRS9 Att finanz al fv	Riclassifiche voce 40 IAS39 Att finanz disp per vendita a voce 40 IFRS9 Att finanz costo amm	Ampliamento perimetro Crediti di firma	Delta rettifiche IFRS 9 - rettifiche IAS 39	IFRS 9 voce 30 - Attività finanziarie valutate al fair value con imputo sulla redditività complessiva voce 40 - Attività finanziarie valutate al costo ammortizzato voce 100 - Attività e gruppi di attività in via di dismissione
Esposizioni creditizie lorde bonis	(3,8)	(487,6)	(186,6)	148,5	30,342,0	-	Stage 1 Esposizioni creditizie per cassa 80,197,6
Esposizioni creditizie per cassa	-	-	-	-	-	-	Stage 2 Esposizioni creditizie fuori bilancio 35,935,5
Esposizioni creditizie fuori bilancio	-	-	-	-	-	-	Stage 3 Esposizioni creditizie per cassa 13,886,1
Esposizioni creditizie lorde bonis	(3,8)	(487,6)	(186,6)	148,5	30,342,0	-	Esposizioni creditizie fuori bilancio 3,838,1
Esposizioni creditizie lorde deteriorate	(1,376,3)	(831,9)	-	-	-	-	Stage 1 Esposizioni creditizie per cassa 33,207,7
Esposizioni creditizie per cassa	-	-	-	-	943,7	-	Stage 2 Esposizioni creditizie fuori bilancio 1,586,5
Esposizioni creditizie fuori bilancio	(1,376,3)	(831,9)	-	-	943,7	-	Stage 3 Esposizioni creditizie per cassa 34,794,2
Esposizioni creditizie lorde deteriorate	(1,376,3)	(831,9)	-	-	943,7	-	Esposizioni creditizie fuori bilancio 177,651,5
Totale esposizioni creditizie lorde	(1,380,1)	(1,319,6)	(186,6)	148,5	31,285,7	-	
Fondi su esposizioni creditizie bonis	3,8	1,7	-	-	-	-	Stage 1 Fondi su esposizioni per cassa (90,9)
Fondi su esposizioni per cassa	(88,0)	-	-	-	-	-	Stage 2 Fondi su esposizioni fuori bilancio (73,7)
Fondi su esposizioni fuori bilancio	-	-	-	-	-	-	Stage 3 Fondi su esposizioni per cassa (570,6)
Fondi su esposizioni creditizie bonis	3,8	1,7	-	-	-	-	Fondi su esposizioni fuori bilancio (104)
Fondi su esposizioni creditizie deteriorate	1,376,3	500,3	-	-	-	-	Stage 1 Fondi su esposizioni per cassa (23,170,5)
Fondi su esposizioni per cassa	-	-	-	-	-	-	Stage 2 Fondi su esposizioni fuori bilancio (174,2)
Fondi su esposizioni fuori bilancio	1,376,3	500,3	-	-	-	-	Stage 3 Fondi su esposizioni per cassa (23,344,7)
Fondi su esposizioni creditizie deteriorate	1,380,1	502,0	-	-	-	(1,156,5)	Fondi su esposizioni fuori bilancio (24,090,3)
Totale fondi su esposizioni creditizie	1,380,1	502,0	-	-	-	-	
Esposizioni creditizie nette bonis	-	(485,9)	(186,6)	148,5	-	-	Stage 1 Esposizioni creditizie per cassa 89,106,7
Esposizioni creditizie per cassa	-	-	-	-	30,342,0	-	Stage 2 Esposizioni creditizie fuori bilancio 35,861,8
Esposizioni creditizie fuori bilancio	-	-	-	-	-	-	Stage 3 Esposizioni creditizie per cassa 13,315,4
Esposizioni creditizie nette bonis	-	(485,9)	(186,6)	148,5	30,342,0	-	Esposizioni creditizie fuori bilancio 3,827,7
Esposizioni creditizie nette deteriorate	-	(331,7)	-	-	-	-	Stage 1 Esposizioni creditizie per cassa 10,037,2
Esposizioni creditizie per cassa	-	-	-	-	-	-	Stage 2 Esposizioni creditizie fuori bilancio 1,412,3
Esposizioni creditizie fuori bilancio	-	-	-	-	943,7	-	Stage 3 Esposizioni creditizie per cassa 11,440,5
Esposizioni creditizie nette deteriorate	-	(331,7)	-	-	943,7	(930,3)	Esposizioni creditizie fuori bilancio 11,440,5
Totale esposizioni creditizie nette	-	(817,6)	(186,6)	148,5	31,285,7	(1,156,5)	Esposizioni creditizie fuori bilancio 153,561,2



A reconciliation is provided below of equity as at 31 December 2017 and equity as at 1 January 2018 after the transition to IFRS 9 and IFRS 15, detailing the column “Changes in opening balances” of the Statement of changes in equity (see Financial Statements). The effects, net of taxes, on the Bank’s shareholders’ equity amount to EUR -982.1 mln, of which: i) EUR -17.2 mln attributable to the first application of IFRS 15 and ii) EUR -964.9 mln attributable to the first application of the IFRS 9. For completeness of information, note that the overall impact of the new IFRS 9 impairment model amounts to EUR 1,137.0 mln.

Patrimonio netto al 1/1/2018		Totale rettifiche al Patrimonio netto al 1/1/2018												
		Effetti fiscali		Effetti a Patrimonio netto da IFRS 15			Impairment					Classificazione e misurazione		
				Riclassifica riserve su attività finanziarie valutate al fair value con impatto sulla redditività complessiva			Impegni a erogare fondi e garanzie rilasciate		Valutazione titoli al costo ammortizzato		Valutazione finanziamenti al costo ammortizzato		Riclassifica riserve	
				Riserve di Utili			Riserve da valutazione		Non performing		Non performing		Riserve di Utili	
									Performing		Performing		Riserve da valutazione	
													Fallimento SPPI test	
													Modifica business model	
Patrimonio netto al 31/12/2017		9.647.539		148.473			33.626		(156.806)		156.806		(208.473)	
									</					

Section 3 – Events after the Reporting Period

On 23 January 2019, the Bank completed a new 5-year covered bond issue (bonds secured by Italian residential mortgages), intended for institutional investors. The EUR 1 bn bond has a rating of A1/A+/AAL (Moody's/Fitch/DBRS), maturing in January 2024 with an annual coupon of 2%. Taking into account the “below par” re-offer price, at 99.61%, the yield to maturity is 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 Bank for a total of EUR 35.7 mln 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.

Section 4 – Other Matters

Going concern

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

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

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

Moreover, the Bank has updated the internal projection related to the Group's forecasted income statement and balance sheet to take into account the change in the current macroeconomic scenario and 2018 results. Although these forecasts are lower than those envisaged in the Restructuring Plan, the values of capital ratios remain above the new SREP regulatory requirements.



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

List of key IAS/IFRS international accounting principles and related SIC/IFRIC interpretations for mandatory application as of the 2018 financial statements

IFRS 15 “**Revenue from Contracts with Customers**”, published by IASB on 18 May 2014 and endorsed by the European Commission with Regulation no. 2016/1905 of 22 September 2016 and subsequent clarifications endorsed with Regulation no. 2017/1987 of 31 October 2017, replaces previous standards on revenue: IAS 11 “Construction Contracts” and IAS 18 “Revenue”, as well as IFRIC 13 “Customer Loyalty Programmes”, IFRIC 15 “Agreements for the Construction of Real Estate”, IFRIC 18 “Transfers of Assets from Customers” and SIC 31 “Revenue - Barter Transactions Involving Advertising Services”.

Application of the standard is mandatory as of the start date of the first annual period beginning on or after 1 January 2018.

IFRS 9 “**Financial Instruments**”, issued by IASB on 24 July 2014, regulates the classification and measurement of financial instruments, as well as the related impairment process and replaces the previous accounting standard IAS 39 “Financial Instruments: Recognition and Measurement”. The issue of macro hedging is as yet unregulated, for which IASB has decided to undertake a separate project.

The document was endorsed by the European Commission with Regulation no. 2016/2067 on 22 September 2016 and must be applied from the start date of the first annual period beginning on or after 1 January 2018.

On 12 September 2016, IASB published the amendment to IFRS 4 “**Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts**”, later endorsed by the European Commission with Regulation no. 2017/1988 on 9 November 2017. The amendments have the objective of resolving the issues related to the application of IFRS 9 for companies that perform insurance activities, prior to the implementation of the standard (IFRS 17) that will replace IFRS 4 on insurance contracts.

In particular, this amendment introduced a series of modifications that permit:

- entities that issue insurance contracts to recognise the effects deriving from the volatility that may arise when an entity will apply IFRS 9 before the application of the new IFRS 4 in the statement of comprehensive income (i.e., in the OCI statement), rather than in the income statement (the “overlay approach”).
- entities whose business is constituted to a predominant extent by insurance activities to take advantage of a temporary exemption from the application of IFRS 9 initially until 2021. Entities that defer the application of IFRS 9 will continue to apply the current IAS 39 (“deferral approach”).

The amendments apply as of 1 January 2018.

Furthermore, note that on 14 November 2018, IASB decided to postpone the application of IFRS 17 for one year, from 2021 to 2022, also extending the possibility of delaying until 2022 the temporary exemption from the application of IFRS 9 granted to insurance companies. The proposed delay will, however, be subject to public consultation, which is scheduled during 2019.

In addition, as of 1 January 2018, the following are applicable:

- amendments set forth in the “**Annual Improvements to IFRS Standards 2014-2016 Cycle**”, endorsed by the European Commission with EU Regulation 2018/182 of 7 February 2018, which regard:
 - IAS 28 “Investments in Associates and Joint Ventures”,
 - IFRS 1 “First-Time Adoption of International Financial Reporting Standards”,



- IFRS 12 “Disclosure of Interests in Other Entities”.
- amendments to IFRS 2 “**Classification and Measurement of Share-Based Payment Transactions**”, endorsed by the European Commission with EU Regulation 2018/289 of 26 February 2018, which provides some clarifications in relation to the following aspects:
 - the effects of vesting conditions on the measurement of a share-based payment settled in cash;
 - the classification of share-based payment transactions characterised by net settlement for tax purposes;
 - the recognition of a change to the terms and conditions of a share-based payment, which changes the classification of the transactions from cash-settled to equity-settled;
- amendments to IAS 40 “**Investment Property: Transfers of Investment Property**”, endorsed by the European Commission with Regulation 2018/400 of 14 March 2018. The changes clarify the moment of transfer of an asset from/to the “real estate investment” category, identified as “change in use”.

IFRIC 22 “**Foreign Currency Transactions and Advance Consideration**”, endorsed by the European Commission with EU Regulation 2018/519 of 28 March 2018, which clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency;

Notwithstanding the first application of IFRS 9 and IFRS 15, for which reference should be made to the specific section “Disclosure on first-time adoption of the accounting standards IFRS 9 “Financial Instruments” and IFRS 15 “Revenue from Contracts with Customers”, the other changes or interpretations had no material impact on the Bank’s financial situation.



IAS/IFRS international accounting standards and related SIC/IFRIC interpretations endorsed by the European Commission, the application of which is mandatory as of 31 December 2018

On 13 January 2016, IASB published the new standard IFRS 16 “**Leases**” which replaces 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”.

The objective of IFRS 16 is to ensure that lessors and lessees provide appropriate information in a manner that accurately represents the transactions. Thus, the information provides users of financial statements with the elements to assess the effect of the lease on the entity’s financial situation, economic result, and cash flows.

The new standard provides a new definition of lease and introduces an approach based on control (right of use) in the utilisation of an asset to distinguish lease agreements from service agreements, identifying as discriminating factors: the identification of the asset, the lack of entitlement of the lessor to replace the asset, the right to substantially obtain all economic benefits originating from the use of the asset and the right to direct the use of the asset underlying the agreement.

Transactions excluded from the standard’s scope of application include, specifically:

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

The standard also recognises the possibility of applying certain exceptions to recognition (practical expedients):

- short-term leases, with a contractual term equal to or less than 12 months;
- leases in which the underlying asset is of modest value (low-value asset).

More specifically, according to the definition of IFRS 16, the lease agreement is a contract that grants the lessee the right to control the use of an identified asset (underlying) for a certain period of time in exchange for compensation.

The two conditions necessary for a contract to be considered a lease are:

- the existence of an identified and physically distinct asset;
- the right to control the use of the asset, which is clarified in the right of the lessee to obtain substantially all economic benefits deriving from the use of the asset during the period of use and the right to manage the asset’s use, establishing how and for what purpose it is used, throughout the period of use. Thus, the lessor cannot have the right to essentially replace the asset.

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

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



The most significant changes introduced in the standard concern the lessee, for whom a single accounting model is defined, with no distinction between operating leases and finance leases, and with impacts on both the income statement and balance sheet.

In fact, any lease contract results in the lessee recognising in the liabilities and assets sections, respectively, of the balance sheet:

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

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

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

The standard was endorsed by the European Commission on 9 November 2017 with Regulation no. 2017/1986 and shall apply as of 1 January 2019. Early application is permitted for those entities that already apply IFRS 15.

With regard to the first-time adoption of the standard, full or modified retrospective application is allowed. The full retrospective option envisages that IFRS 16 is applied for 2018, recording the impact on shareholders' equity as at 1 January 2018 as if IFRS 16 had always been applied, by restating comparative data. Instead, the modified retrospective option provides:

- for 2018, application of IAS 17 without the need to restate comparative data;
- for 2019, application of IFRS 16 with impact on shareholders' equity from 1 January 2019 (in the reserves item) of the cumulative effect of the new standard for first-time adoption on only those contracts outstanding on said date and an indication of the impacts of the first-time adoption of the standard in the notes to the financial statements.

The Bank decided to apply the modified retrospective option, which does not entail the restatement of 2018 comparative data. The estimated quantitative effects upon first-time adoption of the standard as at 1 January 2019, are, on the whole, not significant with respect to either total assets/liabilities or CET1.

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

- for lessees, applying the modified retrospective option that does not entail the restatement of 2018 comparative data, the right of use value is calculated as the value of the lease liability adjusted for the amount of any accrued or deferred income relative to the lease;
- the low-value contract exemption was applied on a lease-by-lease basis. In particular, this includes mobile telephones that are not owned;
- the short-term contract exemption was applied to contracts that expire within 12 months of the date of initial application. Specifically, these contracts include property with natural expiry (including the first renewal) by 31 December 2019 or with an expected release date within said term;
- for the recognition and measurement of the lease liability:
 - The discount rate used was defined, by applying the standard's practical expedient, as the range of values of the incremental borrowing rate based on the contract's duration as at 1 January 2019. The incremental borrowing rate was calculated as the weighted average of the funding curves plus a base rate linked to funding.
 - The lease duration was determined by applying the principle of reasonableness; specifically, for all contracts outstanding at the date of first application, the options for extension and for early termination were appropriately assessed.



- for quantification of the right of use, practical expedients were used that allow:
 - impairment to be estimated by adjusting the RoU for the amount of allocations for onerous leases recognised in financial statements in accordance with IAS 37 in the period immediately preceding the transition date;
 - the exclusion of initial direct costs from the RoU measurement.

The assessment conducted through the analysis of contracts, interviews and submission of questionnaires made it possible to identify the assets to be included in the IFRS 16 scope of application.

In particular, lease contracts for operating property were included in the scope of IFRS 16.

With reference to other types of assets, the following is specified:

- the intragroup contract between Consorzio Operativo Gruppo Montepaschi (COG) and the Bank, concerning the consortium services provided and billed monthly by COG to MPS, was excluded from the scope of IFRS 16, as it does not concern the supply of identified goods as required by the standard.
- contracts relating to automobiles mainly refer to long-term leases of cars (office cars and fringe benefits for employees) and are considered in scope when present;
- contracts relative to assets such as personal computers, fixed telephones, multi-functional printers, and ATMs were determined to be out of the standard's scope, as they are owned by the Bank.

On 7 June 2017, IASB published **IFRIC 23 “Uncertainty over Income Tax Treatments”**, which clarifies how to apply the requirements for recognition and measurement of IAS 12 when there is uncertainty on the treatment of income tax.

In this case, for the purposes of recognition and measurement of current and deferred tax assets/liabilities in accordance with IAS 12, taxable profits/losses, taxable bases, unused tax losses, unused tax credits and tax rates are determined based on the interpretation provided by IFRIC 23.

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

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

If it is deemed probable that a specific tax treatment will be accepted, the entity must determine the taxable income, taxable bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment included in the tax return.

However, if the entity considers its acceptance to be unlikely, it must reflect the effect of the uncertainty in determining the tax components using one of the following methods:

- the most likely amount, which identifies the most likely amount within a range of possible results;
- the expected amount, which is based on the weighted sum of probable values within a range of possible values.

The decision must be based on the method that provides greater guarantee of resolving the uncertainty.

Moreover, the entity must review the judgements and estimates if the facts and circumstances change.

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



On 12 October 2017, IASB published “**Amendments to IFRS 9: Prepayment Features with Negative Compensation**”. The amendments aim to clarify the classification of certain financial assets that can be repaid in advance when IFRS 9 is applicable. In particular:

- for financial assets, they allow the measurement at amortised cost or, depending on the business model, at fair value through other comprehensive income, of those loans that, in the event of early repayment, assume a payment by the lender (negative compensation payment);
- for financial liabilities at amortised cost, they contain a clarification with regard to the accounting for a change that does not involve derecognition from financial statements. In these cases, it is envisaged that, at the date of the change, the amortised cost of the financial liability is adjusted, calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the effective interest rate, which is recognised in the income statement.

The amendments were endorsed by the European Commission on 26 March 2018 with Regulation no. 2018/498 and shall apply as of 1 January 2019. Early application is permitted.

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

On 18 May 2017, IASB issued IFRS 17 “**Insurance Contracts**”, which sets out the principles for recognition, measurement, presentation and disclosure of the insurance contracts under the scope of the standard.

The objective of IFRS 17 is to ensure that significant information is provided, faithfully representing the contracts, in order to provide a basis for users of the financial statements to assess their effects on the entity’s financial performance and cash flows. On 14 November 2018, IASB decided to postpone the application of IFRS 17 for one year, that is, starting from 1 January 2022. The proposed deferral is still awaiting approval from the European Commission.

No direct impacts on the Bank’s operations are expected, as the Bank does not perform insurance activities.

On 12 October 2017, IASB issued “**Amendments to IAS 28: Long-Term Interests in Associates and Joint Ventures**”. The document, which is still in the endorsement process, clarifies that IFRS 9 must be applied to long-term loans to associates or joint ventures that are, essentially, part of the net investment in the associate or joint venture (but for which the entity does not use the equity method).

The amendments apply as of 1 January 2019; early application is permitted.

On 12 December 2017, IASB published the “**Annual Improvements to IFRS Standards 2015-2017 Cycle**”, which include amendments to IAS 12 “Income Taxes”, IAS 23 “Borrowing Costs”, IFRS 3 “Business Combinations”, and IFRS 11 “Joint Arrangements”. In particular:

- the amendments to IAS 12 clarify that the effects on taxation of dividends (as in the case of profit distribution) should be recognised in the income statement regardless of how the tax originates.
- the amendments to IAS 23 clarify that, 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.
- the amendments to IFRS 3 clarify that when the entity obtains control of a business that is already a joint operation, it recalculates the stake held in that business.
- the amendments to IFRS 11 clarify that when an entity obtains joint control of a business, already a joint operation, it does not recalculate the stake held in that business.

The amendments will become effective on 1 January 2019. However, early application is permitted.

On 7 February 2018, IASB issued “**Amendments to IAS 19: Plan Amendment, Curtailment or Settlement**”, which finalises certain specific questions submitted to IFRIC in 2015 regarding the calculation of service cost and net interest when the plan is re-measured. The amendments are effective from 1 January 2019 or later.

On 28 March, IASB published a revised version of “**Conceptual Framework**”. In particular, the definitions of assets and liabilities were revised and a new guidance on measurement, derecognition, presentation, and disclosure was provided. However, the new Conceptual Framework does not represent a substantial revision to the original document. IASB focused on topics that had not yet been addressed or for which there were clear regulatory gaps.

The amendments shall apply as of 1 January 2020. However, their early application is permitted.

On 22 October 2018, IASB issued “**Amendments to IFRS 3: Definition of a Business**”, with the objective of resolving issues that arise when an entity determines if it has acquired a business or group of business activities.



In particular, the document:

- clarifies that, to be considered a business, a group of activities and assets acquired must include at least an input and a process that provide a significant contribution to the ability to produce outputs;
- eliminates the assessment of the ability of market operators to replace inputs or processes that are lacking to continue producing outputs;
- introduces guidelines and examples to assist entities in assessing whether a substantial process has been acquired;
- restricts the definition of business and outputs, focusing on assets and services provided to customers and eliminating the reference to the capacity to reduce costs;
- introduces an optional concentration test, which simplifies the assessment of the possibility that an acquired group of activities and assets does not constitute a business.

The amendments are effective for business combinations for which the acquisition date is in effect or subsequent to the beginning of the first annual reporting period on or after 1 January 2020.

On 31 October 2018, IASB published amendments to IAS 1 “Presentation of Financial Statements” and IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”, which clarify the definition of materiality, aligning it with that used in the Conceptual Framework of IAS. According to IASB, information is material if its omission, misstatement, or ambiguity could reasonably influence the decisions of users of financial statements.

The amendments are effective from 1 January 2020 or later. Their early application is permitted.

A.2 – The main items of the accounts

Accounting standards

This chapter contains the accounting standards in relation to the main assets and liabilities in the balance sheet, which were adopted to prepare the Bank’s financial statements as at 31 December 2018.

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

a) classification criteria

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

- debt securities and loans that are included in an Other/Trading business model (hence, not associated with the “Held to collect” or “Held to collect and Sell” business models) or that did not pass the SPPI test;
- equity instruments that cannot be classified as representing control, affiliation, or joint control, held for trading purposes or for which, upon initial recognition, the fair value through other comprehensive income option was not chosen;
- units of UCITS;
- derivative contracts, recognised in financial assets held for trading, that are recognised as assets if the fair value is positive, or liabilities if the fair value is negative.

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



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

- a) Financial assets held for trading
Assets are classified as held for trading purposes if they are managed with the objective of generating cash flows through their sale, as they are:
 - acquired or incurred primarily for the purpose of selling or repurchasing them in the short-term;
 - part of a portfolio of identified financial instruments that are managed on an individual basis and for which there is proven existence of a recent and effective strategy targeted at earning a profit in the short-term;
 - derivatives (with the exception of derivatives that represent a financial guarantee contract or designated and effective hedging instruments).
- b) Financial assets measured at fair value
Assets can be irrevocably designated at fair value at the time of initial recognition only when this designation eliminates or significantly reduces a measurement inconsistency (known as an accounting mismatch); This category is not used by the Bank at present;
- c) Other financial assets measured at fair value as per mandatory requirements
Other financial assets measured at fair value as per mandatory requirements represent a residual category and include:
 - debt securities, loans and receivables, when: i) the relative contractual cash flows do not represent solely payments of principal and interest on the residual capital (Solely Payment of Principal and Interest - SPPI test failed), or ii) are not held as part of a business model whose objective is the ownership of assets for purposes of collecting contractual cash flows (“Held to collect” business model) or those whose objective is achieved either by collecting contractual cash flows or by selling financial assets (“Held to collect and Sell” business model);
 - equity securities held for purposes other than trading for which the option of classification at fair value through other comprehensive income is exercised.

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

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

b) recognition criteria

Initial recognition of debt securities and equity securities occurs at the settlement date. For loans and receivables, as well as derivatives, recognition in financial statements occurs on the date of disbursement.



Upon initial recognition, financial assets measured at fair value through profit and loss are recognised at fair value, which usually corresponds to the amount paid, without considering transaction costs or revenues directly attributable to the instrument, which are directly recognised in the income statement.

c) measurement criteria

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

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

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

d) revenue recognition criteria

Gains and losses arising from any changes in the fair value of a financial assets held for trading are recognised in the income statement under item “80 - Net trading income (expenses)”, while gains and losses from the change in financial assets measured at fair value and those measured at fair value as per mandatory requirements, including the results of the fair value measurements of these assets and liabilities, are booked to the income statement under item “110 - Net profit/loss from financial assets and liabilities measured at fair value through profit and loss”, in the sub-items “a) financial assets and liabilities measured at fair value” and “b) other financial assets measured at fair value as per mandatory requirements”, respectively.

e) derecognition criteria

Financial assets are derecognised from financial statements: i) upon expiration of the contractual rights on the cash flows resulting from the assets or ii) when the financial assets are sold and all related risks/benefits are transferred.



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

a) classification criteria

This category includes:

- financial assets represented by debt instruments, managed under a “Held to collect and Sell” business model⁶, whose contractual flows represent solely payments of principal and interest on the residual capital (Solely Payment of Principal and Interest - SPPI - test passed);
- financial assets represented by equity instruments, held under a non-trading business model, for which, on first-time recognition, the option for the recognition in the statement of comprehensive income of changes in fair value after first-time recognition in the financial statements (OCI election) has been irrevocably exercised.

In particular, the following are included in this item:

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

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

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

b) recognition criteria

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

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

c) measurement criteria

Financial instruments represented by debt instruments, following initial recognition, continue to be measured at fair value, with recognition in the income statement of interest (based on the effective interest rate method), expected credit losses (for more details please refer to the paragraph “Impairment” in this section), and any exchange rate changes. Fair value changes, net of expected credit losses, are booked to the appropriate equity reserve net of the associated tax effect (item “110 - Valuation

⁶ Financial instruments held within the framework of a business model whose objective is achieved through both the collection of cash flows and sale of said instruments can be associated to the Held to Collect & Sell Business Model.



reserves”). Upon full or partial disposal, the cumulative gain or loss in the valuation reserve is reversed, all or in part, to the income statement.

Financial assets represented by equity instruments, following initial recognition, continue to be measured at fair value, with changes booked to the appropriate equity reserve net of the associated tax effect (item “110 - Valuation reserves”). The amount recognised as an offsetting entry in shareholders’ equity (Statement of Comprehensive Income) cannot subsequently be transferred to the income statement, even following a sale; in this case, the amount is reclassified in another equity item (item “140 - Reserves”). Furthermore, no write-down to the income statement is envisaged for these assets as they are not subject to any impairment process. The only component of these equity securities that is recognised in the income statement is represented by the related dividends.

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

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

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

For more detailed information, please refer to the subsequent section “Methods for calculating impairment on IFRS 9 financial instruments”.

d) revenue recognition criteria

As regards financial instruments represented by debt instruments:

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

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



e) derecognition criteria

Financial assets are derecognised from financial statements: i) upon expiration of the contractual rights on the cash flows resulting from the assets or ii) when the financial assets are sold and all related risks/benefits are transferred.

3 Financial assets measured at amortised cost

a) classification criteria

Financial assets represented by debt instruments, managed under a “Held to collect” business model⁷, whose contractual flows represent solely payments of principal and interest on the residual capital (Solely Payment of Principal and Interest - SPPI test passed) are included in this category.

The portfolio of financial assets measured at amortised cost includes the entire loan portfolio (in the various technical forms, including repurchase agreements, stipulated with either banks or customers), managed under a “Held to collect” business model, net of loans that fail the SPPI test and which, consequently, are classified in the portfolio of financial assets measured at fair value as per mandatory requirements.

This category also includes debt securities, predominantly government bonds, managed as part of a “Held to collect” business model as well as operating receivables connected with providing financial assets and services as defined in the Consolidated Law on Banking and the Consolidated Law on Finance (e.g., for distribution of financial products and servicing activities).

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

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

b) recognition criteria

Financial assets are initially recognised on the date of settlement for debt instruments, and on the date of disbursement, with reference to loans and receivables; the following are included in said item;

- loans to banks;
- loans to customers.

The initial value is determined on the basis of the fair value of the financial instrument, normally equal to the amount disbursed, inclusive of the expenses/income directly related to the individual instrument and determinable as of the transaction date, even if such expenses/income are settled at a later date.

⁷ Financial instruments held within the framework of a business model whose objective is ownership of said instruments for the purpose of collecting cash flows can be associated with the “Held to Collect” business model.



This does not include costs which have these characteristics but are subject to repayment by the debtor or which can be encompassed in ordinary internal administrative expenses.

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

c) measurement criteria and revenue recognition criteria

Following initial recognition, financial assets booked to this category are measured at amortised cost, which results in the recognition of interest based on the effective interest rate criterion *pro-rata temporis* throughout the duration of the loan. This interest is recorded under item “10 - Interest income and similar revenues”.

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

- principal repayments;
- amortisation – calculated using the effective interest rate method – of the difference between the amount disbursed and the amount repayable upon maturity, typically attributable to the costs/income directly charged to each receivable;
- gains/losses from contractual changes without cancellation recognised in the income statement under item “140 - “Gains/losses from contractual changes without cancellation”.

The amortised cost method is not used for short-term receivables, for which the effect of applying a discounting logic is negligible. Similar valuation criteria are adopted for receivables with no specific maturity or subject to revocation.

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

The book value of financial assets at amortised cost is adjusted to take into account any provision to cover expected losses (expected credit losses). For each reporting period, the aforementioned assets are subject to impairment testing with the aim of estimating expected losses in value for credit risk (ECL - Expected Credit Losses). These losses are recorded in the income statement under item “130 - Net impairment (losses)/reversals for credit risk”. Total or partial reversals of write-downs made in previous years are handled similarly.

More specifically and as better explained in the paragraph “Use of estimates and assumptions when preparing financial statements - Methods for calculating impairment on IFRS 9 financial instruments”, the impairment model classifies the assets into three separate stages (stage 1, stage 2, stage 3), according to trends in the borrower’s creditworthiness, each of which has different criteria for measuring expected losses:

- stage 1: includes performing financial assets for which there has been no significant increase in credit risk with respect to the initial recognition date, or for which credit risk is considered low. Impairment is based on an estimate of expected loss over a one-year time horizon (expected loss that would result from default events on financial assets that are deemed possible within one year of the reference date);
- stage 2: includes performing financial assets that have incurred a significant increase in credit risk with respect to the initial recognition date; Impairment is assessed according to an estimate of expected loss over the entire residual life of the financial asset;
- stage 3: represents non-performing financial assets (probability of default equal to 100%), to be assessed based on an estimate of expected loss over instrument’s life.

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



For non-performing assets, i.e., assets for which, in addition to a significant increase in credit risk, objective evidence of impairment has been found, impairment losses are quantified based on an analytical or lump-sum measurement process by homogeneous risk categories - aimed at determining the present value of expected future recoverable cash flows, discounted using the original effective interest rate.

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

The expected cash flows include forecasts for collection timing and the presumed net realisable value of any guarantees.

For fixed-rate positions, the original effective rate used to discount the expected cash flows from collection, calculated as described above, remains unchanged over time even if there is a change in the contractual rate due to the borrower’s financial difficulties.

For floating-rate positions, the rate used to discount cash flows is updated for indexing parameters (e.g., Euribor), while keeping the fixed spread at the original level.

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

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

Lastly, for non-performing exposures, accrued interest is calculated based on amortised cost, i.e., using the value of the exposure - calculated with the effective interest rate - adjusted for expected losses. For non-performing exposures that do not accrue contractual interest, such as bad loans, this interest corresponds to write-backs associated with the discounting of collection forecasts, as the effect of the simple passage of time.

d) derecognition criteria

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

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

With regard to non-performing financial assets, the asset may be derecognised following the acknowledgement of the non-recoverability of the exposure and the resulting closure of the collection process (definitive derecognition), and entails the reduction of the nominal value and of the gross book value of the loan. This case occurs when settlement agreements have been reached with the borrower



that entail a reduction in the loan (resolution agreement) or in the presence of specific situations such as, for example:

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

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

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

Lastly, these financial assets may also be derecognised following reclassification into the category “Financial assets measured at fair value through other comprehensive income” and “Financial assets measured at fair value through profit and loss”; for more detailed information, please refer to the discussion under classification criteria above.

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



4. Hedging transactions

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

a) classification criteria – types of hedging

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

The following types of hedging are included:

- fair value hedges, which are intended to hedge the exposure to changes in fair value of a recognised asset or liability that are attributable to a particular risk; These include generic fair value hedges (macro-hedges) having the objective of reducing fluctuations in fair value due to interest rate risk, of a monetary amount, arising from a portfolio of financial assets and liabilities (including core deposits). Generic hedges cannot be used to cover net amounts resulting from the offsetting of assets and liabilities.
- cash flow hedges, which are intended to hedge the exposure to variability in future cash flows attributable to particular risks associated with a recognised asset or liability or a transaction that is deemed highly likely;
- hedges of a net investment in a foreign operation, which refers to hedging the risks of an investment in a foreign operation denominated in a foreign currency.

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

To conclude the chapter on the accounting principles, a specific section is added to provide further insight into the application issues and policies adopted by the Bank with regard to hedging transactions. The hedging policies adopted by the Bank are explained, also including the “natural hedges” provided for by the Fair Value Option, used as an alternative to hedge accounting in the accounting management of liability hedges.

b) recognition criteria

Hedging derivatives are initially recognised at fair value on the date the contract is stipulated.

c) measurement criteria and revenue recognition criteria

Hedging derivatives are measured at fair value. In particular:

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



(e.g., sale or early repayment), the fair value portion not yet amortised is immediately recognised in the income statement under the item “Net profit (loss) from hedging”.

With regard to generic fair value hedging transactions (macro-hedges), changes in fair value of the hedged risk of assets and liabilities subject to hedging are recorded in the balance sheet, respectively, under item “60 - Value adjustments to financial assets subject to macro-hedging” or “50 - Value adjustments to financial liabilities subject to macro-hedging”. If a generic fair value hedging relationship is suspended, the cumulative revaluations/write-downs recorded in the aforementioned balance sheet items are charged to the income statement in interest income or expense over the residual life of the original hedging relationship, provided that the base assumptions are satisfied and verified;

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

Hedge effectiveness depends on the extent to which changes in the fair value or expected cash flows of the hedged item are offset by corresponding changes in the hedging instrument. Therefore, effectiveness is measured by comparing said changes, while taking into account the company's intent at hedge inception.

With reference to the hedged risk, the hedging is effective (within the 80% to 125% window) when the changes in fair value (or in the cash flows) of the hedging instrument offset the changes in the hedged item almost entirely.

Effectiveness is assessed at year-end by using:

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

Derivatives which are considered as hedging instruments from an economic viewpoint because they are operationally linked with financial liabilities measured at fair value (Fair Value Option) are classified among trading derivatives; the respective positive and negative differentials or margins accrued until the end of the reporting period are recognised, in accordance with their hedging purpose, as interest income and interest expense, while valuation gains and losses are posted under income statement item “80 Net profit (loss) from trading”

d) derecognition criteria

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

In addition, the hedging relationship ceases when:

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



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

5 Equity investments

a) classification criteria

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

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

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

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

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

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

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

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

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

Companies subject to significant influence are considered associates. It is assumed that the company exercises significant influence in all cases in which it holds at least 20% of the voting rights (including



“potential” voting rights) and, regardless of the interest held, if the company has the power to participate in management and financial decisions of the investee, by virtue of specific legal connections, such as shareholder agreements, with the purpose for the agreement’s participants to ensure representation in management bodies and to ensure management unity, without having control.

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

b) recognition criteria

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

c) measurement criteria and revenue recognition criteria

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

Should the recoverable value be less than its carrying value, the difference is recognised immediately in the income statement under item “220 - Gains (losses) on investments”.

Should the reasons for impairment no longer apply as a result of an event occurring after the impairment was recognised, reversals of impairment losses are credited to the same account in profit and loss.

The profit related to the equity investments is booked to the income statement of the Bank regardless of whether it was generated by the investee before or after the date of purchase.

If there is a situation that results in loss of control, significant influence or joint control, any residual equity investment is reclassified in the IFRS 9 financial asset portfolios, based on the relative fair value and gains and losses with respect to the previous book value are recorded in the income statement.

d) derecognition criteria

Investments are derecognised upon maturity of the contractual rights on the cash flows resulting from the assets or when the financial assets are sold and all related risks/rewards are transferred.

6 Property, plant and equipment

a) classification criteria

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

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

The item also includes property, plant and equipment classified according to IAS 2 “Inventories”, mainly relating to assets acquired for the purposes of enhancing the value of the investment, including through restructuring or redevelopment works, with the explicit intention of selling them in the immediate future,



as part of the normal course of business, including assets deriving from the enforcement of guarantees received or from auction purchases.

Furthermore, property, plant and equipment includes those assets associated with finance lease contracts that were returned to the company following contract termination and the simultaneous closure of the original credit position. This item also includes any assets used in financial lease contracts, although their legal ownership rests with the leasing company, and any improvements and incremental expenses incurred in relation to third-party assets when they refer to identifiable and separable property, plant and equipment from which future economic rewards are expected.

b) recognition criteria

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

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

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

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

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

c) measurement criteria and revenue recognition criteria

Property, plant and equipment, including non-operating real estate and with the exception of those to which IAS 2 applies, are valued at cost less any accrued depreciation and impairment.

They are systematically depreciated over their useful life on a straight-line basis, except for land and works of art which have an indefinite useful life and cannot be depreciated. The useful life of the fixed assets subject to depreciation is periodically reviewed and, in the event of any adjustments to the initial estimate, a change is also made in the related depreciation rate. The depreciation rates and subsequent useful life expected for the main categories of assets are reported in the specific sections of the notes to the financial statements.

The presence of any signs of impairment, or indications that assets might have lost value, shall be tested at the end of each reporting period.

Should there be indications of impairment of value, a comparison is made between the book value of the asset and the asset's recoverable value, i.e. the higher of the fair value, less costs to sell, and the value in use, which is the present value of the future cash flows generated by the asset. Any adjustments are posted to the income statement under item “180 - Net adjustments to/recoveries on property, plant and equipment”. Periodic depreciation is reported in the same item.

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



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

d) derecognition criteria

Property, plant and equipment are derecognised from the balance sheet upon their disposal or when the assets are permanently withdrawn from use and no future economic rewards are expected as a result of their disposal. Gains and losses deriving from the disposal or sale of property, plant and equipment are calculated as the difference between the net sale price and the book value of the asset and are recorded in the income statement on the same date in which they are eliminated from the accounts.

7 Intangible assets

a) classification criteria

Intangible assets are identifiable, non-monetary assets without physical substance that are held for use over several years or indefinitely.

b) recognition criteria

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

Relevant intangible assets for the Bank include:

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

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

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

c) measurement criteria and revenue recognition criteria

The cost of an intangible fixed asset with definite useful life is amortised on a straight-line basis over the useful life. An intangible asset with indefinite useful life should not be amortised but the book value is periodically assessed for impairment. Intangible assets arising from internally developed software and



software purchased from third parties are amortised on a straight-line basis starting from completion and roll-out of the applications based on their useful life. Intangible assets reflective of customer relationships, which are taken over during business combinations, are amortised on a straight-line basis.

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

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

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

d) derecognition criteria

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

8 Non-current assets held for sale and discontinued operations

a) classification criteria

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

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

b) measurement criteria and revenue recognition criteria

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

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

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

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



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

c) derecognition criteria

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

9 Current and deferred tax

a) recognition criteria

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

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

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

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

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

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

For a description of the specific methodology of the probability test, please refer to the notes to these financial statements, paragraph 10.7 of Section 10 - Part B – Information on the balance sheet.

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

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

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



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

1. for deferred tax assets relating to goodwill, other intangible assets newly recognised in financial statements from 2016 onwards are excluded from the regulations pursuant to art. 2 - paragraphs 55 *et seq.* - of Law Decree 225/2010,
2. for deferred tax assets relating to loan write-downs, from 2016 onwards, the accounting assumption for recognition in financial statements has ceased and these write-downs are entirely deductible in the accounting period. Note that the 2019 financial manoeuvre (Law no. 148 of 30 December 2018) recently repealed the full deductibility of loan write-downs recognised in financial statements (in 2018 for the Bank) upon first-time application of IFRS 9, exclusively following the adoption of the model for recognising the provision to cover expected losses (ECL), providing for the deductibility (IRES and IRAP) of these write-downs on a straight-line basis over 10 years; it was, however, explicitly stated that the relative DTAs recorded in financial statements as a result, although referring to write-downs on loans to customers, cannot be converted into tax credits pursuant to Italian Legislative Decree 225/2010.

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

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

Deferred tax assets and liabilities are calculated using the tax rates expected at the date on which the temporary differences are reversed, on the basis of the provisions in force at the reporting date. Any changes in tax rates or tax standards having a significant effect on deferred tax assets and liabilities that are issued or announced after the reporting date and before the publication authorisation date are treated as events after the balance sheet date that do not entail an adjustment pursuant to IAS 10, with the resulting disclosure in the notes.

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

b) classification and measurement criteria

Deferred tax assets and liabilities are systematically measured to take account of any changes in regulations or tax rates and of any different subjective situations of the Bank or Group companies. The charges which might result from already notified tax assessments or litigation pending with the tax authorities are instead recognised in “Net provisions for risks and charges”.

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



c) revenue recognition criteria

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

10 Provisions for risks and charges

Provisions for risks and charges: commitments and guarantees issued

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

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

Provisions for risks and charges: post-employment benefits

The sub-item "Provision for risks and charges: b) post-employment benefits" includes appropriations, recognised based on IAS 19 "Employee Benefits", for the purpose of closing the technical deficit of defined benefit supplementary pension funds. Pension plans are either defined benefit or defined contribution schemes. The charges borne by the employer for defined contribution schemes are pre-determined; charges for defined benefit plans are estimated and shall take account of any shortfall in contributions or poor investment performance of defined benefit plan assets. For defined benefit plans, the actuarial values required by the application of the above standard are determined by an external actuary in accordance with the Projected Unit Credit Method. Actuarial gains and losses, defined as the difference between the book value of the liability and the present value of commitments at the end of the year, are recognised for the full amount in the statement of comprehensive income, under item "110 - Valuation reserves". For further details, please refer to the following paragraph "16 - Other information - Severance pay and other employee benefits".

Provisions for risks and charges: other provisions

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

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

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



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

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

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

11 Financial liabilities measured at amortised cost

a) classification criteria

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

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

b) recognition criteria

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

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

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

c) measurement criteria and revenue recognition criteria

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

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



d) derecognition criteria

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

In compliance with the provisions of IAS 32, any potential commitment to buy treasury shares as a result of the issuance of put options is shown in the balance sheet under financial liabilities, offset by the reduction of shareholders' equity in the amount of the current value of the contractual repayment sum. At the end of 2018, there were no put options sold on treasury shares of the Bank.

12 Financial liabilities held for trading

a) classification criteria

This item includes:

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

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

b) recognition criteria

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

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

c) measurement criteria

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

For a description of criteria used to determine the fair value of financial instruments, please see section “A.4.3 Fair Value Hierarchy” of this Part A.

d) revenue recognition criteria

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

e) derecognition criteria

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



13 Financial liabilities measured at fair value

a) classification criteria

According to IFRS 9, this category includes financial liabilities for which, upon initial recognition, the option of measurement at fair value through profit and loss was chosen; this option is allowed when:

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

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

The Bank has exercised this option in relation to case 1, classifying under this item financial liabilities that are subject to “natural hedging” through derivative instruments. In section 16 “Other information”, a specific paragraph is included to provide insight into the hedging management methods through the adoption of the fair value option.

b) recognition criteria

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

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

c) measurement criteria and revenue recognition criteria

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

- in item “110 - Valuation reserves”, for the portion related to the change in fair value that is attributable to changes in the issuer’s creditworthiness, unless this creates or increases an accounting mismatch in the profit (loss) for the year, in which case the entire change in fair value of the liability must be charged to the income statement; Effects associated with the change in own creditworthiness are recorded in the statement of comprehensive income, net of the related tax effect, along with the other income components that will not be reversed to the income statement. The amount charged to the specific equity reserve will never be reversed to the income statement, even if the liability expires or lapses; in this case, the cumulative gain



(loss) in the specific valuation reserve is reclassified to another shareholders' equity item ("140 - Reserves");

- in the income statement under item "110 - Net profit (loss) from financial assets and liabilities measured at fair value through profit and loss", for the portion of the fair value change not attributable to changes in own creditworthiness.

For a description of criteria used to determine the fair value of financial instruments, please see section "A.4.3 Fair Value Hierarchy" of this Part A.

e) derecognition criteria

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

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

14 Foreign-currency transactions

a) recognition criteria

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

b) revenue classification, measurement, recognition and derecognition criteria

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

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

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

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

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

15 Insurance assets and liabilities

The Bank does not carry out insurance activities.



16 Other information

Other financial statement items

Cash and cash equivalents

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

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

Change in value of macro-hedged financial assets and liabilities

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

Other assets

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

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

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

Other liabilities

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

It includes, for example:

- payment agreements that must be classified as debit entries according to IFRS 2;
- debit entries connected with payment for provision of non-financial goods and services;
- accrued liabilities other than those to be capitalised for the respective financial liabilities, including those deriving from contracts with customers pursuant to IFRS 15;
- sundry tax liabilities other than those recognised under item “60 - Tax liabilities”, associated, for example, with substitute tax assets.



Severance pay and other employee benefits

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

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

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

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

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

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

Valuation reserves

This item includes valuation reserves relating to the equity securities measured at fair value through other comprehensive income, financial assets (other than equity securities) measured at fair value through other comprehensive income, hedges on foreign investments, cash flow hedges, exchange rate differences for conversion, “individual assets” and groups of assets held for sale, the portion of valuation reserves for investments measured according to the equity method, actuarial gains (losses) on defined



benefit plans, and profits/losses for changes in own creditworthiness in relation to liabilities under the fair value option. Valuation reserves recorded in application of special revaluation laws are also included, even if they are subject to tax “relief”.

Share capital and Treasury shares

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

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

Other significant accounting practices

Revenue from Contracts with Customers (IFRS 15)

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

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

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

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

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

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

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

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



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

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

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

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

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

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

Finally, costs related to obtaining and fulfilling contracts with customers are recorded in the income statement in the periods in which the corresponding revenues are recognised; costs that do not have direct association with revenues are immediately recognised in the income statement.

Revenue and costs for financial instruments

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



- a) interest is booked *pro rata temporis* based on the contractual interest rate or effective interest rate if amortised cost is applied; negative income components accrued on financial assets are booked to item “20 - Interest expenses and similar charges”; the positive income components accrued on financial liabilities are booked to item “10 - Interest income and similar revenues”. Interest income (or interest expense) also includes the spreads or margins, positive (or negative), accrued up to the reporting date, in relation to financial derivative contracts:
- hedging assets and liabilities that generate interest;
 - classified in the balance sheet in the trading book, but operationally linked to financial assets and/or liabilities measured at fair value (fair value option);
 - connected operationally with assets and liabilities classified in the trading book and which entail the settlement of differentials or margins over several maturities;
- b) interest on arrears is posted to the income statement only upon actual collection;
- c) dividends are shown in the income statement upon resolution of their payout, i.e. when their payment is due;
- d) commissions for service income are posted in the period when said services were rendered, on the basis of existing contractual agreements. The commissions considered in the amortised cost for purposes of calculating the effective interest rate are recorded in interest;
- e) gains and losses following initial recognition at fair value, as determined by the difference between the transaction price and the fair value of the instrument, are booked to the income statement when the transaction is recorded if the fair value can be determined with reference to parameters or recent transactions observable on the same market in which the instrument is traded; otherwise, they are distributed over time, taking into account the duration and the nature of the instrument.
- f) gains and losses from the sale of financial instruments are recognised in the income statement when the sale is finalised, with the relative transfer of risks and benefits, based on the difference between the consideration received and the book value of the instruments themselves. Portfolio management fees are recognised based on the duration of service.

Share-based payments

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

- rights to subscribe paid share capital increases (stock options);
- rights to receive shares upon achieving certain objectives.

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

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

Business combinations

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

A business combination may give rise to an investment link between the acquiring Bank and the acquired subsidiary. In these cases, the acquiring entity applies IFRS 3 to the consolidated financial statements while posting the acquired interest to its separate financial statements as an equity interest in a subsidiary, consequently applying IAS 27 “Separate financial statements”.



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

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

Identification of the acquirer

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

Determination of the cost of the business combination

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

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

Purchase Price Allocation

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

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

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

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

- the sum of:



- the cost of the business combination;
- the amount of any non-controlling interests as described above;
- the fair value of any equity interests previously held by the acquirer;
- the fair value of identifiable net assets acquired, including contingent liabilities.

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

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

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

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

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

Combinations of jointly controlled businesses

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

Amortised cost

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

The effective interest rate is the rate which equates the present value of a financial asset or liability with the future contractual payments or collection cash flows until maturity or a subsequent price recalculation date. To calculate the current value, the effective interest rate is applied to estimated future collection or



payment flows over the entire useful life of the financial assets or liabilities – or for a shorter period if certain conditions are met (for example, a change to market rates).

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

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

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

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

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

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

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

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

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

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



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

Purchased or originated credit impaired (POCI) financial assets

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

In relation to POCIs, there are two different types:

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

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

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

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

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

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

Renegotiations

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



In general, changes to a financial asset result in its derecognition and to the recording of a new asset when these changes are “substantial”. The determination of the “substantiality” of the change is made by considering only qualitative elements. In particular, renegotiations are considered substantial when they introduce specific objective elements that affect the characteristics and/or cash flows of the financial instrument (e.g., change in the denomination currency, introduction of indexing on equities or commodities) in consideration of the significant expected impact on the original cash flows, or that are made in relation to customers that are not experiencing financial difficulties, with the aim of adjusting the contract’s cost to the current market conditions. In the latter case, note that, if the Bank does not allow a renegotiation of contractual conditions, the customer would have the opportunity to obtain funding from another intermediary, with resulting loss in the revenue streams envisaged in the renegotiated contract. In other words, for a commercial renegotiation, the Bank would not have any loss to be recorded in the income statement as a result of the realignment to the best current market conditions for its customers. Instead, for renegotiations considered to be substantial, the gross value is recalculated by determining the present value of cash flows resulting from the renegotiation, based on the original rate of the exposure prior to the renegotiation. The difference between this gross value and the gross book value prior to the change is recorded in the income statement as a profit or loss from contractual changes without derecognition (or “accounting adjustment”). In the case of non-substantial renegotiations, the modifications granted to counterparties experiencing financial difficulties (concessions of forbearance measures) are attributable to the Bank's attempt to maximise the recovery of the original exposure, whose risks and benefits continue to be borne by the Bank. Exceptions are made for changes that introduce substantial objective elements in the contract that can themselves lead to the derecognition of the financial asset, as previously described.

Accounting for hedge transactions – adoption of the Fair Value Option

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

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

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

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

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

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



considering all of the loan's risk factors, including the credit risk, and the fair value obtained considering the same factors, excluding the change in own credit risk that occurred during the period.

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

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

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

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

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

Contributions to deposit guarantee systems and resolution mechanisms

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

- a) annual contributions from banks, in order to reach the target level of fund resources established by the regulation;
- b) extraordinary contributions from banks when ordinary contributions are insufficient to support approved resolution interventions.

Both types of contribution are subject to interpretation IFRIC 21 "Levies", as the contribution obligations are based on legislative provisions. Based on this interpretation, a liability should be recognised when the "obligating event" takes place which triggers the payment obligation. The balancing entry of that liability is represented by income statement item "160 - Administrative expenses - (b) other administrative expenses", as the conditions are not met for the recognition of an intangible asset pursuant to IAS 38 "Intangible assets", or for the recognition of an asset for a prepayment. The same treatment is applied to "*ex ante*" contributions made to the Italian Interbank Deposit Protection Fund within the scope of Directive 2014/49/EU "Deposit Guarantee Schemes" (DGS).



Other matters

Classification criteria for financial assets

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

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

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

Business model

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

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

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

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

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

In summary, the business model:

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



- must be determined by considering the methods by which financial assets are managed.

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

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

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

- frequency is defined as the percentage ratio between the number of positions sold (ISIN or relationships) during the observation period and the total positions in the portfolio present at the beginning of the observation period (and is considered to be equal to zero if the number of securities at the beginning of the period is less than a certain amount);
- significance is defined as the percentage ratio between the nominal value of sales and the total nominal value of instruments in the portfolio present at the beginning of the observation period.

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

SPPI test

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

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

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

- principal is understood as the fair value of the financial asset at its initial recognition;
- interest is the consideration for the time value of money, for the credit risk associated with the principal over a given period of time, for other risks and costs associated with the basic risks of a lending transaction, and for the profit margin.

In basic lending arrangements, the value of interest must depend exclusively on the time value of money and on the credit risk associated with the principal over a given period of time. Whenever contractual terms introduce other elements, it is no longer possible to consider that asset as solely generating cash flows in terms of principal and interest. This could happen, for example, when the cash flows come from non-recourse financial assets. The cash flows of these financial assets may involve not only interest payments and principal repayments, since the remuneration is linked to specific business activities. In this regard, the owner of the asset must assess, using the look-through approach, whether or not its



instruments pass the SPPI test. For example, when the entity has non-recourse financial assets, whose cash flows depend on the performance of an element of the issuer's equity (e.g., net income), the possibility of amortised cost or FVOCI measurement must be excluded.

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

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

IFRS 9 defines two cases in which the time value of money can be considered changed (modified time value of money) or when the relationship between the passage of time and the interest rate is considered imperfect. One case occurs when the asset's interest rate is periodically recalculated, but the frequency of this recalculation or the frequency of the payment does not correspond to the nature of the interest rate. This can happen, for example, when variable interest payments are made on a monthly basis and, at the beginning of each month, the interest rate is determined using the 1-year Euribor rate: the monthly interest rate is determined in reference to an interest rate calculated annually, and therefore, under a different time horizon. In these cases, the accounting standard introduces the need to make a comparison between cash flows deriving from the financial asset being measured and cash flows deriving from a financial asset considered identical in terms of credit risk and duration, but for which the monthly interest is calculated based on the monthly Euribor. The other case of imperfect correlation between the passage of time and the time value of money occurs when the asset's interest rate is periodically restated based on an average of particularly short or medium/long-term rates. For example, when a financial asset provides for the payment of interest every three months, based on the average three-month Euribor interest rate in the quarter preceding the one to which the interest refers.

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

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

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

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

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

- the underlying assets must contain one or more financial assets that generate cash flows consisting exclusively of interest payments and principal repayments. Furthermore, the presence



- of supporting financial instruments, such as derivatives, is permitted only if they serve to reduce the volatility of the relative cash flows;
- the exposure to credit risk relating to a given tranche must be equal to or less than the risk exposure attributable to the underlying financial instruments.

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

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

Use of estimates and assumptions when preparing financial statements.

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

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

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

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

In summary, note that:

- a) for the allocation in the three credit risk stages envisaged in IFRS 9 for loans and debt securities classified as “Financial assets measured at amortised cost” and “Financial assets measured at fair value through other comprehensive income”, and the calculation of the expected losses, the main estimates concern:
 - o determination of the parameters of significant increase in credit risk, based essentially on models for measuring the probability of default (PD) at the origination of financial assets and at the reporting date;
 - o inclusion of forward-looking elements, including macroeconomic, for calculating PD, EAD, and LGD;



- for calculating expected future cash flows from non-performing loans, certain elements are taken into account: expected repayment schedule, expected realisable value of any collateral, costs expected to be incurred for collection of the credit exposure, and finally, the probability of sale for positions that have a disposal plan;
- b) for calculating the value in use of intangible assets with indefinite life (goodwill) with reference to the cash generating units (CGUs) that make up the Bank, future cash flows for the forecast period and cash flows used to determine the terminal value generated by the CGUs are estimated separately and are appropriately discounted. The cost of capital is included in the estimates;
- c) for calculating the fair value of financial instruments not listed on active markets, if it is necessary to use parameters that cannot be inferred from the market, the main estimates concern, on one hand, the development of future cash flows (or also profits for equity securities), possibly contingent upon future events and, on the other, the level of certain input parameters not listed on active markets;
- d) for quantifying retirement funds and similar obligations, the present value of the obligations is estimated, taking into account the cash flows, appropriately discounted, resulting from the historical statistical analysis and the demographic curve;
- e) for quantifying provisions for risks and charges, the amount of disbursements necessary to satisfy the obligations is estimated, where possible, taking into account the effective probability of having to make use of resources;
- f) for calculating the items related to deferred taxation, the probability that taxes will effectively be incurred in the future (temporary taxable differences) and the degree of reasonable certainty - if any - of future taxable profits at the time the taxes can be deducted is estimated (temporary deductible differences).

For points a) and b), please refer to the subsequent chapters “Methods for calculating impairment on IFRS 9 financial instruments”, “Methods for calculating impairment on equity investments” and “Methods for calculating impairment on other non-financial assets”; as regards point c), please refer to the description in paragraph A.4.3 “Fair value hierarchy”. The actual technical and conceptual solutions adopted by the Bank are analysed and further described in the individual sections of the notes to the balance sheet and income statement, describing the contents of the individual financial statement items. With regard to point f), please refer to section 10 under assets in the Notes to the financial statements “Tax assets and liabilities”; for the cases referred to in points d) and e), please refer to section 10 under liabilities in the Notes to the financial statements “Defined benefit company pension funds” and part E of Notes to the financial statements, section 5 “Operational risks”.

“Methods for calculating impairment on IFRS 9 financial instruments”

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

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

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



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

- Stage 1: includes performing exposures that have not undergone a significant change in credit risk with respect to the initial recognition. The value adjustments correspond to the expected losses related to the verification of default in the 12 months following the reporting date.
- Stage 2: includes performing exposures whose creditworthiness has been affected by a significant change in credit risk, but for which the losses are not yet observable. Adjustments are calculated considering the lifetime loss of the instrument;
- Stage 3: includes all non-performing loans, i.e. non-performing exposures that present objective evidence of deterioration and which must be adjusted by using the lifetime expected loss concept⁸.

Financial assets considered as impaired since their acquisition or origin (POCI - purchased or originated credit impaired), are an exception to the above, whose accounting treatment will be discussed in the subsequent paragraph dedicated to this topic.

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

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

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

In addition, Bank of Italy regulations, in line with EBA standards, introduced the definition of “forborne exposures”. This concerns, in particular, exposures benefiting from tolerance measures, which consist of concessions granted to the borrower, in terms of modification and/or refinancing of a pre-existing loan, exclusively because of, or to prevent, a state of financial difficulty that could have negative effects on the borrower’s ability to fulfil the contractual commitments originally assumed, and that would not have been granted to another borrower with a similar risk profile not in financial difficulty. These concessions must be identified at the level of the individual credit line and may relate to exposures of borrowers classified either in the performing or the non-performing (impaired) status. For exposures

⁸ The valuation is statistical for positions with a balance of under EUR 0.5 mln and analytical, carried out by managers, for positions above said threshold.



with forbearance measures classified as unlikely to pay, the recovery to a position of performing can only take place after at least one year has elapsed from the time the concession was granted (known as the “cure period”) and all the other conditions provided for in paragraph 157 of the EBA ITS are satisfied.

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

Impairment of performing financial assets

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

- where these indicators are found, the financial asset transfers to stage 2. In this case, the assessment requires that impairment is recognised equal to the expected losses over the entire residual life of the financial instrument, consistent with the provisions of international accounting standards and even if a loss in value has not yet occurred. These adjustments are reviewed at each subsequent reporting date both to periodically check that the continuously updated loss estimates are consistent, as well as to take into account - in the event that indicators of a “significantly increased credit risk” no longer exist - of the change in forecast horizon for calculation of expected loss;
- where none are found, the financial asset remains in stage 1. In this case, the assessment requires that impairment is recognised equal to the expected losses of the financial instrument over the next twelve months, consistent with the provisions of international accounting standards and even if a loss in value has not yet occurred. These adjustments are reviewed at each subsequent reporting date both to periodically check that the continuously updated loss estimates are consistent, as well as to take into account - in the event that indicators of a “significantly increased credit risk” are identified - of the change forecast horizon for calculation of expected loss;

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

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

With particular reference to the relative quantitative criterion applicable to credit exposures with customers, the Bank has determined as a reference the change between the lifetime forward-looking cumulative probability of default (PD), calculated at the beginning of the contractual relationship and the probability of default recorded at the measurement date. In developing the model, specific internal



thresholds of variation were identified between the PD at the beginning of the contractual relationship and the PD recognised at the valuation date, broken down by counterparty, initial rating class and vintage. If these thresholds are exceeded, it signifies a significant increase in credit risk and the resulting transfer of the individual credit line from stage 1 to stage 2. The comparison is based on the homogeneous residual durations⁹ and on homogeneous PD models, for example, if the definition of default changes over time, the original lifetime forward-looking cumulative PD is recalculated to take account of said new definition of default. Cumulative PDs subject to comparison are based on the same model used for ECL purposes (e.g. definition of PIT (Point in Time) PD, macroeconomic scenarios, expected life/contractual life). In order to obtain a unique classification result, use is made of a cumulative PD resulting from the weighted average of the cumulative PDs calculated for the individual prospective scenarios using the probabilities of the scenarios as weights. The threshold of significance is determined by historically measuring, through quantile regression analysis by cluster, that level of ratio, between the lifetime forward-looking cumulative PD at the reporting date and that at the origination date, which may be considered predictive of the classification as NPE¹⁰. The threshold is determined so as to minimise so-called false positives and false negatives and maximise true positives and true negatives.

For debt securities that do not have investment-grade ratings, the relative quantitative criterion is based on the variation in lifetime forward-looking cumulative PD between the reporting date and the origination date above a certain threshold. For corporate issuers, the multi-year PD curve is the corporate one estimated entirely by the Bank; for government issues, the multi-year PD curve is the one prepared on the basis of the Moody's matrix of 1-year defaults of government bonds. Cumulative PDs subject to comparison are based on the same model used for ECL purposes (e.g. definition of PIT (Point in Time) PD and macroeconomic scenarios). In order to obtain a unique classification result, use is made of a cumulative PD resulting from the weighted average of the cumulative PDs calculated for the individual prospective scenarios using the probabilities of the scenarios as weights. The exposures are classified into stage 2 if the ratio between the lifetime forward-looking cumulative PD at the reporting date and that of the origination date exceeds a given threshold of significance equal, both for corporate bonds and government bonds, to that used for corporate exposures in the form of loans.

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

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

Once the assignment of exposures into the various credit risk stages has been defined, the expected losses (ECL) are calculated, at the level of individual transaction or security tranche, starting from IRB/management modelling, based on the parameters of Probability of Default (PD), Loss Given

⁹ Therefore, the valuation at 31/12/T of the significant increase in credit risk of a thirty-year mortgage disbursed on 31/12/T-5 is carried out by comparing the lifetime forward-looking cumulative PDs over the residual life of 25 years.

¹⁰ The classification as NPE is measured over multi-year time horizons.



Default (LGD), and Exposure at Default (EAD), to which appropriate adjustments are made, in order to ensure compliance with the specific requirements of IFRS 9, given the different requirements and purposes of the accounting rules compared to prudential regulations.

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

PD (Probability of Default): likelihood of transferring from a performing status to that of non-performing over a one-year time horizon. In models consistent with supervisory provisions, the PD factor is typically quantified through the rating. In Banca MPS, PD values derive from internal rating models where available, supplemented by external valuations or average data for segment/portfolio;

LGD (Loss Given Default): percentage of loss in the event of loss. In models consistent with supervisory provisions, this factor is quantified using historical data on actual recoveries of loans that transferred to non-performing status;

EAD (Exposure At Default) or credit equivalent: amount of exposure at the time of default.

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

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

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

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

Starting from this expected loss relating to each scenario, the expected loss is determined as the average of the relative losses weighted for the likelihood of occurrence of each scenario. This approach permits any non-linearity in the relationship between macroeconomic factors, risk parameters, and expected loss to be considered.

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



Impairment of non-performing financial assets

As described earlier in the document, for non-performing financial assets, which are assigned a probability of default of 100%, the impairment amount for each loan is equal to the difference between the loan book value at the time of measurement (amortised cost) and the present value of estimated future cash flows, calculated by applying the original effective interest rate (or a proxy if not available). Cash flows are estimated based on expected recovery expectations over the lifetime of the loan, taking into account the presumed realisable value net of any collateral.

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

- bad and unlikely to pay loans with exposures less than or equal to an established significance threshold of EUR 500 thousand;
- total non-performing past due exposures regardless of the exposure’s significance threshold. In particular, these are loans that show continuous overdrawn situations or delayed payments, automatically identified by the Bank’s IT procedures, according to the aforementioned rules of the supervisory authority.

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

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

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

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



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

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

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

The Restructuring Plan approved in 2017 by the European Commission envisages that in the four-year period 2018-2021, the Bank will undertake a major reduction in exposures classified as default, to be realised through sale transactions.

This programme represents a qualifying constraint of the Restructuring Plan, for which the Bank, in order to accelerate the process of reducing non-performing loans as specifically requested by the supervisory authority, has declared that it is willing to incur higher costs compared to the ordinary collection scenario, which will continue in parallel for portfolios of non-performing loans that are not subject to the sale programme, as well as those of performing loans (stages 1 and 2), with the primary objective of optimising the economic/financial profiles of work-out activities.

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

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

To calculate the add-ons, the Bank considers the following elements:

- selection of the portfolios that are presumed to be sold. The perimeter includes positions with a certain attractiveness on the market, indicated by the fact that other banks have already carried out sales and expressions of interest that have already been received, as well as additional positions resulting from assessments of economic benefit performed by the Bank's competent bodies (e.g., presence of extended bad loans or high danger rate);
- probability of sale: the probability of assignment was assumed to be 80% for all the portfolios subject to mass sales in the past. The fairness of this estimate is demonstrated by the fact that the finalisation of a portfolio sale, for example of bad loans, depends exclusively on the gap between the Bank's expectations and the best offer received; since expectations are linked to market prices, the probability of success was quantified at a high threshold because of an insignificant expected gap. For loans classified as unlikely to pay, the probability of sale was determined based on the success rate observed by the Non-Performing Loans Department on transactions carried out and effectively completed in recent years, appropriately increased to take into account the more constrained context in which the planned sales for the Restructuring Plan are implemented;
- sale prices: derived from mass transactions on similar portfolios and single names made by the Group or from transactions carried out on the market in recent years.



Methods for calculating impairment on equity investments

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

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

For listed equity investments:

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

For listed and unlisted equity investments:

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

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

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

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

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

Methods for calculating impairment on other non-financial assets

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



including cost and revenue growth rates, which in turn depend on changes in the real economy, customer behaviour, competition and other factors.

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

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

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Transparency obligations as part of regulations on public disbursements

Italian Law no. 124/2017 “Annual Law on the Market and Competition” introduced new measures (art. 1, paras. 125 to 129) aimed at ensuring transparency in the public disbursement system, as part of the larger context of regulations designed to guarantee transparency in financial relations between public entities and other parties, some originating in Europe and others domestically. The regulation introduces transparency obligations for parties that receive public disbursements, providing that the companies that have received grants, contributions, paid assignments, and, in any case, economic benefits of any kind from public administrations and other similar parties must - starting from 2018 - indicate the amounts received in the notes to the financial statements and notes to the consolidated financial statements.

Failure to comply with this disclosure obligation would result in the amounts being returned to the disbursing party.

Italian Law no. 12 of 11 February 2019, which converted the “simplification decree” (Law Decree no. 135 of 14 December 2018), introduced an important change: with art. 3-*quater*, para. 2, a link was created between the obligations envisaged in Law no. 124/2017 and the regulations for the National Register for State Aid, with the intention of simplifying publication burdens, envisaged in para. 125, borne by companies benefiting from State aid.

The disclosure burden in the financial statements of the companies elicited intense debate, including in relation to the numerous provisions already in place with the same purposes of transparency. Assonime, which had already highlighted several critical issues before the legislation was issued, emphasised in its Circular no. 5 of 22 February 2019 (hereinafter “Circular”) how, *“The link created with the simplification decree between the companies’ obligations pursuant to article 1, paragraph 125 and the Register’s regulations constitutes an important first step in a process of establishing the rules introduced by Law no. 124/2017, which, from the perspective of better regulation, would require some further regulatory simplification and coordination measures”*.

This circular proposed a possible interpretation for areas of greater ambiguity, in the hope that competent authorities may quickly define precise guidelines. In particular, in relation to the scope of application of the provisions of paragraph 125, which refers to “grants, contributions, paid assignments, and, in any case, economic benefits of any kind received”, Assonime believes that it is not required, pursuant to the aforementioned paragraph, to publish the amounts received by the company as consideration for public works, services, and supplies in the note to the financial statements. Furthermore, the reference to *paid assignments*, in the context of the business environment, *should be understood as referring exclusively to any assignments outside the typical exercise of their business activities*. Finally, for *grants, contributions and economic benefits of any kind*, the Circular states that the *general measures that can be used by all companies and that fall under the general structure of the reference system defined by the government must certainly be excluded from the publication requirement*. Similarly, the *mechanism aimed at facilitating reinvestment of profits envisaged by ACE (“Aiuto alla crescita economica” – Support for economic growth) does not constitute a selective benefit in relation to taxation*. Analogous considerations are also extended to those economic benefits that, although falling under the category of selective benefits, are received as part of an aid scheme and, as such, accessible to all companies. Therefore, for these benefits, the publication in the notes would not provide a significant contribution to disclosure, and the same applies to the tax incentives.



In order to avoid the collection of irrelevant information in the financial statements and to simplify disclosure requirements, as indicated above, art. 3-*quater*, para. 2, of Law Decree no. 135/2018 introduced the possibility for companies not to indicate the state aid they had received in the notes, by making an explicit reference to the National Register for State Aid. Despite the simplification, the regulations contained in art. 1, paras. 125-129 of Law no. 124/2017 still presents numerous critical issues and various application ambiguities that would make it necessary to provide interpretative clarifications and, in some aspects, amendments to the regulations.

Based on the above, note that, at the reporting date of these financial statements, the contributions received by the Bank for 2018 in relation to training activities totalling EUR 5.9 mln are present in the National Register for State Aid and publicly available in the “Individual Aid” Trasparenza section. For more details, please refer to the following link:

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

A.3 Information on portfolio transfers

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



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

Items	Fair value 31.12.2018			Type	Valuation technique(s)	Unobservable inputs	Range (weighted average)
	Financial assets measured at fair value through other comprehensive income	Financial assets measured at fair value mandatory	Financial assets held for trading				
Debt securities				Subordinated bond	Discounted Cash Flow	Fair value asset	13 €/mln
				Junior/tranche securitizations	Credit Model	Illiquidity spread	9%
		107,007	-	Junior tranche NPL securitizations	Discounted Cash Flow	SPV Asset value	594 €/mln
				Convertibles	Cost/Net equity	Credit Data (LGD/PD)	61%/100%
				Share/equity instruments	Credit Model	Future cash flows	8.5 €/mln
Equity instruments				Share/equity instruments	DCF Model	Illiquidity spread	9%
		740,33	234,169	Equity instruments	Discounted Cash Flow	Liquidity base \ equity risk premium \ Beta	20%/7%/0.5
				Equity instruments	Costo/Patrimonio Netto	Fair value asset	0-12.3 €/mln
				Side Pocket	External Pricing	NAV	0-0.3 €/mln
		13,123	X	Real estate closed-end Fund	Adjusted NAV	Fair value asset	10 €/mln
Units of UCITS				Closed-end fund		Fair value asset	2.3 €/mln
Loans				Loans	Discounted cash flow	NPE Spread	2% - 573%
		337,266	-	Loans	Discounted cash flow	LGD	0% - 68,3%
				Loans	Discounted cash flow	PD	0,09% - 31,6%
				Loans	Discounted cash flow	PE SPREAD	0,01% - 1,44%
Total Assets	-	531,429	234,169				
Total liabilities	X	X	X				



A.4.2 Measurement processes and sensitivity

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

The column “Other financial assets measured at fair value as per mandatory requirements”, for the item “Financial assets measured at fair value through profit and loss” in the “Debt securities” category, valued according to the Credit Model method, represents essentially two convertible bonds issued by the Sorgenia S.p.A. group (Sorgenia S.p.A. and Sorgenia S.p.A. Power) following the restructuring of its original debit position toward the Bank for a total amount of EUR 58.9 mln. The bonds are valued according to the credit models and the value obtained is not verifiable through market results. Defining the Probability of Default (PD) and the Loss Given Default (LGD) as non-observable parameters, the sensitivity of this position is defined as the loss deriving from the impact on these parameters of a (negative) change in the administrative status of the counterparty and is quantified at approximately EUR 3.6 mln. The same category includes participative equity instruments which were distributed to creditors as part of a loan restructuring transaction. In the valuation of securities, assumptions were made regarding the future cash flows generated by the issuer; this parameter was considered not observable and amounts to roughly EUR 8.5 mln.

The NPL securitisation position in the junior tranche, equivalent to a nominal value of EUR 22 mln, was measured based on the estimated value of the assets and liabilities of the issuing vehicle. It is estimated that a fluctuation in these values may have an impact on the value of the note of EUR -2.3 mln. The position for the “Casaforte” securitisation is also in the junior tranche, whose sensitivity to the non-observable parameter in the measurement, or the liquidity risk premium, came to approximately EUR -0.3 mln for each percentage point.

The last element in the “Debt securities” category is the exposure to the IDPF Voluntary Scheme, amounting to EUR 13.4 mln, as the portion attributable to the Bank in the planned intervention for Cassa di Risparmio di Genova (to subscribe subordinated securities).

The column “Financial assets measured at fair value as per mandatory requirements” also includes loans (EUR 337.3 mln) that are required to be measured at fair value, as the contractual cash flows do not exclusively provide for the repayment of principal and payment of interest on the principal to be repaid (i.e., do not pass the “SPPI test”), either by virtue of clauses originally envisaged in the contract or following subsequent amendments. The fair value is calculated using the Discounted Cash Flow approach, applied in a different manner depending on whether they are performing or non-performing loans: in the former case, the contractual cash flows are discounted with a risk-adjusted curve that incorporates risks that affect the cost of credit, cost of funding, and capital; in the latter case, the recoverable value is discounted by applying a spread to include risks inherent in a possible sale on the market. The unobservable parameters are Probability of Default (PD), Loss Given Default (LGD) and the different spreads for performing and non-performing assets. The change in these parameters, of 5%, -10%, -1%, and -1%, respectively, would have an impact on fair value of approximately EUR -14 mln.

Equity securities measured at fair value through other comprehensive income through the Discounted Cash Flow method mainly include the shareholding in Bank of Italy (EUR 187.5 mln). The shareholding was measured with the methodology identified by the Committee of Experts in the document “Revaluation of shareholdings in the Bank of Italy”. This document not only details the valuation techniques adopted to reach the end result, but identified the market beta of the equity risk premium and the cash flow base to be used for cash flow discounting as the parameters on which to make entity-specific assumptions. During valuation, the intervals of the possible values that can be assigned to these parameters cause the following changes in value: roughly EUR -27 mln for every 100 bps increase in the equity risk premium, around EUR -44 mln for every 10 percentage point increase in the market beta and roughly EUR -29 mln for every 10 percentage point increase in the cash flow base.

This category also includes equity securities representing all investments designated at fair value that could not be measured according to a market-based model. These positions amount to approximately EUR 47 mln.



Note the nearly total write-down of the contribution to the IDPF Voluntary Scheme, in relation to Cassa di Risparmio di Cesena, with the residual balance sheet amount of EUR 1.2 mln, in “Other financial assets measured at fair value as per mandatory requirements”.

Another position in equity securities is represented by the SFPs of Perimetro S.C.p.A, whose sensitivity to the non-observable parameter in the measurement, or the liquidity risk premium, came to approximately EUR -6.4 mln for each percentage point.

The units of UCITS measured with external pricing are hedge fund side pockets, whose price quotes by the asset management companies are deemed non-verifiable. For this reason, the sensitivity of these positions is considered to be equal to their entire book value (approx. EUR 0.7 mln).

This category also includes the total contributions to the Atlante Fund for approximately EUR 10.0 mln. The value of this last position takes into account the fund's residual assets after the write-off of the two main equity investments in the fund's assets (BPVI and Veneto Banca). In addition, there continues to be a position of approximately EUR 2.3 mln in the Rainbow Reserved Closed-End Real Estate Investment Fund by way of “acceptance in return” as part of a loan restructuring operation.

A.4.3 Fair value hierarchy

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

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

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

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

Level 1

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

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

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

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

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



Levels 2 and 3

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

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

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

Level 2 inputs are as follows:

- a) quoted prices on active markets for similar assets or liabilities;
- b) quoted prices for the instrument in question or for similar instruments on non-active markets, i.e. markets where:
 - there are few transactions;
 - the prices are not current or they vary substantially over time and between the different market makers
 - little information is made public;
- c) observable market inputs other than quoted prices (e.g. interest rates or yield curves observable in different buckets, volatility, credit curves, etc.);
- d) inputs that derive primarily from observable market data, the reporting of which is confirmed by parameters such as correlation.

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

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

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

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

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

The processes used to measure level 3 instruments are based on a shared analysis of the types of instruments and underlying risk parameters by the Bank's Business functions and Risk Management. The analysis is completed with the formulation of a pricing model and/or a model for determining non-observable market inputs, which is subject to final validation by Risk Management. At different time intervals depending on the type of instruments (though commonly on a monthly basis) on the back of directly observable market inputs, the Bank's business functions proceed with determining the non-observable market inputs and measuring instruments of level 3. The Risk Management function, based



on a shared methodological approach, proceeds with the final validation of fair value. In support of this activity and with a view to ensuring an adequate level of auditability, assessment data sheets have been introduced and are updated on a six-monthly basis for individual instruments classified in level 3, which contain a brief description of the instrument, pricing methods adopted and details about inputs used for fair value measurement.

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

A.4.4 Other information

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

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



Qualitative information

A.4.5 Fair value hierarchy

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

Asset and liabilities measured at fair value	31 12 2018				31 12 2017*			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
1. Financial assets measured at fair value through profit and loss of	99,879	1,920,757	531,428	2,552,064	117	901,181	-	901,298
a) Financial asset held for trading	99,879	700,689	-	800,568	117	901,181	-	901,298
Financial assets designated at fair value	-	-	-	-	-	-	-	-
c) other financial assets measured at fair value mandatory	-	1,220,068	531,428	1,751,496	-	-	-	-
2. Financial assets measured at fair value through other	9,781,797	517,194	234,169	10,533,160	14,236,701	284,596	499,448	15,020,745
3. Hedging derivative	-	257,676	-	257,676	-	333,295	-	333,295
Total assets	9,881,676	2,695,626	765,597	13,342,899	14,236,818	1,519,072	499,448	16,255,338
1. Financial liabilities held for trading	-	623,032	-	623,032	-	802,507	-	802,507
2. Financial liabilities designated at fair value	-	370,200	-	370,200	-	415,215	-	415,215
3. Hedging derivative	-	907,617	-	907,617	-	833,623	-	833,623
Total liabilities	-	1,900,849	-	1,900,849	-	2,051,345	-	2,051,345

* The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9; in addition, the comparative data were reclassified on the basis of the new accounting statements set forth in the 5th update of Bank of Italy Circular 262.

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

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

The fair value of some financial assets, particularly the bonds for approx. EUR 388 mln, worsened during the year from level 1 to level 2. This was essentially due to worsening of the liquidity conditions of the securities (measured in terms of bid-ask spread of the listed price), leading to the level transfer, in accordance with the Group's policy on the valuation of financial instruments.

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

The impact of the CVA as at 31 December 2018 amounted to EUR -13.2 mln.

The Bank calculates the value adjustment of OTC derivatives in a mirror image fashion and on the same perimeter to take into account its creditworthiness, Debit Value Adjustment (DVA). As at 31 December 2018, the DVA amounts to a total of EUR 7.1 mln.



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

	Financial assets measured at fair value through profit and loss			Financial assets measured at fair value through other comprehensive income
	Total	of which: a) financial assets held for trading	of which: c) financial assets measured at fair value mandatory	
1. Opening balance	705,776	-	705,776	241,590
2. Increases	54,400	-	54,400	1,369
2.1 Purchase	41,383	-	41,383	-
2.2 Profit posted to:	3,849	-	3,849	1,353
2.2.1 Profit and Loss	3,849	-	3,849	-
- of which capital gains	3,849	-	3,849	-
2.2.2 Equity	-	X	-	1,353
2.3 Transfers from other levels	-	-	-	-
2.4 Other increases	9,168	-	9,168	16
3. Decreases	228,749	-	228,749	8,790
3.1 Sales	62,038	-	62,038	872
3.2 Redemptions	-	-	-	-
3.3 Losses posted to:	153,448	-	153,448	5,029
3.3.1 Profit and Loss	153,448	-	153,448	-
- of which capital losses	153,448	-	153,448	-
3.3.2 Equity	-	X	-	5,029
3.4 Transfers to other levels	-	-	-	2,800
3.5 Other decreases	13,263	-	13,263	89
4. Closing balance	531,427	-	531,427	234,169

* The initial balance includes the effects of first-time adoption of the new IFRS 9, described in the paragraph "Transition to the IFRS 9 and IFRS 15 accounting standards".

The amount reported in the column "Other financial assets measured at fair value as per mandatory requirements" corresponding to the line item:

- "2.1 Purchases" amounting to EUR 41.4 mln, contains: the junior tranche of the securitisation of the Group's bad loans (Siena NPL for EUR 22.2 mln), the investment in the IDPF Voluntary Scheme for subscription of the Carige subordinated loan (EUR 13.8 mln), and the call for additional shares by the Atlante Fund (EUR 3.8 mln);
- "2.3.1 Profits charged to the income statement - of which gains" of EUR 3.8 mln refer to gains on loans for EUR 2.0 mln;
- "3.1 Sales" of EUR 62.0 mln refers to the sale during 2018 of loans classified as unlikely to pay;
- "3.3.1 Losses charged to the income statement - of which losses" of EUR 153.4 mln refer to write-downs during the year on SFP Perimetro Gestioni Immobiliari shares (EUR 102.7 mln) and non-performing loans (EUR 49.2 mln);
- "2.4 Other increases" and "3.5 Other decreases", equal to EUR 9.2 mln and EUR 13.3 mln respectively, refer almost entirely to new and settled loans during the year.

The amount reported in the column "Financial assets measured at fair value through other comprehensive income" corresponding to the line item "3.4 Transfers to other levels", equal to EUR 2.8 mln, refers to an equity security that was upgraded in the fair value hierarchy, from level 3 to level 2, following the change in the measurement technique: a budget analysis in 2017 versus a market-oriented technique in 2018.



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

This table was not completed as the Bank has did not have any liabilities measured at fair value on a recurring basis (level 3) during the year.

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

Financial asset/liabilities not measured at fair value or measured at fair value on a non-recurring basis	31 12 2018					31 12 2017*	
	Book value	Level 1	Level 2	Level 3	Total Fair value	Book value	Total Fair value
Loans to banks	101,603,299	4,151,249	30,939,019	68,988,577	104,078,845	96,400,902	99,270,376
Property, plant and equipment held for investment	219,660	-	-	249,730	249,730	235,477	265,018
Non-current assets and groups of assets held for sale	71,683	-	-	228	228	3,600,131	3,590,469
Total	101,894,642	4,151,249	30,939,019	69,238,535	104,328,803	100,236,510	103,125,863
Deposits from customers	109,733,725	7,061,825	102,339,937	-	109,401,762	113,347,177	113,649,507
4. Liabilities associated to disposal groups held for sale	-	-	-	-	-	-	-
Total	109,733,725	7,061,825	102,339,937	-	109,401,762	113,347,177	113,649,507

* The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9; in addition, the comparative data were reclassified on the basis of the new accounting statements set forth in the 5th update of Bank of Italy Circular 262.

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

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

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

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

As at 31 December 2018, the items measured in the financial statements at fair value on a non-recurring basis refer to the assets held for sale, in accordance with IFRS 5, attributable to loans classified as "Other financial assets measured at fair value as per mandatory requirements" that will be sold.

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



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

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



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ASSETS

Section 1- Cash and cash equivalents - Item 10

1.1 Cash and cash equivalents: breakdown

	Total 31 12 2018	Total 31 12 2017
a) Cash	897,757	998,678
b) Demand deposits with central banks	36,586	3,085,270
Total	934,343	4,083,948

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



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

2.1 Financial assets held for trading: breakdown

Voci/Valori	Total 31 12 2018				Total 31 12 2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
A. Balance-sheet assets								
1. Debt securities	99,818	105	-	99,923	10	102	-	112
1.1 Structured securities	-	-	-	-	-	-	-	-
1.2 Other debt securities	99,818	105	-	99,923	10	102	-	112
2. Equity instruments	61	-	-	61	102	-	-	102
3. Units of UCITS	1	-	-	1	5	-	-	5
4. Loans	-	-	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-	-	-
4.2 Others	-	-	-	-	-	-	-	-
Total (A)	99,880	105	-	99,985	117	102	0	219
B. Derivatives								
1. Financial derivatives:	-	693,387	-	693,387	0	896,491	-	896,491
1.1 held for trading	-	603,942	-	603,942	0	798,662	-	798,662
1.2 fair value option	-	89,445	-	89,445	-	97,829	-	97,829
1.3 Others	-	-	-	-	-	-	-	-
2. Credit derivatives:	-	7,196	-	7,196	-	4,588	-	4,588
2.1 held for trading	-	7,196	-	7,196	-	4,588	-	4,588
2.2 fair value option	-	-	-	-	-	-	-	-
2.3 Others	-	-	-	-	-	-	-	-
Total (B)	-	700,583	-	700,583	-	901,079	-	901,079
Total (A+B)	99,880	700,688	-	800,568	117	901,181	0	901,298

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

The increase of EUR 99.8 mln shown in line 1.2 “Cash assets – Other debt securities” in the column Level 1 refers to positions in government securities acquired by the Bank in 2018.

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

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

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

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

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

Items /Amounts	Total 31 12 2018	Total 31 12 2017*
A. Balance sheet assets		
1. Debt securities	99,923	112
a) Central banks	-	-
b) Public entities	99,818	-
c) Banks	-	-
d) Other financial companies	105	100
of which: insurance companies		
e) Non-financial companies		
2. Equity instruments	61	102
a) Banks	-	7
b) Other financial companies	4	15
of which: insurance companies	-	4
c) Non-financial companies	57	80
d) Other issuers:	-	-
3. Units of UCITS	1	5
4. Loans	-	-
Total (A)	99,985	219
B. Derivatives		
a) Central counterparties	-	n.d.
b) Others	700,583	n.d.
Total (B)	700,583	901,079
Total (A+B)	800,568	901,298

* The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9; in addition, the comparative data were reclassified on the basis of the new accounting statements set forth in the 5th update of Bank of Italy Circular 262

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

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

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



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

Items	Total 31 12 2018			
	Level 1	Level 2	Level 3	Total
1. Debt securities	-	1,118,588	107,007	1,225,595
1.1 Structured securities	-	33,249	95,650	128,899
1.2 Other debt securities	-	1,085,339	11,357	1,096,696
2. Equity instruments	-	-	74,033	74,033
3. Units of UCITS	-	101,479	13,123	114,602
4. Loans	-	-	337,266	337,266
4.1 Repurchase agreements	-	-	-	-
4.2 Others	-	-	337,266	337,266
Total	-	1,220,067	531,429	1,751,496

Line 1.2 “Other debt securities” includes a total of EUR 1,088.3 mln in asset-backed securities issued by Casaforte, of which Class A for EUR 892.2 mln, Class B for EUR 193.1 mln and Class Z for EUR 3.0 mln. In particular, with regard to the first two types of exposures, as part of the broader project aimed at restructuring the “Chianti Classico” transaction, on 26 and 27 September 2018, the Bank first acquired all Class A and Class B notes held by subsidiary MPS Capital Services S.p.A. and subsequently promoted an all-inclusive voluntary public tender offer, completed in November 2018. As at 31 December 2018, the Bank respectively held 97.54% and 99.808% of the total Class A and Class B notes issued by the issuer.

Line 1.1 “Structured securities” includes:

- EUR 56.5 mln of securities referring to the mezzanine (EUR 33.2 mln) and junior (EUR 23.3 mln) tranches of the securitisation of the MPS Group’s bad loan portfolio (retention rule);
- EUR 58.9 mln in securities from a restructuring operation;
- EUR 13.4 mln for the contribution to the Voluntary Scheme of the FITD (Interbank Deposit Protection Fund) aimed at intervention in Banca Carige S.p.A. (through subscription of subordinated loans).

Line “2. Equity securities” includes EUR 69.9 mln referring to the equity instruments of Perimetro S.c.p.a. and EUR 1.2 mln referring to investments in the Voluntary Scheme, originally recognised for a total of EUR 51.5 mln (total cumulative write-down of EUR 50.3 mln).

Line 3 “Units of UCITS” contains the investment held in the shares of the Atlante Fund (level 3 column) for a value of EUR 10.1 mln, following total cumulative write-downs of EUR 39.6 mln.

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

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



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

Voci/Valori	Total 31 12 2018
1. Equity instruments	74,033
<i>of which: banks</i>	-
<i>of which: other financial companies</i>	1,559
<i>of which: non-financial companies</i>	72,474
2. Debt securities	1,225,595
a) Central Banks	-
b) Public Entities	-
c) Banks	13,425
d) Other financial companies	1,144,933
<i>of which: insurance companies</i>	-
e) Non-financial companies	67,237
3. Units of UCITS	114,602
4. Loans	337,266
a) Central Banks	-
b) Public Entities	-
c) Banks	-
d) Other financial companies	18,687
<i>of which: insurance companies</i>	-
e) Non-financial companies	280,332
f) Families	38,247
Total	1,751,496

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

- Sorgenia S.p.A. (EUR 36.1 mln)
- CISFI S.p.A. (EUR 10.1 mln)
- Compagnia Investimento e Sviluppo (EUR 3.8 mln)
- Marinella S.p.A. (EUR 5.5 mln)

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



2.6.a Units of UCITS: Breakdown by main categories

Categories / Amounts	Total 31 12 2018
Equity	-
Bonds	-
Balanced	-
Hedge Funds	1,030
Private Equity	74,944
Real estate	3,655
Others	34,973
Total	114,602

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

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

Items / Amounts	Total 31 12 2018				Total 31 12 2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
1. Debt securities	9,781,600	502,700	-	10,284,300	14,232,447	274,674	22,754	14,529,875
1.1 Structured securities	-	-	-	-	-	-	-	-
1.2 Other debt securities	9,781,600	502,700	-	10,284,300	14,232,447	274,674	22,754	14,529,875
2. Equity instruments	197	14,494	234,169	248,860	4,254	9,922	476,694	490,870
4. Loans	-	-	-	-	-	-	-	-
Total	9,781,797	517,194	234,169	10,533,160	14,236,701	284,596	499,448	15,020,745

* The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9; in addition, the comparative data were reclassified on the basis of the new accounting statements set forth in the 5th update of Bank of Italy Circular 262..

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

Line “1.2 Other debt securities” equal to approximately EUR 10.3 bn shows a decrease of approximately EUR 4.2 bn, predominantly due to the disposal of a number of positions in Italian government securities (around EUR 3 bn) and reclassifications upon first-time adoption of IFRS 9, (EUR 0,8 mln from the AFS ex IAS 39 portfolio to the portfolio of assets measured at amortised cost) in line with the provisions of the Business Model HTC adopted by the Bank since 1 January 2018.

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

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



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

Items / Amounts	Total 31 12 2018	Total 31 12 2017*
1. Debt securities	10,284,300	14,529,875
a) Central banks	-	-
b) Public entities	9,925,530	13,628,403
c) Banks	197,170	276,430
d) Other financial companies	66,888	295,206
of which: Insurance companies	-	-
e) Non-financial companies	94,712	329,836
2. Equity instruments	248,860	490,870
a) Banks	204,056	207,194
b) Other issuers:	44,804	283,676
- other financial companies	27,824	29,128
of which: Insurance companies	-	-
- non-financial companies	16,979	254,548
- others	-	-
4. Loans	-	-
Total	10,533,160	15,020,745

* The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9; in addition, the comparative data were reclassified on the basis of the new accounting statements set forth in the 5th update of Bank of Italy Circular 262.

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

- Restart S.r.L. (EUR 1 mln recognised entirely during the year);
- Gabetti Group (EUR 2.7 mln, of which EUR 0.3 mln during the year).



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

	Gross exposure				Value adjustments			Partial write-off (*)
	1 stage		2 stage	3 stage	1 stage	2 stage	3 stage	
	<i>of which: low credit risk instruments</i>							
Debt securities	10,284,550	10,147,414	7,246	6,851	10,087	130	4,130	
Loans	-	-	-	-	-	-	-	
Totale 31 12 2018	10,284,550	10,147,414	7,246	6,851	10,087	130	4,130	-
Totale 31 12 2017*	14,515,232	-	6,286	9,688	-	-	1,331	-
<i>of which: purchased or originated credit impaired financial assets</i>	X	X	-	-	X	-	-	

* Value to be presented for disclosure purposes

** The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9; in addition, the comparative data were reclassified on the basis of the new accounting statements set forth in the 5th update of Bank of Italy Circular 262.

The line Debt securities of the level three column includes a single position demoted to default during 2018: the gross value is indicated as the sum of the fair value as at the reporting date and the value adjustment as at the same date; in particular, the latter is equal to the expected credit loss recognised as an offsetting entry to item 130 b) of the income statement "Net impairment (losses)/reversals for credit risk of: b) financial assets measured at fair value through other comprehensive income".



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

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

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

At the reporting date, the item includes non-performing loans for an amount of EUR 1.8 mln (EUR 3.4 mln as at 31 December 2017).

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

The portfolio of "Loans to banks" includes loans and deposits, in addition to the unrestricted part of the compulsory legal reserve with the Bank of Italy which, at year end, amounted to EUR 6,507.6 mln (EUR 3,611.3 mln as at 31 December 2017). In accordance with regulations on average maintenance levels, the end-of-period balance of the compulsory reserve may be subject to substantial changes in relation to the Bank's contingent cash flow requirements.

Sub-item "B.1.3 Other loans – Other", totalling EUR 1,449.4 mln, includes security deposits of approximately EUR 1,029.1 mln.

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



Type of transaction/ Amount	Totale 31 12 2017*							
	Book value				Fair value			
	1 and 2 Stage	3 stage	of which: purchased or originated impaired financial assets	Total	L1	L2	L3	Total
A. Loans to central banks	3,631,339	-	-	3,631,339	-	3,631,339	-	3,631,339
1. Time deposits	20,000	-	-	20,000	X	X	X	-
2. Compulsory reserve	3,611,339	-	-	3,611,339	X	X	X	-
3. Reverse repurchase agreements	-	-	-	-	X	X	X	-
4. Others	-	-	-	-	X	X	X	-
B. Loans to bank	21,292,656	3,363	-	21,296,019	32,970	21,194,415	3,363	21,230,748
1. Loans	20,102,442	-	-	20,102,442	-	20,104,907	3,363	20,108,270
1.1 Current accounts and demand deposits	1,646,450	-	-	1,646,450	X	X	X	-
1.2 Time deposits	13,821,950	-	-	13,821,950	X	X	X	-
1.3 Other loans	4,634,042	3,363	-	4,637,405	X	X	X	-
- Reverse repurchase agreements	3,373,146	-	-	3,373,146	X	X	X	-
- Finance leases	-	-	-	-	X	X	X	-
- Others	1,260,896	3,363	-	1,264,259	X	X	X	-
2. Debt securities	1,190,214	-	-	1,190,214	32,970	1,089,508	-	1,122,478
2.1 Structured securities	-	-	-	-	-	-	-	-
2.2 Other debt securities	1,190,214	-	-	1,190,214	32,970	1,089,508	-	1,122,478
Total	24,923,995	3,363	-	24,927,358	32,970	24,825,754	3,363	24,862,087

* The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9; in addition, the comparative data were reclassified on the basis of the new accounting statements set forth in the 5th update of Bank of Italy Circular 262.



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

Type of transaction/ Amount	31 12 2018							
	Book value				Fair value			
	1 and 2 Stage	3 stage	of which: purchased or originated impaired financial assets	Total	L1	L2	L3	Total
Loans	60,304,239	5,666,632	45,201	65,970,871	-	-	68,945,130	68,945,130
1.1. Current accounts	4,957,714	991,218	3,251	5,948,932	X	X	X	X
1.2. Reverse repurchase agreements	-	-	-	-	X	X	X	X
1.3. Mortgage	42,738,210	3,696,496	17,263	46,434,706	X	X	X	X
1.4. Credit cards, personal loans and fifth-of-salary backed	738,004	35,958	-	773,962	X	X	X	X
1.5. Finance lease	-	-	-	-	X	X	X	X
1.6. Factoring	-	-	-	-	X	X	X	X
1.7. Other transactions	11,870,311	942,960	24,687	12,813,271	X	X	X	X
Of which trade receivables	13,521	-	-	13,521	-	-	-	-
Debt securities	6,795,621	-	-	6,795,621	4,128,553	2,491,800	41,614	6,661,967
1.1. Structured securities	-	-	-	-	-	-	-	-
1.2. Other debt securities	6,795,621	-	-	6,795,621	4,128,553	2,491,800	41,614	6,661,967
Total	67,099,860	5,666,632	45,201	72,766,492	4,128,553	2,491,800	68,986,744	75,607,097

'Loans to customers' also includes operating receivables for EUR 13.5 mln, other than those connected with the payment for the supply of non-financial goods and services, posted to "Other assets" in item 150 of the Assets, subject to the provisions pursuant to IFRS 9, paragraph 5.5.15 a) i).

The item also includes loans to Monte Paschi Fiduciaria for EUR 0.4 mln, for which, pursuant to IFRS 15.116, the certainty of the revenue may be considered as consolidated only following actual collection by the subsidiary from its customers.

The column impaired acquired or originated almost entirely comprises the granting of new loans to already non-performing counterparties. No business combinations were carried out during the year.

Line "2.2 Other debt securities", amounting to about EUR 6.8 bn, was up by EUR 5.6 bn as compared to 2017, mainly due to:

- approximately EUR 3 bn for Italian government securities acquired with the objective of operational matching of interest rate risk for the Bank's bond liabilities;
- EUR 2.2 bn in senior notes relative to the securitisation operation on the portfolio of bad loans of the MPS Group, signed by the Bank in the first half of 2018.

The line also includes bonds not listed in active markets issued mainly by regional public bodies, e.g. municipal bonds (it.: buoni ordinari comunali, BOC).

"Loans to customers" include loans disbursed with funds made available by the Government or by other public entities, with the Bank adopting partial or total risk. These funds are managed under the agreements signed by the Bank with Cassa Depositi e Prestiti (hereinafter CDP), in direct cooperation with ABI, and with regional financial institutions. In particular, the Bank participated in the agreements set up by ABI and CDP:

- to support the business sector. These activities aim to encourage the disbursement of loans, depending on the case, to small and medium-sized companies, essentially to ensure financial coverage of costs for investments and/or linked to requirements to increase working capital and purchase or lease operating assets. Loans to SMEs, which must have a term of over 12 months, and the relative contractual conditions, which are not subject to CDP funding, are the subject of independent negotiation between the interested parties. Loans to the final beneficiaries must be assigned as collateral to CDP.
- to support consumers. In this case, CDP provides funding aimed at encouraging access to secured mortgage loans by natural persons, on residential properties designated as the principal residence on a priority basis and to refurbishment and energy efficiency works. The terms and conditions of loans disbursed to private parties, which must have a term of between 10 and 30 years, are not subject to CDP funding and are the subject of independent negotiation between the parties, provided that use of the funding leads to an improvement in the financial conditions



offered to beneficiaries with respect to those normally applied by the Bank. Loans to the final beneficiaries must be assigned as collateral to CDP.

- in favour of the territory for natural disasters. With said initiatives, the funds made available by the CDP are allocated for subsidised loans to those impacted by the earthquakes of 2012 and 2016, and following the series of natural disasters (floods, snowfalls, sea storms, etc.) of 2013. The operational scheme envisages matching transactions between CDP/Bank and Bank/beneficiaries, with expected terms of 15/20/25 years. As reimbursement, the Bank accepts the tax credit specifically assigned to the beneficiary by the legislation, with discharging effect for the beneficiary, for the principal and interest of each instalment of the loan up to the final expiry date. The Bank uses said tax credits with the methods established by the Italian Revenue Agency, through a netting mechanism. The Bank/final beneficiary loans are backed by unconditional and irrevocable first-demand guarantee by the Italian government, fully reimbursing principal and interest. For the loans disbursed, no discretion by the Bank with respect to the beneficiary is envisaged, for reasons linked to creditworthiness or determination of the rate to apply.

Conversely, with regard to management of resources made available by specific Regional Laws, the Bank's operations refer to specific agreements stipulated with the regional financial institutions or to alternative instruments, such as the so-called "Rotation Funds", also established through regional laws. These loans are generally disbursed with part of the funding made available with public funds and part with the Bank's own resources (co-financing).

More specifically, the Bank's procedure to manage the aforementioned resources is the following:

- An agreement is in place with Veneto Sviluppo, which defines the characteristics for the granting of loans using the funds (prerequisites of companies, objectives, amounts, etc.), including the methods and amount of subsidies, and the maximum percentage that can be financed, in addition to the portion of funding borne by the entity. The Bank integrates the remainder with its own funds. The agreement requires the loan to be structured with two distinct amortisation plans and that the risk of insolvency be fully borne by the Bank, even for the part disbursed with public funds.
- The Bank participates in initiatives of the Friuli Venezia Giulia Region aimed at facilitating access to loans by local companies, establishing the so-called "Rotation funds", including the FRIE (Fondo di Rotazione per le Iniziative Economiche - Rotation Funds for Economic Initiatives), based on Regional Law 2/2012, and regional funds pursuant to Regional Law 80/82. Availability of these funds is designated for the granting of loans at special conditions, established by the Region and differentiated based on sector. Use of the available funds varies according to the initiative and sector financed: it is generally equal to 50% of the total investment amount. The Bank may integrate the portion not covered by public funds with its own funds, up to the total cost sustained by the company. In the case of co-financing, for transactions under Regional Law 80/82, the insolvency risk is fully borne by the Bank, while for transactions under Regional Law 2/2012, the Bank's credit risk is limited to 20%. As total compensation for management of the loans and of the credit risk, the Bank receives remuneration commensurate with a pre-established percentage, which differs based on the amount of the loan for both subsidised loan types (FRIE and Law 80/82). The disbursement of loans with funds under Regional Law 80/82 must be formalised with a single agreement but two distinct amortisation plans, while for the FRIE, formalisation takes place with only one single amortisation plan.
- Other agreements stipulated with Finlombarda envisage the disbursement of Bank-Entity co-financing loans in percentages that depend on the various initiatives:
 - "Al Via", aimed at sustaining new investments by Lombardy's SMEs; it envisages the disbursement of a loan with a part by the Bank and an equal part by the Entity, at a rate defined in the agreement for the Bank's portion and at a fixed rate for Finlombarda's portion.
 - "Linea Innovazione", aimed at sustaining investments for product or process innovation, through the granting, to companies operating in Lombardy, of Bank-Finlombarda co-financing, in conjunction with a contribution to interest; the disbursement of a loan with a part by the Bank and an equal part by the Entity, at a rate defined in the agreement for the Bank's portion and at a fixed rate for Finlombarda's portion is envisaged in this case as well.
 - "Credito Adesso", aimed at sustaining financial aid in favour of micro/small and medium-sized enterprises in the manufacturing, services and commerce sectors, to finance working capital requirements connected to the commercial expansion of companies operating in Lombardy. The initiative envisages the disbursement of medium-term loans, in the form of co-financing by the Bank and Finlombarda, to cover working capital requirements connected to commercial expansion: the portion of public funds made available by BEI through Finlombarda, is 40%, with the remaining 60% disbursed with the Bank's funds.
- The Bank has taken on the Framework Agreement function defined between ABI and Finpiemonte to manage the measures to facilitate the local economy. The facilitation measures also include co-financing between the Bank and Finpiemonte for specific initiatives. In general, initiatives may envisage subsidised loans with Finpiemonte funding, which in some cases reaches 80% (even at zero rate) and for the remainder with Bank funding at the interest rate defined by the agreement with the Entity. Credit risk for co-financing continues to be borne by the individual financing party for its portion.



Type of transaction/Amount	31 12 2017*							
	Book value				Fair value			
	1 and 2 Stage	3 stage	of which: purchased or originated impaired financial assets	Total	L1	L2	L3	Total
Loans	62,648,925	7,771,748	486	70,420,673	-	528,227	72,842,949	73,371,176
1.1. Current accounts	5,820,071	1,650,261	95	7,470,332	X	X	X	-
1.2. Reverse repurchase agreements	124,737	-	-	124,737	X	X	X	-
1.3. Mortgage	41,459,179	4,476,725	71	45,935,904	X	X	X	-
1.4. Credit cards, personal loans and fifth-of-salary backed	976,943	128,319	-	1,105,262	X	X	X	-
1.5. Finance lease	-	-	-	-	X	X	X	-
1.6. Factoring	-	-	-	-	X	X	X	-
1.7. Other transactions	14,267,995	1,516,443	320	15,784,438	X	X	X	-
Debt securities	1,052,871	-	-	1,052,871	127,653	870,841	38,619	1,037,113
1.1. Structured securities	-	-	-	-	-	-	-	-
1.2. Other debt securities	1,052,871	-	-	1,052,871	-	-	-	-
Total	63,701,796	7,771,748	486	71,473,544	127,653	1,399,068	72,881,568	74,408,289

4.3 Finance leases

This table was not compiled since the Bank had no finance leases to report for either the period under review or the previous year.



4.4 Financial assets measured at amortised cost: breakdown by borrower/issuer of loans to customers

Type of transaction/Amount	Totale 31 12 2018			
	1 and 2 stage	3 stage	of which: purchased or originated impaired financial assets	Total
1. Debt securities	6,795,621	-	-	6,795,621
a) Public entities	4,318,562	-	-	4,318,562
b) Other financial companies	2,407,004	-	-	2,407,004
of which: insurance companies	75,824	-	-	75,824
c) Non-financial companies	70,055	-	-	70,055
2. Loans to	60,304,239	5,666,632	45,201	65,970,871
a) Public Entities	1,980,579	118,782	-	2,099,361
b) Other financial companies	2,955,611	94,389	1,765	3,050,000
of which: insurance companies	55	3	-	58
c) Non-financial companies	23,547,675	3,562,447	35,796	27,110,122
d) Families	31,820,374	1,891,014	7,640	33,711,388
Total	67,099,860	5,666,632	45,201	72,766,492

Type of transaction/Amount	Totale 31 12 2017*			
	1 and 2 stage	3 stage	of which: purchased or originated impaired financial assets	Total
1. Debt securities	1,052,870	-	-	1,052,870
a) Public entities	332,781	-	-	332,781
b) Other financial companies	650,068	-	-	650,068
of which: insurance companies	430,112	-	-	430,112
c) Non-financial companies	70,021	-	-	70,021
2. Loans to	62,648,925	7,771,748	486	70,420,673
a) Public Entities	2,239,166	144,332	-	2,383,498
b) Other financial companies	4,088,054	202,804	-	4,290,858
of which: insurance companies	68	3	-	71
c) Non-financial companies	29,407,488	5,755,468	452	35,162,956
d) Families	26,914,217	1,669,144	34	28,583,361
Total	63,701,795	7,771,748	486	71,473,543

*The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9; in addition, the comparative data were reclassified on the basis of the new accounting statements set forth in the 5th update of Bank of Italy Circular 262.



4.5 Financial assets measured at amortised cost: gross value and overall value adjustments

	Gross exposure				Value adjustments			Partial write-off (*)
	1 stage		2 stage	3 stage	1 stage	2 stage	3 stage	
	of which:							
	low credit risk instruments							
Debt securities	8,034,735	7,343,493	-	-	6,394	-	-	-
Loans	78,469,870	-	9,925,439	11,634,746	59,873	428,943	5,966,280	139,960
Totale 31 12 2018	86,504,604	7,343,493	9,925,439	11,634,746	66,267	428,943	5,966,280	139,960
Totale 31 12 2017*	75,175,638	n.d	13,886,061	15,151,446	140,268	295,640	7,376,334	n.d
of which: purchased or originated credit impaired financial assets	X	X	14,561	59,036	X	551	27,845	-

* Value to be presented for disclosure purposes

**The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9; in addition, the comparative data were reclassified on the basis of the new accounting statements set forth in the 5th update of Bank of Italy Circular 262.

For financial assets included in the level three column, the gross value corresponds to the book value gross of the relative overall value adjustments, which are equal to the difference between the expected recovery value and the gross book value.



Section 5 - Hedging derivatives - Item 50

5.1 Hedging derivatives: breakdown by type of contract and underlying asset

	Fair value 31 12 2018				NV
	Level 1	Level 2	Level 3	Total	
A. Financial derivatives	-	257,676	-	257,676	8,795,425
1) Fair value	-	99,091	-	99,091	7,898,963
2) Cash flows	-	158,585	-	158,585	896,462
3) Foreign investments	-	-	-	-	-
B. Credit derivatives	-	-	-	-	-
1) Fair value	-	-	-	-	-
2) Cash flows	-	-	-	-	-
Total	-	257,676	-	257,676	8,795,425

Legend

NV = Notional or Nominal Value

The table displays the positive book value (fair value) of hedging derivatives for hedges carried out through hedge accounting.

Information on the underlying strategies and objectives of hedge transactions can be found in the Section “Market risks” of Part E “Information on Risks and hedging policies”.

	Fair value 31 12 2017*				NV
	Level 1	Level 2	Level 3	Total	
A. Financial derivatives	-	333,295	-	333,295	11,384,825
1) Fair value	-	156,943	-	156,943	10,411,517
2) Cash flows	-	176,352	-	176,352	973,308
3) Foreign investments	-	-	-	-	-
B. Credit derivatives	-	-	-	-	-
1) Fair value	-	-	-	-	-
2) Cash flows	-	-	-	-	-
Total	-	333,295	-	333,295	11,384,825

Legend

NV = Notional or Nominal Value

*The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9; in addition, the comparative data were reclassified on the basis of the new accounting statements set forth in the 5th update of Bank of Italy Circular 262.



5.2 Hedging derivatives: breakdown by hedged portfolios and type of hedging

Transaction/Type of hedge	Fair Value								Total 31 12 2018	
	Micro-hedge						Micro-hedge	Macro-hedge		
	Risk Rate	Risk Exchange	Risk Credit	Risk Price	Multiple Risks					
1. Financial assets measured at fair value through other comprehensive income	1,903	-	-	-	X	X	-	X	X	1,903
2. Financial assets measured at amortised cost	-	X	-	-	X	X	-	X	X	-
4. Portfolio	X	X	X	X	X	5,979	X	158,585	X	164,564
5. Other transactions	-	-	-	-	-	X	-	X	-	-
Total assets	1,903	-	-	-	-	5,979	-	158,585	-	166,467
1. Financial liabilities	88,893	X	1,190	-	-	X	-	X	X	90,083
2. Portfolio	X	X	X	X	X	1,126	X	-	X	1,126
Total liabilities	88,893	-	1,190	-	-	1,126	-	-	-	91,209
1. Expected transactions	X	X	X	X	X	X	-	X	X	-
2. Financial assets and liabilities portfolio	X	X	X	X	X	-	X	-	-	-
Total	90,796	-	1,190	-	-	7,105	-	158,585	-	257,676

The table shows the positive fair values of hedging derivatives, classified by hedged assets or liabilities and type of hedging implemented.

In particular, for financial assets measured at fair value through other comprehensive income, fair value micro-hedging was used to hedge against interest rate risk on bonds, in order to protect them from unfavourable interest rate changes. Fair value macro-hedging was carried out on fixed-rate and capped floating rate mortgage loan portfolios.

With reference to financial liabilities, fair value micro-hedging of the interest rate risk refers primarily to hedges of liabilities represented by securities; fair value macro-hedging of the interest rate risk refers to hedges of liabilities represented by deposit accounts.

Macro-hedging of cash flow hedges was carried out on floating-rate mortgage loan portfolios.

More information on hedged assets and liabilities can be found in the tables contained in Part B of the notes for each section of the balance sheet items to which the hedged items are posted.



Section 6 - Change in value of macro-hedged financial assets - Item 60

6.1 Change in value of hedged assets: breakdown by hedged portfolios

Changes in value of hedged assets / Group components	Total	Total
	31 12 2018	31 12 2017
1. Positive changes	165,690	56,878
1.1 of specific portfolios:	165,690	56,878
a) Financial assets measured at amortised cost	165,690	56,878
b) financial assets measured at fair value through other comprehensive income	-	-
1.2 overall	-	-
2. Negative changes	-	-
2.1 of specific portfolios:	-	-
a) Financial assets measured at amortised cost	-	-
b) financial assets measured at fair value through other comprehensive income	-	-
2.2 overall	-	-
Total	165,690	56,878

The value adjustment concerns fixed and capped floating rate mortgage loan portfolios that were fair value macro-hedged with derivatives to counter possible interest rate risk-induced fluctuations in value. As this is a macro-hedge, any gain or loss on the hedged item attributable to the risk hedged may not directly adjust the value of said item (unlike in micro-hedging), but must be presented in this separate line item of the assets. The amounts in this item must be removed from the balance sheet when the relevant assets or liabilities are derecognised.

The fair value of the corresponding hedging derivatives is shown respectively in Table 5.2 (assets) or Table 4.2 (liabilities), both entitled "Hedging derivatives: breakdown by hedged portfolio and type of hedging", in the "Macro-hedging" column.

The assets subject to macro hedging of interest risk refer to fixed and capped floating rate mortgage loan portfolios included in item 40 "Financial assets measured at amortised cost - Loans to customers", amounted to EUR 11,819.8 mln at 31 december 2018 (EUR 5,162.5 mln at 31 December 2017) . The sum of this amount and the one shown in this table expresses the book value of these receivables, adjusted for profit or loss attributable to the risk hedged.



Section 7 - Equity investments - Item 70

7.1 Equity investments: information on shareholding

Company name	Headquarters	Registered office	Share holding %	Avail. Votes %
A. Subsidiaries				
Aiace Reoco s.r.l.	Siena	Siena	100.000	
Antonveneta Capital I.l.c. I	Delaware	New York	100.000	
Antonveneta Capital I.l.c. II	Delaware	New York	100.000	
Antonveneta Capital Trust II	Delaware	New York	100.000	
Antonveneta Capital Trust II	Delaware	New York	100.000	
Banca Monte Paschi Belgio S.A.*	Bruxelles	Bruxelles	99.900	
Cirene Finance S.r.l.	Conegliano	Conegliano	60.000	
Consorzio Operativo Gruppo Montepaschi	Siena	Siena	99.760	
Consum.it Securitisation S.r.l.	Conegliano	Conegliano	100.000	
Enea Reoco s.r.l.	Siena	Siena	100.000	
G.Imm.Astor s.r.l.	Lecce	Lecce	52.000	
Magazzini Generali Fiduciari di Mantova S.p.a.	Mantova	Mantova	100.000	
Monte dei Paschi di Siena Leasing & Factoring Banca per i servizi finanziari alle imprese S.p.a	Siena	Siena	100.000	
Monte Paschi Banque S.A.	Parigi	Parigi	100.000	
Monte Paschi Fiduciaria S.p.a.	Siena	Siena	100.000	
Montepaschi Luxembourg s.a.	Lussemburgo	Lussemburgo	99.200	
Mps Capital Services Banca per le imprese S.p.a.	Firenze	Firenze	99.993	
Mps covered bond 2 S.r.l.	Conegliano	Conegliano	90.000	
Mps covered bond S.r.l.	Conegliano	Conegliano	90.000	
Mps preferred capital I llc	Delaware	New York	100.000	
Mps preferred capital II llc	Delaware	New York	100.000	
Mps Tenimenti Poggio Bonelli e Chigi Saracini soc. agricola S.p.a.	Castelnuovo Barardenga	Castelnuovo Barardenga	100.000	
Perimetro gestione proprietà immobiliari S.c.p.a.	Siena	Siena	98.914	98.716
Siena consumer 2015 S.r.l.	Conegliano	Conegliano	10.000	
Siena consumer S.r.l.	Conegliano	Conegliano	10.000	
Siena lease 2016 2 S.r.l.	Conegliano	Conegliano	10.000	
Siena mortgages 07 5 S.p.a.	Conegliano	Conegliano	7.000	
Siena mortgages 09 6 S.r.l.	Conegliano	Conegliano	7.000	
Siena mortgages 10 7 S.r.l.	Conegliano	Conegliano	7.000	
Siena PMI 2015 S.r.l.	Milano	Milano	10.000	
Siena PMI 2016 S.r.l.	Conegliano	Conegliano	10.000	
Wise Dialog Bank S.p.a. in breve WIDIBA	Milano	Milano	100.000	
B. Companies under joint control				
Immobiliare Novoli S.p.a.	Firenze	Firenze	50.000	
Integra S.p.a.	Firenze	Firenze	50.000	



Company name	Headquarters	Registered office	Share holding %	Avail. Votes %
C. Companies under significant influence				
Axa Mps Assicurazioni danni S.p.a.	Roma	Roma	50.000	
Axa Mps Assicurazioni vita S.p.a.	Roma	Roma	50.000	
CO.E.M. Costruzioni Ecologiche Moderne S.p.a. in breve CO.E.M. S.p.a.	Roma	Roma	40.197	
Fidi Toscana S.p.a.	Firenze	Firenze	27.460	
Fondo Etrusco Distribuzione	Roma	Roma	48.000	
Fondo Minibond PMI Italia	Conegliano	Conegliano	61.940	
Fondo Socrate	Roma	Roma	21.000	
Interporto toscano A. Vespucci	Collesalveti	Collesalveti	21.819	
Microcredito di Solidarieta' S.p.a.	Siena	Siena	40.000	
Nuova Sorigenia Holding S.p.a.	Milano	Milano	16.670	
S.i.t. Sviluppo Imprese e Territorio S.p.a.	Roma	Roma	19.969	
Sansedoni Siena S.p.a.	Siena	Siena	21.754	33.674
Terme di Chianciano S.p.a.	Chianciano Terme	Chianciano Terme	18.816	

(*) Subsidiary Banca Monte Paschi Belgio S.A. was reclassified to asset item “110 - Non-current assets held for sale and discontinued operations” (to which reference should be made for greater detail).

Equity investments in subsidiary companies, jointly controlled companies and companies under significant influence are valued at cost.

The classification criteria of the equity investments in subsidiary companies, jointly controlled companies and companies under significant influence are illustrated in Part A “Accounting policies” of these Notes to the Financial Statements.

For further details on changes, see comments to the subsequent table “7.5 - Equity investments: annual changes”.

7.2 Significant equity investments: book value, fair value and dividends earned

7.3 Significant equity investments: accounting information

7.4 Non-significant equity investments: accounting information

The information referred to in the above items is not provided in that the Bank also prepares the consolidated financial statements.



7.5 Equity investments: annual changes

	Total 31 12 2018	Total 31 12 2017
A. Opening balance	3,079,197	1,942,743
B. Increases	75,598	1,275,562
B.1 Purchases	-	-
B.2 Write-backs	68,558	-
B.3 Revaluations	-	-
B.4 Other increases	7,040	1,275,562
C. Decreases	501,494	139,108
C.1 Sales	5,813	20,000
C.2 value adjustment	451,372	112,530
C.4 Other decreases	44,309	6,578
D. Closing balance	2,653,301	3,079,197
E. Total revaluation	-	-
F. Total write-downs	2,918,997	2,542,796

In accordance with the accounting standards, the measurement of impairment indicators for equity investments brought to light impairment losses of EUR 451.4 mln, indicated in line C.2 "Value adjustments", mainly referring to controlling interests (EUR 444.1 mln), resulting from their lower expected profitability following the updates to the long-term forecasts.

In detail, the adjustments were relative to:

- subsidiaries MPS Leasing & Factoring S.p.A. (EUR 265.1 mln), MPS Capital Services S.p.A. (EUR 169.0 mln) and MPS Preferred Capital I LLC (EUR 10 mln);
- associate Trixia S.r.l. (EUR 5.7 mln);
- the joint-control interest in Immobiliare Novoli (EUR 1.5 mln).

Write-backs for a total of EUR 68.5 mln were also identified, indicated in line B.2 "Write-backs", referring to subsidiaries BMP Belgio S.A. (EUR 34.5 mln) and MP Banque S.A. (EUR 34.0 mln). In particular in the first case, the write-back reflects the realisation expected from the disposal transaction whose closing, contingent on authorisation from supervisory authorities, is expected in the first half of 2019. In the second case, the write-back derives from updates to long-term forecasts, on which the impairment process was based.

The amount of EUR 7.0 mln in line B.4 "Other increases" mainly refers to EUR 5.7 mln for the waiver of a loan with respect to associate Trixia S.r.l. (increase also stated as an increase in the investment - see line C.2 "Value adjustments") and EUR 1.2 mln in profit from disposal of the investment in Firenze Parcheggi S.p.A.

Furthermore, the decreases include:

- on line C.1 "Sales", the disposal of the investment in Firenze Parcheggi S.p.A., for an amount of EUR 5.8 mln;
- on line C.4 "Other decreases", the decrease in investments in BMP Belgio S.A. (EUR 34.5 mln), following reclassification from item 70 "Equity investments" to item 110 "Non-current assets held for sale and discontinued operations" of balance sheet assets; MiniBond Italia PMI (EUR 7.3 mln) following redemptions of units and, lastly, C.O.E.M. S.p.A. (EUR 2.4 mln) following distribution of available reserves.

**7.6 Covenants on investments in jointly controlled companies****7.7 Covenants on investments in companies under significant influence****7.8 Significant restrictions****7.9 Other information**

The information referred to in the above items is not provided in that the Bank also prepares the consolidated financial statements.

**Section 8 - Property, plant and equipment - Item 80****8.1 Property, plant and equipment used in the business: breakdown of assets valued at cost**

Asset/Amount	Total	
	31 12 2018	31 12 2017
1. Assets owned	781,055	799,564
a) land	275,181	282,890
b) buildings	249,078	260,688
c) furniture and furnishings	139,153	139,438
d) electronic systems	59,322	60,772
e) other	58,321	55,776
2. Assets leased	-	-
a) land	-	-
b) buildings	-	-
c) furniture and furnishings	-	-
d) electronic systems	-	-
e) other	-	-
Total	781,055	799,564

Of which: obtained through the enforcement of the guarantees received

All of the Bank's property, plant and equipment is measured at cost; the line "land" expresses the value of land separately from the value of buildings. In compliance with guidance provided by IAS 36 "Impairment of Assets" and recommendations contained in document no. 4 of 3 March 2010 issued jointly by the Bank of Italy, Consob and Isvap, an overall property appraisal was made with a view to determining any impairment losses to be posted to the income statement for the year; disclosure of these impairment losses is provided in the notes to the table "8.6 Property, plant and equipment used in the business: annual changes".

Item 1 "Assets owned –c) furnishings" includes artworks whose value amounts to EUR 121 mln.

As at 31 December 2018, there were no items of property, plant and equipment deriving from the enforcement of guarantees.

At the reporting date or for the year of comparison, there are no cases to which para.78 of IAS 40 apply.



8.2 Property, plant and equipment held for investment: breakdown of assets valued at cost

Asset/Amount	Total 31 12 2018				
	Book value	Fair Value			Total
		Level 1	Level 2	Level 3	
1. Assets owned	219,660	-	-	249,730	249,730
a) land	120,176	-	-	123,319	123,319
b) buildings	99,484	-	-	126,411	126,411
2. Assets leased	-	-	-	-	-
a) land	-	-	-	-	-
b) buildings	-	-	-	-	-
Total	219,660	-	-	249,730	249,730
<i>Of which: obtained through the enforcement of the guarantees received</i>					

All of the Bank's property, plant and equipment is measured at cost; the line "land" expresses the value of land separately from the value of buildings. In compliance with guidance provided by IAS 36 "Impairment of Assets" and recommendations contained in document no. 4 of 3 March 2010 issued jointly by the Bank of Italy, Consob and Isvap, an overall property appraisal was made with a view to determining any impairment losses to be posted to the income statement for the year; disclosure of these impairment losses is provided in the notes to the table "8.7 Property, plant and equipment held for investment: annual changes".

As at 31 December 2018, there were no items of property, plant and equipment deriving from the enforcement of guarantees.

The criteria for classification of a tangible asset as a real estate investment pursuant to IAS 40 are described in the accounting policies, to which reference is made. The disclosure required by IAS 40 paragraph 75 letter c) is not provided, as the classification is not difficult.

There were no cases, at the reporting date or for the comparison year, to which paragraph 75, letters. c), g), and h) of IAS 40 apply.

Attività/Valori	Total 31 12 2017				
	Book value	Fair Value			Total
		Level 1	Level 2	Level 3	
1. Assets owned	235,477	-	-	265,018	265,018
a) land	128,030	-	-	129,523	129,523
b) buildings	107,447	-	-	135,495	135,495
2. Assets leased	-	-	-	-	-
a) land	-	-	-	-	-
b) buildings	-	-	-	-	-
Total	235,477	-	-	265,018	265,018

8.3 Property, plant and equipment used in the business: breakdown of revalued assets

The Bank holds no revalued property, plant and equipment.

8.4 Property, plant and equipment held for investment: breakdown of assets measured at fair value

The Bank holds no property, plant and equipment measured at fair value pursuant to IAS 40.

**8.5 Inventories of property, plant and equipment governed by IAS 2: breakdown**

Assets/Amounts	Total	
	31 12 2018	31 12 2017*
1. Gross closing balance of tangible assets obtained through enforcement of the guarantees received	-	-
a) Land	-	-
b) Buildings	-	-
c) Furniture and furnishings	-	-
d) Electronic systems	-	-
e) Others	-	-
2. Others gross closing balance of tangible assets	25,540	30,257
Totale	25,540	30,257

* The comparative data were reclassified on the basis of the new accounting statements set forth in the 5th update of Bank of Italy Circular 262.

“Other inventories of property, plant and equipment” refer to properties of former subsidiary MPS Immobiliare S.p.A., merged by incorporation in 2014.



8.6 Property, plant and equipment used in the business: annual changes

	Land	Buildings	Furniture and furnishings	Electronic systems	Others	Total 31 12 2018
A. Gross opening balance	302,078	437,248	484,860	569,571	461,892	2,255,649
A.1 Total net decrease	19,188	176,560	345,422	508,799	406,116	1,456,085
A.2 Net opening balance	282,890	260,688	139,438	60,772	55,776	799,564
B. Increases	-	6,596	5,178	18,402	16,762	46,938
B.1 Purchases	-	-	5,140	18,395	16,752	40,287
B.2 Capitalized expenditure on improvements	-	6,596	-	-	-	6,596
B.3 Write-backs	-	-	-	-	-	-
B.4 Increases in fair value booked to:	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) profit and loss	-	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	7	-	7
B.6 Transfers from properties held for investment	-	-	X	X	X	-
B.7 Other increases	-	-	38	-	10	48
C. Decreases	7,709	18,207	5,463	19,852	14,217	65,448
C.1 Sales	245	180	231	339	669	1,664
C.2 Depreciation	-	12,854	5,232	19,507	13,544	51,137
C.3 Impairment losses booked to:	5,067	1,884	-	-	-	6,951
a) shareholders' equity	-	-	-	-	-	-
b) profit and loss	5,067	1,884	-	-	-	6,951
C.4 Decreases in fair value booked to:	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) profit and loss	-	-	-	-	-	-
C.5 Negative exchange differences	-	-	-	-	4	4
C.6 Transfer to:	2,397	3,255	-	-	-	5,652
a) tangible asset held for investment	1,854	2,230	X	X	X	4,084
b) Non-current assets and groups of assets held for sale and discontinued operations	543	1,025	-	-	-	1,568
C.7 Other decreases	-	34	-	6	-	40
D. Net closing balance	275,181	249,077	139,153	59,322	58,321	781,054
D.1 Total net decreases	24,256	189,434	349,801	524,129	418,341	1,505,961
D.2 Gross closing balance	299,437	438,511	488,954	583,451	476,662	2,287,015
E. Carried at cost	-	-	-	-	-	-

An analysis of external and internal impairment indicators resulted in impairment losses for an amount of EUR 6.9 mln being recognised in the balance sheet as at 31 December 2018 (line C.3). In addition, EUR 23.9 mln in overall capital gains on real estate used in the business is also reported; these capital gains were not recognised in the balance sheet. With regard to property, plant and equipment used in the Bank's business other than buildings, no extraordinary negative market factors were thought to exist under a going concern assumption that might call for the need to recognise impairment losses. Line "E. Carried at cost" was left blank, as per the Bank of Italy's instructions, since it only needs to be completed for assets accounted for at fair value. As at the end of 2018, the Bank did not hold any PPE acquired under finance leases or provided under operating leases for a significant amount.

**8.7 Property, plant and equipment held for investment: annual changes**

	31 12 2018		
	Lands	Building	Total
A. Opening balance	151,450	191,751	343,201
A.1 Total net decrease	23,420	84,304	107,724
A.2 Net opening balance	128,030	107,447	235,477
B Increases	1,854	3,498	5,352
B.1 Purchases	-	-	-
B.2 Capitalized expenditure on improvements	-	1,261	1,261
B.3 Increases in fair value	-	-	-
B.4 Write-backs	-	-	-
B.5 Positive exchange differences	-	-	-
B.6 Transfers from property used in the business	1,854	2,230	4,084
B.7 Other increases	-	7	7
C. Decreases	9,708	11,461	21,169
C.1 Sales	2,601	3,186	5,787
C.2 Depreciation	-	5,317	5,317
C.3 Decreases in fair value	-	-	-
C.4 Impairment losses	6,168	1,923	8,091
C.5 Negative exchange differences	-	-	-
C.6 Transfers to other asset portfolios	939	1,035	1,974
a) properties used in the business	-	-	-
b) Non-current assets and groups of assets held for sale and discontinued operations	939	1,035	1,974
C.7 Other decreases	-	-	-
D. Closing balance	120,176	99,484	219,660
D.1 Total net decrease	29,588	90,189	119,776
D.2 Gross closing balance	149,764	189,673	339,437
E. Designated at fair value	123,319	126,411	249,730

An analysis of external and internal impairment indicators resulted in impairment losses for an amount of EUR 8.1 mln being recognised in the balance sheet as at 31 December 2018 (line C.4). In addition, EUR 30.1 mln in overall capital gains on real estate held for investment is also reported; these capital gains were not recognised in the balance sheet.



8.8 Inventories of property, plant and equipment governed by IAS 2: annual changes

	Gross closing balance of tangible assets obtained through enforcement of the guarantees received					Other Closing balance of tangible assets	Total
	Land	Buildings	Furniture and furnishings	Electronic systems	Others		
A. Opening balance*	-	-	-	-	-	30,257	30,257
B. Increase	-	-	-	-	-	10	10
B.1 Purchases	-	-	-	-	-	10	10
B.2 Write-backs	-	-	-	-	-	-	-
B.3 Positive exchange differences	-	-	-	-	-	-	-
B.4 Other increases	-	-	-	-	-	-	-
C. Decreases	-	-	-	-	-	4,727	4,727
C.1 Sales	-	-	-	-	-	-	-
C.2 Impairment losses	-	-	-	-	-	4,727	4,727
C.3 Negative exchange differences	-	-	-	-	-	-	-
C.3 Other decreases	-	-	-	-	-	-	-
D. Closing balance	-	-	-	-	-	25,540	25,540

* The line "Opening balances" refers to the balance of the line "Real estate warehouse" included in the financial statements as at 31 December 2017 in the balance sheet asset item "Other assets".

8.9 Commitments to purchase property, plant and equipment

No commitments to purchase property, plant and equipment were registered in 2018.

8.10 Property, plant and equipment: depreciation rates

Main categories of tangible assets	%
Land and works of art	0.00%
Buildings	3.03%
Furniture and furnishings	10-15%
Alarm and video systems	30.00%
Electronic and ordinary office equipment	20.00%
Electronic data processing equipment	50.00%
Vehicles	20-25%
Telephones	25.00%

The percentages used for carrying out the depreciations with reference to the main categories of property, plant and equipment are presented in the table. Owing to their indefinite useful life, lands and artworks are not depreciated.



Section 9 – Intangible assets – Item 90

9.1 Intangible assets: breakdown by type

Asset / Amount	31 12 2018			31 12 2017		
	Finite Life	Indefinite Life	Total	Finite Life	Indefinite Life	Total
A.1 Goodwill	X	-	-	X	-	-
A.1.1 group	X	-	-	X	-	-
A.1.2 minorities	X	-	-	X	-	-
A.2 Other intangible assets	13,991	-	13,991	38,621	-	38,621
A.2.1 Assets carried ad cost	13,991	-	13,991	38,621	-	38,621
a) internally generated intangible assets	-	-	-	-	-	-
b) other assets	13,991	-	13,991	38,621	-	38,621
A.2.2 Assets valued at fair value:	-	-	-	-	-	-
a) internally generated intangible assets	-	-	-	-	-	-
b) other assets	-	-	-	-	-	-
Total	13,991	-	13,991	38,621	-	38,621

All of the Bank's intangible assets are valued at cost and have a finite useful life.

Line "A.2.1 Assets carried at cost – b) other assets" includes the following intangible assets arising from customer relations recognised following the acquisition of former Banca Antonveneta S.p.a.: In particular:

- core deposits totalling EUR 11.6 mln, from the fair value measurement of on-demand funding (current accounts and savings deposits),
- core overdrafts totalling EUR 2.2 mln, from the fair value measurement of assets represented by non-revolving credit facilities;

For intangible assets associated with customer relationships, an analysis was carried out on the impairment indicators, which resulted in no need for impairment testing.



9.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: generated internally		Other intangible assets: other		Total 31 12 2018
		finite life	indefinite life	finite life	indefinite life	
A. Opening balance	5,209,817	-	-	563,422	-	5,773,239
A.1 Total net decreases	5,209,817	-	-	524,801	-	5,734,618
A.2 Net opening balance	-	-	-	38,621	-	38,621
B. Increases	-	-	-	43	-	43
B.1 Purchases	-	-	-	-	-	-
B.2 Increases in internally generated intangible assets	X	-	-	-	-	-
B.3 Write-backs	X	-	-	-	-	-
B.4 Increases in fair value	-	-	-	-	-	-
- to net equity	X	-	-	-	-	-
- to profit and loss	X	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	10	-	10
B.6 Other increases	-	-	-	33	-	33
C. Decreases	-	-	-	24,673	-	24,673
C.1 Sales	-	-	-	-	-	-
C.2 value adjustment	-	-	-	24,673	-	24,673
- Depreciation	X	-	-	24,673	-	24,673
- Write-downs	-	-	-	-	-	-
+ net equity	X	-	-	-	-	-
+ profit and loss	-	-	-	-	-	-
C.3 Decreases in fair value	-	-	-	-	-	-
- to net equity	X	-	-	-	-	-
- to profit and loss	X	-	-	-	-	-
C.4 Transfers to non-current assets held for sale	-	-	-	-	-	-
C.5 Negative exchange differences	-	-	-	-	-	-
C.6 Other decreases	-	-	-	-	-	-
D. Net closing balance	-	-	-	13,991	-	13,991
D.1 Total net value adjustments	5,209,817	-	-	524,801	-	5,734,618
E. Gross closing balance	5,209,817	-	-	538,792	-	5,748,609
F. Carried at cost	-	-	-	-	-	-

Line C.2 "Value adjustments – Amortisation" includes, in the "Other - finite life" column, the amortisation charges for the year related to the intangible assets recognised in the financial statements, during 2008, due to the merger by incorporation of former Banca Antonveneta S.p.a.

Line "F. Carried at cost" was left blank in accordance with the Bank of Italy's instructions, as it only needs to be completed for assets recognised at fair value.



9.3 Other information: amortisation rates

Main categories of intangible assets	%	residual depreciation period
Software	20.00%	
Concessions and other licenses	20.00%	
Core deposits - current accounts	9.10%	1 year
Core deposits - deposit	6.70%	5 years
Core overdraft	9.10%	1 year

Intangible assets recognised during the purchase price allocation of Banca Antonveneta S.p.A. are all finite-life and therefore amortised based on their expected useful life.

As at 31 December 2018 there were no:

- revalued intangible fixed assets;
- intangible fixed assets acquired through government concessions (IAS 38, par. 4);
- intangible fixed assets pledged as loan collaterals;
- commitments to purchase intangible assets;
- fully amortised intangible assets that are still in use.



Section 10 - Tax Assets and Liabilities - Item 100 (Assets) and Item 60 (Liabilities)

10.1 Deferred tax assets: breakdown

Items/Amounts	IRES with offsetting entry to P&L	IRES with offsetting entry to Balance Sheet	IRAP with offsetting entry to P&L	IRAP with offsetting entry to Balance Sheet	31 12 2018	31 12 2017*
Receivables (including securitisations)	302,045	-	48,793	-	350,838	67,161
Receivables (L. 214/2011)	311,251	-	43,493	-	354,744	531,704
Other financial instruments	182	-	7,074	-	7,256	11,795
Goodwill deduction pursuant to previous law provisions (L. 214/2011)	377,136	1,435	89,630	325	468,526	539,382
Tangible assets	36,668	-	8,112	-	44,780	41,832
Intangible assets (Law 214/2011)	25,590	-	5,457	-	31,047	36,263
Personnel expenses	8,679	17,001	4,163	1,942	31,785	40,666
ACE surplus	98,985	-	-	-	98,985	106,085
Tax losses	1,084,885	39,968	-	-	1,124,853	865,832
Financial instruments - valuation reserves	-	126,284	-	26,607	152,891	104,476
Others	138,508	22	10,012	-	148,542	312,361
Deferred tax assets (gross)	2,383,929	184,710	216,734	28,874	2,814,247	2,657,557
Offsetting with deferred tax liabilities	(9,934)	(51,391)	(7,132)	(10,419)	(78,876)	(114,514)
Deferred tax assets (net)	2,373,995	133,319	209,602	18,455	2,735,371	2,543,043

* The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9 and IFRS 15.

Deferred tax assets were recognised after verifying the existence of foreseeable future income (probability test). Write-downs (or write-backs of previous write-downs) based on the probability test are recognised overall as an offsetting entry to the tax item of the income statement; in the tables under this section, however, the portion of DTA not recognisable is allocated based on the proportional criterion, also for DTA originally recognised as offsetting entries to shareholders' equity. For additional information, please refer to paragraph 10.7 "Other information" below.

In addition to deferred taxes referring to the main tax (at the rate of 24%) the amounts shown in the IRES column also include those relating to the additional IRES tax (3.5% rate) introduced by Law no. 208 of 28 December 2015, paragraphs 65-66.

The line "Loans" includes deferred tax assets that can be recognised for nine-tenths of the impairment on loans to customers recorded upon first-time adoption of IFRS 9, whose deduction is envisaged in ten annual instalments (from 2018 to 2027) by paragraphs 1067-1069 of Law no. 145 of 30/12/2018 (2019 Budget Law).

The line "Financial instruments – valuation reserves" includes tax assets relating to the valuation of cash flow hedge derivatives and financial instruments classified in the portfolio of 'financial assets measured at fair value through other comprehensive income' (OCI).

The line "Other" includes tax assets relating to other cases; the predominant amount refers to provisions for risks and charges in respect of deductible costs expected for future periods.

**10.2 Deferred tax liabilities: breakdown**

Items/Amounts	IRES with offsetting entry to P&L	IRES with offsetting entry to Balance Sheet	IRAP with offsetting entry to P&L	IRAP with offsetting entry to Balance Sheet	Total 31 12 2018	Total 31 12 2017
Tangible and intangible assets	3,468	-	439	-	3,907	4,520
Financial instruments	5,723	-	6,693	-	12,416	1,739
Personnel expenses	743	894	-	148	1,785	833
Financial instruments - valuation reserves	-	48,493	-	9,881	58,374	106,442
Others	-	2,004	-	390	2,394	980
Deferred tax liabilities (gross)	9,934	51,391	7,132	10,419	78,876	114,514
Offsetting with deferred tax assets	(9,934)	(51,391)	(7,132)	(10,419)	(78,876)	(114,514)
Deferred tax liabilities (net)	-	-	-	-	-	-

In addition to deferred taxes referring to the main tax (at the rate of 24%) the amounts shown in the IRES column also include those relating to the additional IRES tax (3.5% rate) introduced by Law no. 208 of 28 December 2015, paragraphs 65-66.

The line “Financial instruments – valuation reserves” includes tax liabilities relating to the valuation of cash flow hedge derivatives, as well as, to a residual extent, financial instruments classified in the portfolio of ‘financial assets measured at fair value through other comprehensive income’ (OCI).



10.3 Deferred tax assets: annual changes (with offsetting entry to profit and loss)

	Total 31 12 2018	Total 31 12 2017
1. Opening balance*	2,514,055	2,722,121
2. Increases	787,024	776,818
2.1 Deferred tax assets arising during the year	773,030	771,678
a) relating to previous years	-	-
b) due to changes in accounting principles	-	-
c) write-backs	260,957	572,270
d) other	512,073	199,408
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	13,994	5,140
3. Decreases	700,416	1,035,116
3.1 Deferred tax assets derecognised during the year	397,389	113,544
a) reversals	106,597	113,544
b) write-downs of non-recoverable items	290,792	-
c) changes in accounting principles	-	-
d) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	303,027	921,572
a) conversion into tax credits pursuant to Law no. 214/2011	252,750	911,928
b) others	50,277	9,644
4. Total	2,600,663	2,463,823

* The initial amount referred to in the column "Total 31/12/2018" includes the effects of first-time adoption of the new IFRS 9 and IFRS 15 as at 1 January 2018, described in the paragraph "Transition to the IFRS 9 and IFRS 15 accounting standards".

The major components of "Deferred tax assets arising during the year" as reported in line 2.1 letter d) include those concerning:

- the nine-tenths of the impairment on loans to customers recorded upon first-time adoption of IFRS 9, deducted in annual instalments (from 2019 to 2027) pursuant to paragraphs 1067-1069 of Law no. 145 of 30/12/2018 (2019 Budget Law), for a total of EUR 326.3 mln. Note that these deferred tax assets taxes were recorded as offsetting entries to the income statement. This is because, although they refer to income items arising upon FTA and posted to shareholders' equity, they are due to a subsequent re-measurement of the tax effect assessed on 1 January 2018 with the regulations in effect at that time. Note also that they were subject to ordinary measurement under the probability test and found to be partly recognisable, thereby forming part of the amount stated on line 3.1 letter b) of this table;
- taxed provisions to the provision for risks and charges made during the year of EUR 109.2 mln;
- ACE deduction accrued during the year and unused, of EUR 35.7 mln.

The amount shown on line 3.1 letter a) "Reversals" consists for EUR 80.0 mln of the use of provisions for risks and charges taxed in previous years.

The table highlights the effects of measurement of tax assets based on the results of the probability test carried out as at 31 December 2018. Specifically, the amount indicated on line 2.1 letter c) "Write-backs" refers to the partial recognition of deferred tax assets from IRES tax losses (Domestic Consolidated declaration) accrued and not recognised in prior years; line 3.1 letter b) "Write-downs for non-recoverable items" reflects the partial derecognition of deferred tax assets on tax losses for the purposes of the additional IRES tax and other deferred taxes that cannot be transformed into tax credits pursuant to Law 214/2011. For additional information, please refer to paragraph 10.7 "Other information" below.

With regard to the decrease pursuant to line 3.3 letter a), please refer to the comments to the subsequent table "10.3.1 Deferred tax assets: changes under Law 214/2011 (with offsetting entry to profit and loss)".

Line 3.3 letter b) includes transformation of the excess ACE accrued for 2017, converted into IRAP credit for EUR 43.1 mln.



The change for the year, as shown in this table - difference between final and initial balance - is reconciled with the amount states in the income statement table 19.1 "Tax (expense)/recovery on income from continuing operations: breakdown" on the line 'changes in deferred tax assets' given that:

- the amount of EUR 43.1 mln regarding conversion of the excess ACE into an IRAP credit, although shown in this table as a decrease, did not have an offsetting entry under the taxes item of the income statement but under current tax assets;
- the amount of EUR 9.0 mln, portion of the DTA measurement based on the probability test and recorded as an offsetting entry to the taxes item of the income statement, was attributed on a proportional basis to the deferred tax assets recognised as an offsetting entry to equity and, as such, is shown in subsequent table 10.5.



10.3.1 Deferred tax assets: changes under Law 214/2011 (with offsetting entry to profit and loss)

Items / Amounts	Total	
	31 12 2018	31 12 2017
1. Opening balance	1,105,306	2,017,130
2. Increases	-	109
3. Decreases	252,750	911,933
3.1 Reversals	-	-
3.2 Conversion into tax credits	252,750	911,928
a) arising from loss for the period	252,750	864,188
b) arising from tax losses	-	47,740
3.3 Other decreases	-	5
4. Closing balance	852,556	1,105,306

As a result of the loss recorded in the separate statutory financial statements for 2017, in 2018 the Bank transformed into tax credits a portion of the deferred tax assets relating to loan write-downs, goodwill and other intangible assets, pursuant to art. 2, par. 55 of Law Decree no. 225 of 29 December 2010.

This conversion has been in effect as of the date of approval of the 2017 Financial statements by the Shareholders' Meeting in April 2018 and concerned, in addition to the amount shown in line 3.2 letter a) of this table, also deferred tax assets with offsetting entry to equity of EUR 0.3 mln, as presented in the subsequent table 10.5.1.

**10.4 Deferred tax liabilities: annual changes (with offsetting entry to profit and loss)**

	Total 31 12 2018	Total 31 12 2017
Opening balance	41,444	17,213
2. Increases	5,685	10,696
<i>Business combinations</i>	-	-
2.1 Deferred tax liabilities arising during the year	4,944	10,579
a) relating to previous years	-	-
b) due to changes in accounting principles	-	-
c) other	4,944	10,579
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	741	117
3. Decreases	30,063	21,260
3.1 Deferred taxes derecognised during the year	29,603	15,422
a) reversals	29,603	15,422
b) due to changes in accounting principles	-	-
c) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	460	5,838
4. Closing balance	17,066	6,649

* The initial amount referred to in the column "Total 31/12/2018" includes the effects of first-time adoption of the new IFRS 9 and IFRS 15 as at 1 January 2018, described in the paragraph "Transition to the IFRS 9 and IFRS 15 accounting standards".

The increase for the year refers primarily to payments made by the Bank to the Voluntary Intervention Scheme established at the Interbank Deposit Protection Fund.

The decrease was mainly due to write-downs of equity instruments classified in the portfolio "Financial assets measured at fair value through profit and loss".



10.5 Deferred tax assets: annual changes (with offsetting entry to equity)

	Total 31 12 2018	Total 31 12 2017
1. Opening balance*	143,495	293,795
2. Increases	102,958	9,026
2.1 Deferred tax assets arising during the year	102,508	9,016
a) relating to previous years	-	-
b) due to changes in accounting principles	-	-
c) other	102,508	9,016
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	450	10
3. Decreases	32,869	109,087
3.1 Deferred tax assets derecognised during the year	31,779	108,597
a) reversal	22,743	108,597
b) write-downs of non-recoverable items	9,036	-
c) due to changes in accounting principles	-	-
d) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	1,090	490
4. Closing balance	213,584	193,734

* The initial amount referred to in the column "Total 31/12/2018" includes the effects of first-time adoption of the new IFRS 9 and IFRS 15 as at 1 January 2018, described in the paragraph "Transition to the IFRS 9 and IFRS 15 accounting standards".

Deferred tax assets arising during the year, pursuant to line "2.1 c) other", refer for EUR 58.9 mln to write-downs of financial instruments classified in the portfolio 'Financial assets measured at fair value through other comprehensive income' (OCI) and for EUR 41.2 mln to write-downs of cash flow hedge derivatives.

Deferred tax assets derecognised during the year, pursuant to "line 3.1 a) reversals", refers for EUR 20.1 mln to costs deductible during the year connected to previous share capital increases.

Line 3.1 letter b) "Write-downs for non-recoverable items" reflects the partial derecognition of deferred tax assets that may not be converted into tax credits pursuant to Law 214/2011, recognised with an offsetting entry to equity. For additional information, please refer to paragraph 10.7 "Other information" below.

**10.5.1 Deferred tax assets: changes under Law 214/2011 (with offsetting entry to equity)**

Items/Amounts	Total	
	31 12 2018	31 12 2017
1. Opening balance	2,044	2,503
2. Increases	-	-
3. Decreases	284	459
3.1 Reversals	-	-
3.2 Conversion into tax credits	284	459
a) arising from loss for the period	284	459
b) arising from tax losses	-	-
3.3 Other decreases	-	-
4. Closing balance	1,760	2,044

The table shows deferred tax assets that may be converted into tax credits pursuant to Law 214/2011, recognised with an offsetting entry to equity. These refer to goodwill posted by the Bank to equity on business combinations “under common control”.

The amount stated on line 3.2 letter a) refers to transformation of the tax credit described at the bottom of previous table 10.3.1.



10.6 Deferred tax liabilities: annual changes (with offsetting entry to equity)

	Total 31 12 2018	Total 31 12 2017
1. Opening balance	74,635	139,436
2. Increases	35,410	52,773
2.1 Deferred tax liabilities arising during the year	34,949	52,597
a) relating to previous years	-	-
b) due to changes in accounting principles	-	-
c) other	34,949	52,597
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	461	176
3. Decreases	48,235	84,343
3.1 Deferred tax liabilities derecognised during the year	47,915	84,324
a) reversal	47,915	84,324
b) due to changes in accounting principles	-	-
c) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	320	19
4. Closing balance	61,810	107,866

* The initial amount referred to in the column "Total 31/12/2018" includes the effects of first-time adoption of the new IFRS 9 and IFRS 15 as at 1 January 2018, described in the paragraph "Transition to the IFRS 9 and IFRS 15 accounting standards".

The increases pursuant to line 2.1 letter c) refer for EUR 32.7 mln to revaluations of the cash flow hedge derivatives. Reversals refer to recovery of deferred tax liabilities of financial instruments classified in the portfolio 'Financial assets measured at fair value through other comprehensive income' (OCI) for EUR 47.8 mln.



10.7 Other information

Probability test

Deferred tax assets were recognised after verifying the existence of foreseeable future income sufficient to absorb them (probability test).

In this test, the different rules set forth in the Italian tax laws which impact the assessment in question were taken into account, in particular:

- art. 2, paragraphs 55-59, of Law Decree no. 225 of 29/12/2010 (converted, with amendments, by Law no. 10 of 26/02/2011) which establishes the obligation for financial intermediaries to convert into tax credits DTAs (IRES and IRAP) relating to goodwill, other intangible assets and impairment losses on receivables, in the case of a loss in the statutory financial statements and/or a tax loss;
- art. 84, paragraph 1 of the TUIR, which allows for the possibility of carrying forward IRES tax losses with no time limits;
- art. 1, paragraph 4 of Law Decree no. 201 of 06/12/2011 (converted, with amendments, by law no. 214 of 22/12/2011), which allows for unused excess ACE to be carried forward with no time limits, as well as, alternatively, conversion into a tax credit to be used to offset IRAP due in 5 annual instalments;
- in paragraphs 61 to 66, art. 1, of the 2016 Stability Law (Law no. 208 of 28 December 2015) reduced the IRES rate from 27.5% to 24% and simultaneously introduced an additional IRES tax of 3.5% for credit and financial institutions; both measures are effective as of 2017.

Note that the Probability test measurements made in the 2018 financial statements were significantly impacted by a number of measures introduced by art. 1 of Law no. 145 of 30 December 2018 (2019 Budget Law). In particular, this refers to:

1. repeal of the ACE (paragraph 1080),
2. deduction in 10 annual instalments from 2018 to 2027 of the impairment on loans to customers recorded upon first-time adoption of IFRS 9 (paragraphs 1067-1069).

The repeal of the ACE, effective from 2019, resulted in an increase in future taxable income compared to the prior scenario, thereby allowing greater recovery of prior tax losses. From the accounting perspective, this essentially translated into a partial write-back on DTAs on consolidated tax losses not recognised in previous years.

Instalments of the deduction on impairment of loans to customers arising upon first-time adoption of IFRS 9 had an opposite effect compared to repealing of the ACE, as nine-tenths of said negative income component, which in the scenario adopted for the purposes of measurement of the probability test in the financial statements as at 31 December 2017 contributed to a tax loss for 2018 with unrecognisable DTAs, resulted in a reduction of future positive taxable amounts that allowed recovery of the prior tax losses. From the accounting perspective, this resulted in a write-down of DTA for tax losses recognised in prior years, as well as of the DTA recognised in 2018 on nine-tenths of the negative component that arose upon FTA.

For completeness of information, the 2019 Budget Law introduced further measures that impacted the Bank, however with marginal effects with regard to the Probability test measurements. This refers to:

- re-scheduling of the amortisation plan for the value of goodwill and of other intangible assets (paragraph 1079);
- deferral of the deduction of write-downs and losses on loans envisaged for 2018, based on the instalments pursuant to Law Decree 83/2015 (10% of the total adjustments not deducted as at 31/12/2015), with deferral to 2026 (paragraphs 1056 and 1065).

Methodologically speaking, the Probability test was carried out by following the steps listed below, also considering the updates of the estimates of financial statement values envisaged in the Restructuring Plan.



DTAs relating to goodwill, other intangible assets and impairment losses on receivables (“qualified” DTAs), were excluded from the total amount of DTAs for which the existence of sufficient future taxable income needs to be identified.

This is because the above-mentioned art. 2, paragraphs 55-59 of Law Decree 225/2010 made the recovery of that type of DTA certain, with respect to both IRES and IRAP, regardless of the presence of future taxable income.

Indeed, the rule sets forth that, if taxable income for the year in which the recovery of qualified DTAs is expected is not sufficient to absorb them, the resulting tax loss would be convertible into a tax credit that may be, alternatively (i) used to offset, with no amount limits, the various taxes ordinarily due from the Bank, or (ii) requested in the form of a refund, or (iii) transferred to third parties. In addition, qualified DTAs may be converted into tax credit in advance of their natural maturity, in the event of a loss for the year in the statutory financial statements or voluntary liquidation, as well as subjection to bankruptcy proceedings.

In other words, for qualified DTAs the probability test must be deemed automatically satisfied; this is also confirmed by the joint Bank of Italy, Consob and ISVAP document no. 5 of 15/05/2012.

For DTAs other than qualified DTAs, the year in which the relative recovery is expected has been identified (or estimated when uncertain).

Taxable income in future years has therefore been estimated based on the forecast income statements of the Bank most recently approved by the Board of Directors. Taxable income was estimated for the probability test by applying a discount factor to the forecast profit and loss (the “risk-adjusted profits approach”); this factor, used in a combined manner, discounts future income over a maximum 20-year time horizon, to an increasing extent to reflect its uncertainty. The discount factor is calculated by taking into account observable market parameters. This methodological approach was introduced in the course of 2016; for more information on the reasons for this methodological update in the Probability test, please refer to the Notes to the Bank’s 2016 Financial Statements (Part B - Assets, par. 13.7).

Taxable income was estimated:

- at domestic tax consolidation level, for the IRES Probability test, since for the payment of this tax the Bank uses the method set forth in arts. 117 et seq. of the TUIR;
- at individual level for additional IRES;
- at individual level for IRAP.

These data have the following effects on the Bank’s accounts:

- with regard to DTAs for consolidated tax losses, a write-back of EUR 261.0 mln, with the positive contribution of the ACE repeal and negative contribution of instalments of adjustments arising upon first-time adoption of IFRS 9 and revision of the forecast plans;
- with regard to DTAs for tax losses for the purposes of the additional IRES, the non-recognition of DTAs on the loss arising in 2018 and a write-down of DTAs for prior losses of EUR 38.8 mln, with the negative contribution of instalments of adjustments arising upon first-time adoption of IFRS 9 and revision of the forecast plans;
- with regard to DTAs other than “qualified” and those relative to the ACE and tax losses, a total write-down of EUR 261.1 mln, predominantly due to revision of the plans and instalments of the adjustments arising upon first-time adoption of IFRS 9.

As a result of the above-mentioned assessment, the Bank had a total of EUR 1,803.0 mln in DTAs not recognised in the Balance Sheet assets as at 31 December 2018 (EUR 1,752.6 mln as at 31 December 2017, EUR 1,716.1 mln post-FTA IFRS 9).

For the Bank, this amount is a potential asset not subject to any time limits according to current tax legislation, whose recognition in the Balance Sheet asset will be evaluated at the future financial statement dates based on the Group’s profit outlook.

**Current tax assets**

Items/Amounts	Total	Total
	31 12 2018	31 12 2017
Prepayments of corporate income tax (IRES and IRAP)	-	-
Other tax credits and withholdings	583,878	529,292
Gross current tax assets	583,878	529,292
Offsetting with current tax liabilities	-	-
Net current tax assets	583,878	529,292

In 2018 the Bank did not make any down payments for IRES, the IRES additional tax and IRAP, having ended the previous tax period with negative taxable amounts with reference to all taxes mentioned.

“Other tax credits and withholdings” consist of IRES/IRAP credits resulting from prior tax returns which can be used as a set-off for EUR 86.5 mln, income tax credits claimed for refund for EUR 473.5 mln, the remaining portion still to be used of the tax credit arising from DTA transformation (Law no. 214/2011) for EUR 20.1 mln and withholdings incurred totalling EUR 3.8 mln.

Current tax liabilities

Items/Amounts	31 12 2018			31 12 2017		
	Booked to net equity	Booked to P&L	Total	Booked to net equity	Booked to P&L	Total
Corporate income tax (IRES IRAP) payables	-	-	-	-	-	-
Other current income tax payables	-	-	-	-	651	651
Gross current tax payables	-	-	-	-	651	651
Offsetting with current tax asset	-	-	-	-	-	-
Net current tax payables	-	-	-	-	651	651



Section 11 - Non-current assets and groups of assets held for sale/discontinued operations and associated liabilities - Item 110 (assets) and 70 (liabilities)

11.1 Non-current assets held for sale and discontinued operations: breakdown by type

	Total	
	31 12 2018	31 12 2017
A. Individual assets		
A.1 Financial assets	29,562	3,590,470
A.2 Equity investments	34,558	50
A.3 Tangible assets	7,563	9,611
<i>of which: obtained through the enforcement of the guarantees received</i>		
A.4 Intangible assets	-	-
A.5 Other non-current assets	-	-
Total A	71,683	3,600,131
<i>of which valued at cost</i>	71,455	3,599,831
<i>of which designated at fair value (level 1)</i>	-	-
<i>of which designated at fair value (level 2)</i>	-	-
<i>of which designated at fair value (level 3)</i>	228	300
B. Asset groups (discontinued operations)		
<i>of which: obtained through the enforcement of the guarantees received</i>		
C. Liabilities associated with individual assets held for sale and discontinued operations		
D. Liabilities included in groups of assets held for sale and discontinued operations		

Line "A.1 Financial assets", equal to EUR 29.6 mln, refers to disposals of loans classified as unlikely to pay, with closing expected within the first half of 2019.

Line "A.2 Equity investments" regards the disposal of investee "BMP Belgio S.A." (99.9% stake), with completion subject to authorisation by the supervisory authorities (expected by the end of first half 2019).

Line "A.3 Property, plant and equipment", equal to EUR 7.6 mln, includes the disposal of these types of assets, held both for investment purposes for EUR 5.8, as well as for use in the Bank's business activities for EUR 1.7 mln.

At the reporting date or for the year of comparison, there are no equity securities of clearly poor credit quality.

11.2 Other information

At the reporting date, there is no information to report pursuant to IFRS 5.42. There are also no "Discontinued operations".



Section 12 - Other assets - Item 120

12.1 Other assets: breakdown

	Total 31 12 2018	Total 31 12 2017*
Tax credits from the Revenue and other tax levying authorities	197,110	236,316
Third party cheques held at the cashier's for collection	10,968	123,692
Cheques drawn on the Company held at the cashier's for collection	2,126	1,370
Gold, silver and precious metals	23,984	24,283
Items in transit between branches	4,130	3,987
Items in processing	681,616	584,685
Improvements and incremental costs on third party assets other than those included under tangible assets	103,059	96,674
Prepaid expenses and accrued income not attributable to other line items	410,543	472,004
Credit for tax consolidation	9,209	8,748
Other	284,154	294,554
Total	1,726,899	1,846,313

* The comparative data were reclassified on the basis of the new accounting statements set forth in the 5th update of Bank of Italy Circular 262.

The lines "Items in processing" and "Other" include transactions which were cleared in early 2018.

The table above does not include cases attributable to the definitions of "contract assets" and "contract liabilities" at either the reporting date or for the comparison year, which would require disclosure pursuant to IFRS 15.116 and 118.



LIABILITIES

Section 1 - Financial liabilities measured at amortised cost - Item 10

1.1 Financial liabilities measured at amortised cost: breakdown of deposits from banks

Items/ accounts	Book value	total 31 12 2018			Book value	total 31 12 2017		
		Fair value				Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Deposits from central banks	16,502,345	X	X	X	16,486,445	X	X	X
2. Deposits from banks	11,561,101	X	X	X	10,188,847	X	X	X
2.1 Current accounts and demand deposits	5,614,534	X	X	X	3,724,876	X	X	X
2.2 Time deposits	598,363	X	X	X	1,724,481	X	X	X
2.3 Loans	5,134,475	X	X	X	4,398,153	X	X	X
2.3.1 Repurchase agreements	4,976,975	X	X	X	3,994,775	X	X	X
2.3.2 Other	157,500	X	X	X	403,378	X	X	X
2.4 Liabilities for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
2.5 Other liabilities	213,729	X	X	X	341,337	X	X	X
Total	28,063,446	-	28,063,446	-	26,675,292	-	26,675,292	-

The balance of the item “Deposits from central banks”, equal to EUR 16,502 mln, refers to refinancing operations carried out as part of Eurosystem financing, guaranteed by securities pledged by the Bank using the pooling mechanism.

Line 2.3.1 “Repurchase agreements” contains the financial liabilities arising from repo transactions with banks on both treasury securities and securities made available through reverse repurchase agreements or securities lending transactions.



1.2 Financial liabilities measured at amortised cost: breakdown of deposits from customers

Items/accounts	total 31 12 2018					total 31 12 2017			
	Book value	Fair value			Book value	Fair value			
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
1. Current accounts and demand deposits	50,379,142	X	X	X	49,287,849	X	X	X	
2. Time deposits	7,136,453	X	X	X	8,817,666	X	X	X	
3. Loans	9,939,023	X	X	X	7,368,810	X	X	X	
3.1 Reverse repurchase agreements	5,874,012	X	X	X	1,848,176	X	X	X	
3.2 Others	4,065,011	X	X	X	-	X	X	X	
4. Liabilities for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X	
5. Other liabilities	889,307	X	X	X	1,243,920	X	X	X	
Total	68,343,925	-	68,343,925	-	66,718,245	-	66,718,245	-	

Line “3.3.1 Repurchase agreements” contains the financial liabilities arising from repo transactions with customers on both treasury securities and securities made available through reverse repurchase agreements or securities lending transactions.

1.3 Financial liabilities measured at amortised cost: breakdown of debt securities issued

Type of Securities/ Amounts	Total					Total				
	31 12 2018					31 12 2017				
	Book value	Fair value				Book value	Fair value			
		Level 1	Level 2	Level 3	Total		Level 1	Level 2	Level 3	Total
A. Listed securities										
1. Bonds	10,984,728	7,061,825	3,590,939	-	10,652,764	17,587,450	14,304,129	3,585,651	-	17,889,780
1.1 Structured	-	-	-	-	-	-	-	-	-	-
1.2 Other	10,984,728	7,061,825	3,590,939	-	10,652,764	17,587,450	14,304,129	3,585,651	-	17,889,780
2. Other securities	2,341,626	-	2,341,626	-	2,341,626	2,366,190	-	2,366,190	-	2,366,190
2.1 Structured	-	-	-	-	-	-	-	-	-	-
2.2 Other	2,341,626	-	2,341,626	-	2,341,626	2,366,190	-	2,366,190	-	2,366,190
Total	13,326,354	7,061,825	5,932,565	-	12,994,390	19,953,640	14,304,129	5,951,841	-	20,255,970

The table shows funding represented by securities, including bonds and certificates of deposit (outstanding and maturities).

Liabilities are net of bonds and repurchased CDs. In this connection it is noted that on 31 December 2018, there were State-guaranteed bonds in place, issued and concurrently repurchased, for a nominal amount of EUR 4,799 mln, part of which, for a nominal EUR 2,606 mln, were then pledged as collateral for financing transactions.

Note that EUR 6,513.9 mln were subject to micro-hedging of the fair value (EUR 10,124 mln as at 31 December 2017), of which EUR 6,469.1 mln to hedge interest rate risk and EUR 44.8 mln to hedge several risks (respectively, EUR 10,067 mln and EUR 57.7 mln as at 31 December 2017). Starting from 2018, the Bank also proceeded with operational hedging of interest rate risk for EUR 3 bn in securities issued by the Bank through the purchase of Italian government securities with residual life not lower than six months and not greater than six months in relation to the maturities of the matching liabilities.

1.4 Details of subordinated liabilities/securities

In January 2018, the Bank completed the issue of a Tier 2 subordinated bond, for a total value in the financial statements of EUR 787.7 mln. Instead, this bond was not present in 2017.



1.5 Details of structured liabilities

This table was not completed as the Bank has no such liabilities to report for either the current or the previous year.

1.6 Finance lease payables

This table was not completed as the Bank has no such liabilities to report for either the current or the previous year.



Section 2 - Financial liabilities held for trading - Item 20

2.1 Financial liabilities held for trading: breakdown

Type of transaction/ Group item	NV	Total 31 12 2018				FV*
		FV				
		Level 1	Level 2	Level 3	Total	
A. Balance-sheet liabilities						
1. Deposits from banks	-	-	-	-	-	
2. Deposits from customers	-	-	-	-	-	-
3. Debt securities issued	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	-	X
3.1.2 Other	-	-	-	-	-	X
3.2 Other securities	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	-	X
3.2.2 Other	-	-	-	-	-	X
Total A	-	-	-	-	-	-
B. Derivatives						
1. Financial derivatives		-	615,836	-	615,836	
1.1 Trading	X	-	608,241	-	608,241	X
1.2 Fair value option (FVO)	X	-	7,595	-	7,595	X
1.3 Other	X	-	-	-	-	X
2. Credit derivatives		-	7,196	-	7,196	
2.1 Trading	X	-	7,196	-	7,196	X
2.2 Fair value option (FVO)	X	-	-	-	-	X
2.3 Other	X	-	-	-	-	X
Total B	X	-	623,032	-	623,032	X
Total (A+B)	-	-	623,032	-	623,032	X

Legend

NV = Nominal or Notional Value

FV = Fair Value

FV*= Fair value calculated excluding value adjustments due to variations in the credit rating of the issuer since the date of issue

Criteria adopted for classification of financial instruments in the three levels of the “fair value hierarchy” are reported in Section A.4, “Fair value disclosure” of Part A, “Accounting policies” of the notes to the financial statements.

Derivatives connected with fair value option instruments are also included in the trading book: these cover the risks of funding designated at fair value arising from possible interest rate fluctuations and from any embedded options in the structured and fixed rate bonds issued by the Bank (natural and systematic hedging). The fair value of these derivatives, amounting to EUR 7.6 mln (EUR 8.1 mln as at 31 December 2017) is shown in the table in line “B1.1.2- Fair value option”.

By convention, such derivatives are classified in the trading book. In terms of their representation in the income statement, positive and negative spreads or margins settled or accrued until the balance sheet date are recognised as interest income and expense, while valuation profits and losses are posted under item “80 - Net profit (loss) from trading”.

Fair value calculated on financial derivatives includes the value adjustments owing to changes in the creditworthiness of the Bank, Debit Value Adjustment (i.e. DVA), of EUR 7.1 mln (EUR 4.1 mln as at 31 December 2017).



Type of transaction/ Group item	NV	Total 31 12 2017				FV*
		FV				
		Level 1	Level 2	Level 3	Total	
A. Balance-sheet liabilities						
1. Deposits from banks	-	-	-	-	-	
2. Deposits from customers	-	-	-	-	-	-
3. Debt securities issued	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	-	X
3.1.2 Other	-	-	-	-	-	X
3.2 Other securities	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	-	X
3.2.2 Other	-	-	-	-	-	X
Total A	-	-	-	-	-	-
B. Derivatives						
1. Financial derivatives		-	797,919	-	797,919	
1.1 Trading	X	-	789,799	-	789,799	X
1.2 Fair value option (FVO)	X	-	8,120	-	8,120	X
1.3 Other	X	-	-	-	-	X
2. Credit derivatives		-	4,588	-	4,588	
2.1 Trading	X	-	4,588	-	4,588	X
2.2 Fair value option (FVO)	X	-	-	-	-	X
2.3 Other	X	-	-	-	-	X
Total B	X	-	802,507	-	802,507	X
Total (A+B)	-	-	802,507	-	802,507	X

Legend

NV = Nominal or Notional Value

FV = Fair Value

FV*= Fair value calculated excluding value adjustments due to variations in the credit rating of the issuer since the date of issue



2.2 Details of item 20 "Financial liabilities held for trading": subordinated liabilities

This table was not completed as the Bank has no such liabilities to report for either the current or the previous year.

2.3 Details of item 20 "Financial liabilities held for trading": structured liabilities

This table was not completed as the Bank has no such liabilities to report for either the current or the previous year.

Section 3 - Financial liabilities designated at fair value - Item 30

3.1 Financial liabilities designated at fair value: breakdown

Type of transaction / Amount	Total 31 12 2018					
	NV	FV				FV*
		Level 1	Level 2	Level 3	Total	
1. Deposits from banks	-	-	-	-	-	-
1.1 Structured	-	-	-	-	-	X
1.2 Other	-	-	-	-	-	X
2. Deposits from customers	-	-	-	-	-	-
2.1 Structured	-	-	-	-	-	X
2.2 Other	-	-	-	-	-	X
3. Debt securities issued	359,142	-	370,200	-	370,200	432,778
3.1 Structured	138,098	-	126,658	-	126,658	X
3.2 Other	221,044	-	243,542	-	243,542	X
Total	359,142	-	370,200	-	370,200	432,778

Legend

NV = Nominal or Notional Value

FV = Fair Value

FV*= Fair value calculated excluding value adjustments due to variations in the credit rating of the issuer since the date of issue

The table shows the financial liabilities represented by fixed-rate and structured bonds which have been classified at fair value and are systematically subject to hedging. Hedging occurs through derivative contracts and is used to cover the risk of interest rate fluctuations and the risk resulting from embedded options.

The fair value option has been adopted for fixed-rate and structured debt securities issued by the Bank, for which the risk of fair value changes has been hedged by derivatives upon issuance, with the aim of maintaining the hedge for the contractual duration of the hedged securities; derivatives used under the fair value option are classified in the trading book.

Funding subject to hedging with derivative instruments under the fair value option is thus designated at fair value, in accordance with all the relative hedging derivatives which, for the purposes of the financial statements, have been classified under specific sub-items in the trading book.

In the income statement, positive and negative spreads or margins relative to derivative contracts until the balance sheet date are recognised as interest income and expense, while valuation profits and losses are posted under item "80 - Net profit (loss) from trading". Profit/loss from financial liabilities measured at fair value is recognised:

- among other revenue items without reversal to the income statement for the amount referring to changes in own creditworthiness;
- in item 110 "Net profit (loss) from other financial assets and liabilities measured at fair value through profit and loss" of the income statement for the residual portion of the fair value change.

The above recognition method does not create nor expand accounting asymmetry in the profit (loss) for the year, as the effects of changes in the credit risk of the Bank's liabilities are not offset in profit and loss by a change in the fair value of another financial instrument measured at fair value through profit and loss for the year.



Type of transaction / Amount	Total 31 12 2017					
	NV	FV				FV*
		Level 1	Level 2	Level 3	Total	
1. Deposits from banks	-	-	-	-	-	-
1.1 Structured	-	-	-	-	-	X
1.2 Other	-	-	-	-	-	X
2. Deposits from customers	-	-	-	-	-	-
2.1 Structured	-	-	-	-	-	X
2.2 Other	-	-	-	-	-	X
3. Debt securities issued	409,882	-	415,215	-	415,215	468,364
3.1 Structured	138,098	-	129,260	-	129,260	X
3.2 Other	271,784	-	285,955	-	285,955	X
Total	409,882	-	415,215	-	415,215	468,364

Legend

NV = Nominal or Notional Value

FV = Fair Value

FV*= Fair value calculated excluding value adjustments due to variations in the credit rating of the issuer since the date of issue

3.1.a Financial liabilities measured at fair value: the Fair Value Option approach

Liabilities for which the fair value option was adopted include natural hedges through debt security derivatives for a book value of EUR 370.2 mln (EUR 415.2 mln as at 31 December 2017).

**3.1.b Financial liabilities measured at fair value: structured debt securities**

Items/Amount	31 12 2018				Total
	Structured loan to banks	Structured loan to customers	Structured securities	Total	31 12 2017
Index Linked	-	-	126,658	126,658	129,260
Total	-	-	126,658	126,658	129,260

The table reports the main types of structured bonds issued and measured at fair value. Since bonds are measured at fair value through profit and loss, embedded derivatives are not reported separately.

3.2 Details of “Financial liabilities measured at fair value”: subordinated liabilities

This table was not completed as the Bank has no such liabilities to report for either the current or the previous year.



Section 4 - Hedging derivatives - Item 40

4.1 Hedging derivatives: breakdown by type of contract and underlying asset

	Fair value				NV
	31 12 2018				
	Level 1	Level 2	Level 3	Total	
A. Financial derivatives	-	907,617	-	907,617	32,092,504
1) Fair value	-	748,501	-	748,501	31,092,504
2) Cash flows	-	159,116	-	159,116	1,000,000
3) Foreign investments	-	-	-	-	-
B. Credit derivatives	-	-	-	-	-
1) Fair value	-	-	-	-	-
2) Cash flows	-	-	-	-	-
Total	-	907,617	-	907,617	32,092,504

Legend

NV = Nominal or Notional Value

The table displays the negative book value (fair value) of hedging derivatives for hedges carried out through hedge accounting.

Hedges of financial liabilities represented by securities are also managed through the fair value option.

Information on the underlying strategies and objectives of hedge transactions can be found in Section 2 “Market risks” of Part E “Information on risks and hedging policies”.

	Fair value				NV
	31 12 2017				
	Level 1	Level 2	Level 3	Total	
A. Financial derivatives	-	833,623	-	833,623	30,741,778
1) Fair value	-	701,123	-	701,123	29,741,778
2) Cash flows	-	132,500	-	132,500	1,000,000
3) Foreign investments	-	-	-	-	-
B. Credit derivatives	-	-	-	-	-
1) Fair value	-	-	-	-	-
2) Cash flows	-	-	-	-	-
Total	-	833,623	-	833,623	30,741,778

Legend

NV = Nominal or Notional Value



4.2 Hedging derivatives: breakdown by hedged portfolios and type of hedging

Operazioni/Tipo di copertura	Fair Value							Cash flow Hedge			Foreign investments	Total 31 12 2018
	Micro Hedge						Macro-hedge	Micro-hedge	Macro-hedge			
	Debt securities and interest rate	Equity instruments and stock indices	currencies and gold	Credit	Goods	Others						
1. Financial assets available for sale	105,573	-	-	-	X	X	X	-	X	X	105,573	
2. Loans and receivables	183,973	X	34,198	-	X	X	X	-	X	X	218,171	
3. Financial assets held to maturity	X	X	X	X	X	X	424,738	X	-	X	424,738	
4. Portfolio	-	-	-	-	-	-	X	-	X	-	-	
Total assets	289,546	-	34,198	-	-	-	424,738	-	-	-	748,482	
1. Financial liabilities	19	X	-	-	-	-	X	-	X	X	19	
2. Portfolio	X	X	X	X	X	X	-	X	-	X	-	
Total liabilities	19	-	-	-	-	-	-	-	-	-	19	
1. Expected transactions	X	X	X	X	X	X	X	159,116	X	X	159,116	
2. Financial assets and liabilities portfolio	X	X	X	X	X	X	-	X	-	-	-	
Total	289,565	-	34,198	-	-	-	424,738	159,116	-	-	907,617	

The tables show the negative fair values of hedging derivatives, classified by hedged assets or liabilities and type of hedging implemented.

In particular, on the assets side, fair value micro-hedging was used to hedge against interest rate risk on fixed-rate and variable-rate capped mortgages and bonds classified in the portfolio of “*financial assets measured at fair value through other comprehensive income*” or among receivables classified in the portfolio of “*financial assets measured at amortised cost*”, in order to protect them from unfavourable interest rate changes. Fair value macro-hedging was carried out on fixed-rate and capped floating rate mortgage loan portfolios.

With reference to financial liabilities, fair value micro-hedging of the interest rate risk refers primarily to hedges of liabilities represented by securities.

More information on hedged assets and liabilities can be found in the tables contained in Part B of the notes for each section of the balance sheet items to which the hedged items are posted.



Section 5 - Changes in value of macro-hedged financial liabilities - Item 50

5.1 Change in value of hedged liabilities: breakdown by hedged portfolios

Fair value change of financial liabilities in hedged portfolio:	Total 31 12 2018	Total 31 12 2017*
1. Positive fair value change of financial liabilities	18,145	-
2. Negative fair value change of financial liabilities	-	788
Total	18,145	(788)

The balance of changes in value of the liabilities subject to macro-hedging of interest rate risk is recognised in this item.

Section 6 – Tax liabilities – Item 60

Please refer to section 10 of the assets.

Section 7 – Liabilities associated with individual assets held for sale – Item 70

Please refer to section 11 of the assets.

**Section 8 – Other liabilities – Item 80****8.1 Other liabilities: breakdown**

	Total	Total
	31 12 2018	31 12 2017*
Due to the Revenue and other tax levying authorities	123,953	166,863
Due to social security authorities	325,226	491,152
Amounts available to customers	42,191	38,817
Other amounts due to employees	25,185	31,906
Items in transit between branches	12,351	6,362
Items in processing	669,330	735,965
Payables in relation to the payment of supplies of goods	204,059	206,614
Accrued expenses and unearned revenues not attributable	71,960	61,310
Payables for consolidated income tax return	512,093	485,143
Other	1,336,079	794,729
Total	3,322,427	3,018,861

* The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9; in addition, the comparative data were reclassified on the basis of the new accounting statements set forth in the 5th update of Bank of Italy Circular 262.

Sub-items “Items in processing” and “Other” include transactions which were cleared during the first days of 2019.

For the disclosures pursuant to IFRS 15.116 and IFRS 15.118, please refer to section 12 of the assets.



Section 9 – Provision for employee severance pay – Item 90

9.1 Provision for employee severance pay: annual changes

	Total 31 12 2018	Total 31 12 2017
A. Opening balance	192,525	245,264
B. Increases	2,284	4,499
B.1 Provision for the year	2,284	3,898
B.2 Other increases	-	601
C. Decreases	9,326	57,238
C.1 Severance payments	4,066	50,416
C.2 Other decreases	5,260	6,822
D. Closing balance	185,483	192,525

9.2 Other information

Provision for employee severance pay is considered as a defined benefit fund for the purpose of international accounting standards.

In accordance with the provisions of art. 2120 of the Italian Civil Code, employee severance pay would amount to EUR 166.8 mln.

The provision for the year, as clarified by the Bank of Italy, does not include amounts which, as a result of the reform introduced by Legislative Decree no. 252 of 5 December 2005, are paid directly by the Bank, depending on the various employee options, to complementary pension schemes or to the treasury fund managed directly by the Italian National Social Security Institute, INPS. These items are recognised in personnel expenses, as “contributions to external pension funds: defined contribution”.

9.2.a Changes in net defined benefit liability during the year: Severance pay

The table below reports the information required by paragraphs 140 and 141 of IAS 19.

Item/Amount	Present value of DBO	
	31 12 2018	31 12 2017
Opening balance	192,525	245,264
Current service cost	-	-
Interest income/expense	2,284	3,898
Remeasurement of net defined benefit liability (asset):	(4,633)	(5,563)
Return on plan assets excluding interest	-	-
Actuarial gains (losses) arising from changes in demographic assumptions	139	66
Actuarial gains (losses) arising from experience adjustments	(1,516)	(5,215)
Actuarial gains (losses) arising from changes in financial assumptions	(3,256)	(414)
Payments from plan	(4,066)	(50,416)
Other changes	(627)	(658)
Closing balance	185,483	192,525



9.2.b Key actuarial assumptions

Key actuarial assumptions/percentage	31 12 2018	31 12 2017
Discount rates	1%	0.87%
Expected rates of salary increases	X	X

9.2.c Sensitivity of defined benefit obligation of severance pay to changes in key actuarial assumptions

Actuarial assumptions	31 12 2018		31 12 2017	
	Change in DBO	Change (%) in DBO	Change in DBO	Change (%) in DBO
Discount rates				
Increase of 0.25%	(3,746)	-2.02%	(3,075)	-1.60%
Decrease of 0.25%	3,521	1.90%	3,870	2.01%

Section 10 – Provisions for risks and charges – Item 100

10.1 Provisions for risks and charges: breakdown

Item/Amount	Total	Total
	31 12 2018	31 12 2017*
1. Provisions for credit risk on commitments and financial guarantees issued	238,255	158,325
2. Provisions for other commitments and guarantee issued	5,200	65,000
3. Post employment benefits	33,392	44,213
4. Other provisions for risks and charges	1,107,990	974,113
4.1 legal and tax disputes	572,227	604,767
4.2 personnel charges	209,813	80,218
4.3 other	325,950	289,128
Total	1,384,837	1,241,651

* The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9; in addition, the comparative data were reclassified on the basis of the new accounting statements set forth in the 5th update of Bank of Italy Circular 262

For further details of the sub-item 4.3 “others”, please refer to table 10.6 below “Provisions for risks and charges - Other provisions”.



10.2 Provisions for risks and charges: annual changes

Item/Amount	Total 31 12 2018			
	Provisions for other commitments and guarantee issued	Post employment benefits	Other provisions for risks and charges	Total
A. Opening balance*	65,000	44,213	999,748	1,108,961
B. Increases	5,200	1,576	366,827	373,603.00
B.1 Provision in the year	5,200	965	365,926	372,091.00
B.2 Changes due to the time value of money	-	-	148	148.00
B.3 Changes due to discount rate variation	-	-	753	753.00
B.4 Other increases	-	611	-	611.00
C. Decreases	65,000	12,397	258,585	335,982.15
C.1 Use during the year	53,061	2,877	166,332	222,270.00
C.2 Changes due to discount rate changes	-	9,520	21	9,541.00
C.3 Other decreases	11,939	-	92,232	104,171.15
D. Closing balance	5,200	33,392	1,107,990	1,146,582

* The initial balance includes the effects of first-time adoption of the new IFRS 9 and IFRS 15 as at 1 January 2018, described in the paragraph "Transition to the IFRS 9 and IFRS 15 accounting standards".

10.2-bis Provisions for risks and charges: annual changes

Voci/Componenti	Totale 31 12 2018			
	Provisions for legal and tax disputes	Provisions for personnel charges	Other provisions	Total
A. Opening balance*	604,767	80,218	314,763	999,748
B. Increases	86,469	154,171	126,188	366,828
B.1 Provisions in the year	85,610	154,130	126,186	365,926
B.2 Changes due to the time value money	140	7	1	148
B.3 Changes due to discount rate variation	719	34	1	753
B.4 Other increases	-	-	1	1
C. Decreases	119,008	24,576	115,001	258,586
C.1 Use during the year	59,397	14,109	92,826	166,332
C.2 Changes due to discount rate changes	20	1	0	21
C.3 Other decreases	59,592	10,465	22,176	92,233
D. Rimanenze finali	572,227	209,813	325,950	1,107,990

* The initial balance includes the effects of first-time adoption of the new IFRS 9 and IFRS 15 as at 1 January 2018, described in the paragraph "Transition to the IFRS 9 and IFRS 15 accounting standards".

Note that "Other provisions", sub-item "B.1 Provision for the year" includes provisions of EUR 126.0 mln for the compensation initiative connected to the offer of diamonds.

For further details, please refer to Section 5 "Operational risks" of Part E of the Notes to the financial statements.



10.3 Provisions for credit risk relative to commitments and financial guarantees issued

	Provisions for credit risk on commitments and financial guarantees issued			
	1 Stage	2 Stage	3 Stage	Totale 31 12 2018
Loans commitments	2,344	1,971	-	4,315
Financial guarantees issued	6,016	5,278	222,646	233,940
Total	8,360	7,249	222,646	238,255

10.4 Provisions on other commitments and guarantees issued

Allowances for other commitments IAS 37 and other guarantees given IFRS4	Totale 31 12 2018	
	Nominal amount	allowances
Other loans commitments	5,200	5,200
Other guarantees given	-	-
Totale	5,200	5,200

10.5 Defined benefit company pension funds

10.5.1. Description of funds and related risks

The information provided below concerns defined benefit pension funds in favour of employees and terminated employees, i.e. funds in which the obligation of future payment of retirement benefits is undertaken by the fund itself and indirectly by the Bank, which may be required to increase the value of the obligation in the event of inadequate capital assessed in accordance with actuarial criteria.

For each definite benefit plan the Bank relies on analyses carried out by an independent certified actuary.

In accounting for the plans, the surplus or deficit was determined using the credit unitary projection method; therefore the fair value of the assets servicing the plan, if any, was deducted from the current value of the obligation, as shown in the statement of financial position (*see Part A of the Notes - Accounting Policies*).

The valuations concerned those participating, which form a closed group of retired or active employees, and were carried out on the basis of these groups of employees as measured in December 2018 (with the exclusion of the Section of the Cassa di Previdenza Aziendale - Company's Pension Scheme) for employees of Monte dei Paschi di Siena, valued as at 30 November 2018).

In accordance with IAS 19, revised by amendments issued by IASB on 16 June 2011 and approved by EU Regulation no. 475/2012 dated 5 June 2012, in determining the total cost of each defined benefit plan, which - as is well-known - may be influenced by many variables, objective and prudential technical bases were adopted in formulating both demographic and financial assumptions.

In view of the evolutionary nature of the main relevant aggregates, actuarial valuations were performed under dynamic conditions, so as to subsume in the medium-long term both the average annual changes in the benefits defined in each plan, and the interest rate trends expected in the financial market.

Some of the main actuarial assumptions that were formulated and used as valuation bases are mentioned below:



- 1) technical mortality basis: using death probability data as provided in ISTAT's 2017 tables, broken down by gender and age, with mortality reduced by 20%;
- 2) economic-financial basis: using as annual relative interest rate the interpolated EUR Composite AA rate curve (BFV) as at 31 December 2018.

For each defined benefit plan, the balance sheet equity resulting from valuations carried after reconciliation of actuarial assets and liabilities as at 31 December 2018 underwent a sensitivity analysis to examine the effects of changes in the key technical assumptions included in the calculation model (average annual discount rate and inflation rate), and the results were presented in specific tables.

The theoretical future increase in INPS pensionable earnings, which in any case is considered in the calculation model in an average annual percentage of 0.75%, was not included in the sensitivity analysis because it is essentially irrelevant for the preparation of the technical financial statements as, given that all defined benefit pensions funds are closed to new participants and taking into account the progressive decrease in the active population due to retirements during the year, the ratio between active and retired participants has now reduced to a percentage of less than 0.1%.

The defined benefit plans, in which the Bank is co-obliged within the limits set out in the by-laws or in the regulations of each plan, are either internal plans, divided in the description below between unfunded and funded, or independent external funds.

Unfunded internal funds

Supplementary pension provision for staff in the former tax collection division of Banca Monte dei Paschi di Siena S.p.A.

(Bank Register no. 9185)

This is a defined benefit plan designed to provide retired staff of the former Direct Management division of Banca MPS with supplementary pension in the form of annuity.

The entitled population, consisting solely of retirees whose number is 319, is made up of staff of the former business unit, divested in 2006, who retired after the year 1982.

For the purposes of the preparation of the technical financial statements, the liabilities were valued taking into account INPS pension payment regulations issued by Law no. 335/95 as amended and the Plan Regulations.

The valuations concerning participants were carried out on the basis of the positions of retirees receiving immediate or deferred retirement benefits, taking into account details on currently paid pensions, types of pension, personal data of the beneficiary and amount of the annuity paid by the Fund and that paid by INPS.

In the event that the agreed benefits are more costly than expected, the Bank remains responsible for providing additional funds to meet the financial requirements of the retirement plans.

The valuations show an actuarial gain of EUR 1.47 mln at the date of 31 December 2018.

National insurance (INPS) for ex-Banca Operaia di Bologna staff

(Bank Register no. 9142)

The fund is intended to supplement benefits paid out under INPS pension schemes for retired employees of former Banca Operaia di Bologna.

The Plan's Regulations, signed on 23 September 1980, provide for supplementary benefit up to a certain percentage of the last salary earned. For the purposes of pension calculation, annual salary means a set of items paid on a continuous basis and on which benefits are paid out to surviving dependents. For the



purposes of the preparation of the technical financial statements, the liabilities were valued taking into account INPS pension payment regulations issued by Law no. 335/95 as amended.

The valuations concerning participants were carried out taking into account details on currently paid pensions, personal data of the beneficiary and the ratio between the annuity paid by the Fund and that paid by INPS.

In the event of deficit, the Bank remains responsible for providing additional funds to meet the financial requirements of the retirement plans.

The valuations show an actuarial loss of EUR 0.06 mln at the date of 31 December 2018.

The plan applies to a population made up exclusively of non-active participants, of which 66 are retired and 4 are active employees.



Pension provision for employees of former Banca di Credito Popolare e Cooperativo di Reggio Emilia

(Bank Register no. 9178)

The sole aim of the fund is to supplement compulsory schemes in order to guarantee higher levels of insurance coverage for ex-employees of former Banca di Credito Popolare e Cooperativo di Reggio Emilia, as the direct beneficiaries of a life annuity or as the surviving spouse of a former employee.

The pension provision for employees participating in the Fund is governed by the Regulations issued in 1977 and later amended to reflect subsequent laws. It provides for payment of supplementary benefits so as to reach a certain percentage of the last salary earned.

The valuations concerning participants were carried out taking into account details on currently paid pensions, personal data of the beneficiary and the ratio between the annuity paid by the Fund and that paid by INPS.

The obligation to pay the benefits lies with the Bank, which must provide the wherewithal to cover the liability over time.

The valuations show an actuarial gain of EUR 0.04 mln at the date of 31 December 2018.

The Plan applies to a population of only 12 retirees.

Pension provision for employees of former Banca Popolare Veneta

(Bank Register no. 9066)

The pension plan, which applies to a residual population of 19 retirees, is aimed at supplementing the benefits paid out by INPS for employees already retired at 7 December 1989 and their assignees, under labour agreements signed on 4 February 1956 and on 1 January 1982 for executive staff, as amended.

The valuations concerning participants were carried out taking into account details on currently paid pensions, personal data of the beneficiary and the ratio between the annuity paid by the Fund and that paid by INPS.

In the event of deficit, the Bank is responsible for providing additional funds to meet the financial requirements of the retirement plans.

The valuations show an actuarial loss of EUR 0.05 mln at the date of 31 December 2018.



Funded internal funds

Pension provision for employees of former Banca Nazionale Agricoltura.

(Bank Register no. 9047)

The purpose of this Provision is to pay additional retirement benefits over and above those paid by INPS to employees of the former Banca Nazionale dell'Agricoltura, who retired before 1 October 2000 or whose employment was terminated after this date without their having exercised the right, provided under the agreement of 12 September 2000, to transfer their contributions to another individual capitalisation, defined contribution fund.

The Plan applies to a population of 229 retirees and 3 employees on deferred retirement.

The Plan's Regulations, first approved in 1966, provide for supplementary benefit up to a certain percentage of the last salary earned, to be paid to the direct beneficiaries and their surviving dependants.

The valuations concerning participants were carried out taking into account details on currently paid pensions, personal data of the beneficiary and the ratio between the annuity paid by the Fund and that paid by INPS.

Although the Fund has its own separate and independent allocation capital, the guarantee of performance of the benefit payment obligation lies with the Bank, which must ensure the wherewithal to cover the liability over time.

At the valuation date of 31 December 2018, the actuarial calculations show that the capital adequacy of the Fund satisfies the obligation to pay benefits with respect to the participants.

Complementary pension provision for employees of former Banca Toscana

(Bank Register no. 9110)

This defined benefit complementary pension fund is reserved for employees of the former Banca Toscana who were already retired at 1 January 1999 and to active employees hired before 27 April 1993 who did not opt at the time to transfer their contributions to an individual capitalisation and defined contribution fund.

The population of employees eligible for the present and future benefits is composed of 805 retirees and 6 active employees.

The current Fund Regulations set out the rules concerning the retirement benefits to be paid to eligible employees, distinguishing between old age, seniority and disability pensions. Calculation of the complementary benefits is based on the average of the last three years of employment, taking into account only the items specified in the Regulations.

The guarantee of performance of the benefit payment obligation lies with the Bank, which must ensure the wherewithal to cover the liability over time, although the Fund has its own, separate accounting and capital, with the effects set out in art. 2117 of the Italian Civil Code.

At the valuation date of 31 December 2018, the actuarial calculations show that the capital adequacy of the Fund satisfies the obligation to pay benefits with respect to the participants.



External funds

Cassa di Previdenza Aziendale for Monte dei Paschi di Siena employees

(Bank Register no. 1127)

The Fund has legal personality and full independence in terms of capital and operation.

It is reserved for employees and retirees of the Bank hired until 31 December 1990 who, following the agreement of 30 June 1989, opted to remain in the specific complementary benefit Section under a defined benefit regime.

The Fund's governance consists of a Board of Directors and a Board of Statutory Auditors with joint membership (some of the members are appointed by the Bank and others are appointed by the participants) supported by the General Manager.

The Bank provides, free of charge, the employees, premises and other resources required for the autonomous management of the Cassa and incurs all the related costs and expenses, including those for the functioning of the governing and control bodies.

In terms of guarantees given, in accordance with art. 26 of the By-laws, any deficits in Section coverage which should be identified during actuarial checks will be made up by the Bank only to the extent necessary to maintain tier 1 services, in accordance with the guarantee to the participants undertaken in compliance with Law no. 218/90 and referred to in the agreement of 24 June 1991.

The complementary benefits, which are determined by subtracting the benefits paid out by INPS from the annual amount of the complementary benefits, are made up of two components. The first component increases the benefits to be paid by the Cassa up to 70% of the fixed items of the salary of an employee of the same level, and the second component increases the complementary benefits by a further 9%.

The assets that comprise the reference capital consist primarily of investments in securities, managed almost entirely under a financial management agreement, and properties.

The population is composed of 2,603 retirees, 168 active employees and 63 employees on deferred retirement.

The technical report prepared in accordance with IAS 19 criteria by the designated actuary shows the capital adequacy of the Complementary Section which, against an asset fair value calculated at 30 November 2018 (*) of EUR 335.97 mln, takes into consideration a defined benefit obligation (DBO) as at 31 December 2018 of EUR 138.63 mln.

() most recent figure available*

Pension Fund for personnel of former Banca Agricola Mantovana S.p.A.

(Bank Register no. 1341)

The Fund, which operates on a defined benefit basis, has legal personality and full independence in terms of capital and operation, as its legal form is that of an unincorporated association under art. 36 of the Italian Civil Code.

The sole purpose of the Fund is to pay to eligible participants complementary benefits over and above those paid out by INPS; the participants include 33 retirees and 3 employees on deferred retirement.

At the valuation date of 31 December 2018, the actuarial calculations highlight a DBO (Defined Benefit Obligation) of EUR 0.91 mln against capital meant to satisfy the pension obligation (Asset Fair Value) of EUR 0.87 mln.



Pension Fund for personnel of former Banca Antonveneta S.p.a.

(Bank Register no. 1033)

The Fund, whose legal form is that of an unincorporated association in accordance with article 36 of the Italian Civil Code, has the sole purpose of providing benefits in addition to AGO (General Compulsory Insurance) cheques, was established in 1966 and has continued to operate to date.

The currently limited group of pensioners entitled to benefits refers to those who at the time did not accept the proposal for the settlement in capital of the value of the position recognised.

The population eligible to receive the benefits is composed of only 28 retirees.

At the valuation date of 31 December 2018, the actuarial calculations highlight a DBO (Defined Benefit Obligation) of EUR 1.92 mln against capital meant to satisfy the pension obligation.

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The defined benefit pension fund for personnel of the London branch (BMPS UK Pension Fund) is designed to pay for the employees' benefits upon reaching normal retirement age as well as benefits to other surviving beneficiaries. The pension plan is administered by a Trustee, whose members also include active employees; the financial resources are managed by a specialised company. The technical report prepared in accordance with IAS 19 criteria by the designated actuary at the valuation date of 31 December 2018 shows the capital adequacy of the plan which, against an asset fair value of EUR 43.46 mln, takes into consideration the DBO (Defined Benefit Obligation) of EUR 39.55 mln.

The pension plan for personnel of the New York branch (Retirement Plan) was terminated and fully paid out, in the relative entitled amounts, to participants upon closure of the branch, which took place on 31 December 2018.

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IAS 19 was also applied to calculate the actuarial values that could be used to determine the liability relating to the complementary benefits associated with the former Credito Lombardo Spa. Considering the contractual nature of the obligation, the economic costs are incurred directly by the Parent Company. The currently limited group of people eligible for benefits regards a total of 95 immediate pensions, of which 61 direct and 34 indirect. The actuarial calculations show a DBO (Defined Benefit Obligation) of EUR 2.68 mln at the valuation date of 31 December 2018.

Finally, there is one position referring to a former General Manager of the Parent Company to whom specific economic benefits other than pension benefits are disbursed. In any event, they are assessed on the basis of actuarial parameters in order to determine the value of the Parent Company's obligation. This type of remuneration, known as *ex contractu*, consists of payment of monthly benefits revalued on the basis of automatic pension equalisation indexes.

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As required by the Bank of Italy, the internal fund statements can be found in the annexes to the financial statements.



10.5.2 Changes in net defined liability (asset) and reimbursement rights during the year

The following tables show movements for the year in internal and external funds which, according to international accounting standards, come under the heading of defined benefit funds.

10.5.2a Changes in net defined liability (asset) and reimbursement rights during the year – Internal Funds

Item/Amount	31 12 2018			
	A (-)	B (+)	C (+)	D=A+B+C
	Plan assets	Present value of DBO	Effect of asset ceiling	Net defined benefit liability (asset)
Opening balance	(122,059)	144,136	14,489	36,566
Current service cost	X	21	X	21
Interest income/expense	(763)	925	77	239
Remeasurement of net defined benefit liability (asset):	(116)	(5,939)	4,443	(1,612)
Return on plan assets excluding interest	(116)	X	X	(116)
Actuarial gains (losses) arising from changes in demographic assumptions	X	(2,017)	X	(2,017)
Actuarial gains (losses) arising from experience adjustments	X	(1,765)	X	(1,765)
Actuarial gains (losses) arising from changes in financial assumptions	X	(2,157)	X	(2,157)
Changes in effect of limiting net defined benefit asset to asset ceiling	X	X	4,443	4,443
Past service cost and gains (losses) arising from settlements	X	-	X	-
Changes in foreign exchange rates	-	-	-	-
Contributions to plan:	-	-	-	-
by employer	-	-	X	-
by employee	-	-	X	-
Payments from plan	9,094	(11,971)	X	(2,877)
Effect of business combinations and disposals	-	-	-	-
Effect of any plan curtailments	-	-	X	-
Effect of any plan settlements	-	-	X	-
Other changes	-	-	-	-
Closing balance	(113,844)	127,172	19,009	32,337



Item/Amount	31 12 2017			
	A (-)	B (+)	C (+)	D=A+B+C
	Plan assets	Present value of DBO	Effect of asset ceiling	Net defined benefit liability (asset)
Opening balance	(132,071)	153,576	15,590	37,095
Current service cost	X	16	X	16
Interest income/ expense	(538)	1,231	-	693
Remeasurement of net defined benefit liability (asset):	804	1,996	(1,101)	1,699
Return on plan assets excluding interest	804	X	X	804
Actuarial gains (losses) arising from changes in demographic assumptions	X	4,662	X	4,662
Actuarial gains (losses) arising from experience adjustments	X	(2,386)	X	(2,386)
Actuarial gains (losses) arising from changes in financial assumptions	X	(280)	X	(280)
Changes in effect of limiting net defined benefit asset to asset ceiling	X	X	(1,101)	(1,101)
Past service cost and gains (losses) arising from settlements	X	-	X	-
Changes in foreign exchange rates	-	-	-	-
Contributions to plan:	-	-	-	-
by employer	-	-	X	-
by employee	-	-	X	-
Payments from plan	9,746	(12,683)	X	(2,937)
Effect of business combinations and disposals	-	-	-	-
Effect of any plan curtailments	-	-	-	-
Effect of any plan settlements	-	-	X	-
Other changes	-	-	-	-
Closing balance	(122,059)	144,136	14,489	36,566



10.5.2b Changes in net defined liability (asset) and reimbursement rights during the year: External Funds

Item/Amount	31 12 2018			
	A (-)	B (+)	C (+)	D=A+B+C
	Plan assets	Present value of DBO	Effect of asset ceiling	Net defined benefit liability (asset)
Opening balance	(437,547)	240,662	204,532	7,647
Current service cost	X	724	X	724
Interest income/expense	(5,874)	4,793	1,595	514
Remeasurement of net defined benefit liability (asset):	32,042	(30,822)	(2,863)	(1,643)
Return on plan assets excluding interest	32,042	X	X	32,042
Actuarial gains (losses) arising from changes in demographic assumptions	X	(2,510)	X	(2,510)
Actuarial gains (losses) arising from experience adjustments	X	(20,196)	X	(20,196)
Actuarial gains (losses) arising from changes in financial assumptions	X	(8,116)	X	(8,116)
Change in effect of limiting net defined benefit asset to asset ceiling	X	X	(2,863)	(2,863)
Past service cost and gains (losses) arising from settlements	X	220	X	220
Changes in foreign exchange rates	(100)	356	-	256
Contributions to plan:	(7,426)	-	-	(7,426)
by employer	(7,426)	-	X	(7,426)
by employee	-	-	X	-
Payments from plan	25,238	(25,238)	X	-
Effect of business combinations and disposals	-	-	-	-
Effect of any plan curtailments	-	(415)	X	(415)
Effect of any plan settlements	-	878	X	878
Other changes	300	-	-	300
Closing balance	(393,367)	191,158	203,264	1,055



Item/Amount	31 12 2017			
	A (-)	B (+)	C (+)	D=A+B+C
	Plan assets	Present value of DBO	Effect of asset ceiling	Net defined benefit liability (asset)
Opening balance	(447,483)	252,862	204,761	10,140
Current service cost	X	675	X	675
Interest income/expense	(4,026)	5,268	(575)	667
Remeasurement of net defined benefit liability (asset):	3,388	(4,708)	346	(974)
Return on plan assets excluding interest	3,388	X	X	3,388
Actuarial gains (losses) arising from changes in demographic assumptions	X	1,428	X	1,428
Actuarial gains (losses) arising from experience adjustments	X	(5,964)	X	(5,964)
Actuarial gains (losses) arising from changes in financial assumptions	X	(172)	X	(172)
Change in effect of limiting net defined benefit asset to asset ceiling	X	X	346	346
Past service cost and gains (losses) arising from settlements	X	-	X	-
Changes in foreign exchange rates	3,464	(4,356)	-	(892)
Contributions to plan:	(1,969)	-	-	(1,969)
by employer	(1,969)	-	X	(1,969)
by employee	-	-	X	-
Payments from plan	9,079	(9,079)	X	-
Effect of business combinations and disposals	-	-	-	-
Effect of any plan curtailments	-	-	X	-
Effect of any plan settlements	-	-	X	-
Other changes	-	-	-	-
Closing balance	(437,547)	240,662	204,532	7,647



10.5.2c Changes in net defined liability (asset) and reimbursement rights during the year – Total

Item/Amount	31 12 2018			
	A (-)	B (+)	C (+)	D=A+B+C
	Plan assets	Present value of DBO	Effect of asset ceiling	Net defined benefit liability (asset)
Internal funds	(113,844)	127,172	19,009	32,337
External funds	(393,367)	191,158	203,264	1,055
Total defined benefit funds	(507,211)	318,330	222,273	33,392

Item/Amount	31 12 2017			
	A (-)	B (+)	C (+)	D=A+B+C
	Plan assets	Present value of DBO	Effect of asset ceiling	Net defined benefit liability (asset)
Internal funds	(122,059)	144,136	14,489	36,566
External funds	(437,547)	240,662	204,532	7,647
Total defined benefit funds	(559,606)	384,798	219,021	44,213



10.5.3 Information on Fair value of plan assets

Item	31 12 2018			
	Internal pension plans		External pension plans	
	Listed in active markets	Not listed in active markets	Listed in active markets	Not listed in active markets
Cash and cash equivalents	87,550	-	6,065	-
<i>of which: used by the Bank</i>	87,550	-	2,796	-
Equity instruments	-	-	33,818	-
<i>of which: used by the Bank</i>	-	-	-	-
Debt instruments	26,294	-	149,271	-
<i>of which: used by the Bank</i>	-	-	5,974	-
Real estate	-	-	-	59,682
<i>of which: used by the Bank</i>	-	-	-	-
Derivatives	-	-	-	-
UCITS	-	-	144,531	-
Asset-backed securities	-	-	-	-
Structured debt	-	-	-	-
Total	113,844	-	333,685	59,682
<i>of which: own instruments/ assets used by the Group</i>	87,550	-	8,771	-

The table shows, for funded defined benefit plans, the total amount of plan assets. In particular, the assets refer to the following funds:

- Pension Fund for personnel of former Banca Agricola Mantovana S.p.A.,
- Pension Fund for personnel of former Banca Toscana S.p.A.,
- Pension Fund for personnel of former Banca Antonveneta,
- Cassa di Previdenza Aziendale for Monte dei Paschi di Siena employees, defined benefit section,
- Pension Fund for personnel of the Parent Company of the London branch,

the total of which exceeds the obligations existing at year end.



Item	31 12 2017			
	Internal pension plans		External pension plans	
	Listed in active markets	Not listed in active markets	Listed in active markets	Not listed in active markets
Cash and cash equivalents	83,847	-	10,154	-
of which: used by the Group	83,847	-	3,012	-
Equity instruments	-	-	36,941	-
of which: issued by Group	-	-	-	-
Debt instruments	38,212	-	170,018	-
of which: issued by the Group	-	-	5,974	-
Real estate	-	-	-	72,896
of which: used by the Group	-	-	-	-
Derivatives	-	-	-	-
UCITS	-	-	147,538	-
Asset-backed securities	-	-	-	-
Structured debt	-	-	-	-
Total	122,059	-	364,651	72,896
of which: own instruments/assets used by the Group	83,847	-	8,987	-

10.5.4 Key actuarial assumptions used

Key actuarial assumptions /percentages	31 12 2018		31 12 2017	
	Defined benefit funds		Defined benefit funds	
	Internal pension plans	External pension plans	Internal pension plans	External pension plans
Discount rates	0.76%	2.90%	0.69%	1.65%
Expected rates of salary increases	0.75%	1.98%	0.75%	2.03%

A discount rate of 0.76% was used for internal plans and of 2.90% for external ones (1.00% for Provision for severance pay, see table 9.2b), calculated as a weighted average of interest rates in EUR Composite AA yield curve as at 31 December 2018, using, as weights, the ratio between the amount paid/paid in advance for each maturity and the total amount to be paid/paid in advance for the entire duration of the population considered.

**10.5.5 Information on amount, timing and uncertainty of cash flows**

Actuarial assumption	Change in DBO	Change (%) in DBO
Discount rate		
Increase of 0.25%	(3,925)	-1.23%
Decrease of 0.25%	3,452	1.09%
Expected rates of salary increases		
Increase of 0.25%	2,122	0.67%
Decrease of 0.25%	(1,869)	-0.59%

31 12 2017

Actuarial assumption	Change in DBO	Change (%) in DBO
Discount rate		
Increase of 0.25%	(16,448)	-4.20%
Decrease of 0.25%	9,544	2.44%
Expected rates of salary increases		
Increase of 0.25%	4,036	1.03%
Decrease of 0.25%	(10,922)	-2.79%

With respect to pay increases, it is not possible to conduct any sensitivity analysis given the static nature of the benefits linked to the choice of participants to stay in the fund.

10.5.6 Plans covering multiple employers

The table in this section was not completed since there are no plans covering multiple employers to report for either the current or previous year.

10.5.7 Defined benefit plans sharing risks among entities under common control

The table in this section was not completed since there are no defined benefit plans sharing risks among entities under common control to report for either the current or previous year.



10.6 Provisions for risks and charges: other provisions

Items/Amounts	Total	Total
	31 12 2018	31 12 2017
2.1 Legal and tax disputes	572,227	604,767
- Revocatory	55,157	64,122
- Other legal disputes	485,940	521,694
- Tax disputes	31,130	18,951
2.2 Personnel charges	209,813	80,218
- Job disputes	30,870	37,933
- Leaving incentives	159,728	15,008
- Other	19,215	27,277
2.3 Other	325,950	289,128
- Risks related to the sale of business units	22,985	26,541
- Charges due to corporate restructuring	15,055	25,769
- Payments to financial advisors	-	45
- Charges for embezzlement	6,949	12,137
- Claims and Court agreements	2,628	1,085
- Other	278,333	223,551
Total	1,107,990	974,113

Item 2.3 “Other - sub-item other” includes the EUR 29.7 mln provision allocated for the purposes of IFRS 15 and related to a contract for the placement of third-party products, with a claw-back clause in effect as at 31 December 2018. The provision was made according to a model based on historic series of the three prior years. The item also includes provisions of EUR 126.0 mln for the compensation initiative connected to the offer of diamonds (for greater detail, see section 1.5 “Operational risks” in Part E of the Notes to the Financial Statements).



10.7 Contingent liabilities

Tipologie	31 12 2018
Legal and tax disputes	959,500
- Other legal disputes	930,923
- Tax disputes	28,577
Personnel charges	515
- Job disputes	515
Others	138,749
Totale	1,098,764

A contingent liability is defined as i) a possible obligation arising from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not totally under control, or ii) a current obligation that arises from past events but is not recognised because use of resources aimed at producing economic benefits will likely not be required to settle the obligation or because the amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are not subject to recording but, if deemed “possible”, are solely subject to disclosure. Conversely, contingent liabilities that are deemed to be of “remote” likelihood do not require any disclosure, pursuant to the provisions of IAS 37. Hence, the table above shows only “possible” liabilities.

Similar to “possible” liabilities, contingent liabilities are also monitored because they may, over time, become “remote” or “probable”, with the need, in the latter case, to make the necessary provisions.

In this context, it should be noted that the classification of contingent liabilities and the relative amount is based on non-objective judgements that require recourse to sometimes extremely complex estimation procedures; therefore, they may be subject to redetermination over time.

Specifically, in reference to the dispute, the table shows the claim, where quantified; this value cannot be considered a measurement of the expected disbursement in accordance with IAS 37. In fact, the Bank does not deem it practical to provide an estimate of the expected disbursement, as the calculation would be complex and onerous.

For further details, please refer to Section 1.5 “Operational risks” of Part E in the Notes to the financial statements.

Section 11 - Redeemable shares - Item 120

The tables in this section have not been completed as no data is present for the current year or for the previous year.



Section 12 - Company equity - Items 110, 130, 140, 150, 160, 170 and 180

12.1 “Share capital” and “Treasury shares”: breakdown

12.1.a “Share capital” breakdown

Items/Amounts	31 12 2018		31 12 2017	
	Implied par value share (a)	Par value of fully paid shares	Par value per share	Par value of fully paid shares
Ordinary shares	9.06	10,328,618,260	9.06	10,328,618,260
Total		10,328,618,260		10,328,618,260

On 6 June 2011 the Bank's Extraordinary Shareholders' Meeting resolved that indication of the par value of the classes of shares be eliminated; accordingly, as at 31 December 2011, the so-called “Implied par value” is indicated, which is obtained by dividing the total share capital amount by the number of shares in the same category, outstanding at the reference date.

Ordinary shares are registered and indivisible. Each share entitles to one vote. Information on the number of fully paid-up shares can be found in the notes to Table “12.2 Share capital – number of shares: annual changes”.

At the reporting date, the Bank's share capital amounted to EUR 10,328,618,260.14, represented by 1,140,290,072 ordinary shares without a nominal value, of which 1,118,778,319 outstanding.

12.1.b “Treasury shares”: breakdown

At the date of these financial statements, the Bank holds 21,511,753 treasury shares for a total value of EUR 185.96 mln.

**12.2 Share capital - Number of shares: annual changes**

Item/Type	31 12 2018	31 12 2017
	Ordinary	Ordinary
A. Shares outstanding as at the beginning of the year	1,140,290,072	29,320,798
- fully paid	1,140,290,072	29,320,798
- not fully paid	-	-
A.1 Treasury shares (-)	21,511,753	-
A.2 Shares outstanding: opening balance	1,118,778,319	29,320,798
B. Increases	-	1,110,969,274
B.1 New issuances	-	1,110,969,274
- Against payment:	-	1,110,969,274
- Business combinations	-	-
- Bond converted	-	517,099,404
- warrants exercised	-	-
- other	-	593,869,870
- without payment:	-	-
- to employees	-	-
- to directors	-	-
- other	-	-
B.2 Sale of treasury shares	-	-
B.3 Other increases	-	-
C. Decreases	-	21,511,753
C.1 Cancellation	-	-
C.2 Purchase of treasury shares	-	-
C.3 Business transferred	-	-
C.4 Other decreases	-	21,511,753
D. Shares outstanding: closing balance	1,118,778,319	1,118,778,319
D.1 Treasury shares (+)	21,511,753	21,511,753
D.2 Shares outstanding as at the end of the year	1,140,290,072	1,141,290,072
- fully paid	1,140,290,072	1,140,290,072
- not fully paid	-	-

The number of shares outstanding and the number of treasury shares did not change during 2018.

At the date of these financial statements, the share capital is fully paid in.



12.3 Share capital: other information

12.3.a Equity instruments: breakdown and annual changes

As at 31 December 2018, the Bank held no equity instruments.

12.4 Retained earnings: other information

12.4.a Item “Reserves” - breakdown

See “Part F - Information on shareholders’ equity” of these Notes to the financial statements.

12.4 b Information on Equity items under art. 2427.7bis of the Italian Civil Code

		Note	31 12 2018	Under tax suspension	Available for use	Amounts used in the last 5 years to cover losses
130 Valuation reserves	Equity instruments measured at fair value through other comprehensive income		(28,431)	-	-	-
	Financial assets (other than equity instruments) measured at fair value through other comprehensive income		(139,994)	-	-	-
	Cash flow Hedges		(50,854)	-	-	-
	Exchange differences	(1)	4,893	-	-	-
	Actuarial gains (losses) on defined benefit plans		(104,556)	-	-	-
	Valuation reserve of own credit risk	(1)	42,023	-	-	-
	Revaluation Law 185/2008 art.15 paragraph 16 et seq.		-	-	-	34,056
	Revaluation Law 266/2005		-	-	-	11,704
	Valuation reserves		(276,919)	-	-	45,760
150 Equity Instruments	Equity instruments		-	-	-	3,002
160 Reserves	- Impact due to to adoption new international accounting standard		(978,423)	-	-	-
	- Extraordinary reserve		-	-	-	9,566
	- Revaluation ex art 6 lett a) DLgs. 38/05 (fair value option)	(2)	-	-	-	-
	- Merger surplus reserve		-	-	-	598,685
	- Indemnity 2009		(76,000)	-	-	-
	- Reserves for IAS 8 restatement		-	-	-	3,781
	- Other Comprehensive income reserve transferred to other component of equity		(13,118)	-	-	-
	- Other reserves		(22,726)	-	-	-
	- Profit (Loss) carried forward		(351,409)	-	-	-
	Reserves		(1,441,677)	-	-	612,032
170 Share premium reserve	Share premium reserve		-	-	-	8,616
180. Share capital	Share capital		10,328,618	-	-	13,718,948
190. Treasury shares	Treasury shares		(185,958)	-	-	-
200. Profit (Loss) for the year	Profit (Loss) for the year		(111,922)	-	-	-
Total shareholders' equity			8,312,143			14,388,358

Notes

- 1) The reserve is unavailable pursuant to art. 6 of Italian Legislative Decree no. 38/2005.
- 2) As at 31 December 2018, the Bank is obliged to replenish the reserve under art. 6.1 a) of Italian Legislative Decree no. 38/2005 for an amount of EUR 2.8 mln.



12.4.c Proposal to cover losses under art. 2427.22septies of the Italian Civil Code

Dear Shareholders,

The financial statements close with a net loss of EUR 111,921,614.

Moreover, first-time adoption in 2018 of IFRS 9 “Financial Instruments” and IFRS 15 “Revenue from Contracts with Customers” resulted in negative effects posted to equity for a total of EUR 978,422,816.

Therefore, we propose carrying forward the amount of EUR 1,090,344,430.

Siena, 28 February 2019

The Board of Directors



12.5 Equity instruments: breakdown and annual changes

As at 31 December 2018, the Bank held no equity instruments.

12.6 Other information

There is no additional information apart from what was already provided in the Notes to the Financial Statements.



Other information

1 Commitments and financial guarantees issued (other than those measured at fair value)

Nominal Amount	31 12 2018			
	Stage 1	Stage 2	Stage 3	Total
Commitments to lend funds	33,897,858	572,323	1,106,221	35,576,402
a) Central banks	11	-	-	11
b) Public entities	1,624,395	2	120,184	1,744,581
c) Banks	7,953,293	2,859	3,173	7,959,325
d) Other financial companies	1,122,120	26,391	9,674	1,158,185
e) Non-financial companies	20,674,914	376,672	934,939	21,986,525
f) Families	2,523,125	166,399	38,251	2,727,775
Financial guarantees given to	4,415,459	522,189	580,728	5,518,376
a) Banks	60	-	-	60
b) Public entities	36,504	1,228	-	37,732
c) Banks	674,393	758	3,172	678,323
d) Other financial companies	98,596	4,074	363	103,033
e) Non-financial companies	3,505,826	503,622	569,587	4,579,035
f) Families	100,080	12,507	7,606	120,193
Total	38,313,317	1,094,512	1,686,949	41,094,778



2 Other commitments and guarantees issued

	Nominal value
	31 12 2018
Other guarantees given to	-
of which: non-performing exposures	-
a) Central Banks	-
b) Public entities	-
c) Banks	-
d) Other financial companies	-
e) Non-financial companies	-
f) Families	-
Other commitments	16,127
of which: non-performing exposures	-
a) Central Banks	-
b) Public entities	-
c) Banks	10,927
d) Other financial companies	5,200
e) Non-financial companies	-
f) Families	-
Total	16,127

The table includes EUR 10.9 mln for securities to be settled in the time horizon envisaged by market practices (known as “regular way”).

3 Assets pledged as collateral for liabilities and commitments

Portfolios	31 12 2018	31 12 2017*
1. Financial assets measured at fair value through profit and loss	23,751	-
2. Financial assets measured at fair value through other comprehensive income	6,368,841	4,310,010
3. Financial assets measured at amortised cost	32,240,114	28,962,335
4. Tangible assets	-	-

* The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9; in addition, the comparative data were reclassified on the basis of the new accounting statements set forth in the 5th update of Bank of Italy Circular 262.

The table summarises the assets pledged by the Bank as collateral for its liabilities, mainly represented by repurchase agreements. The amount in line “3. Financial assets measured at amortised cost” includes approx. EUR 19.2 bn related to loans transferred to the vehicles MPS Covered Bond S.r.l. and MPS Covered Bond 2 S.r.l. as part of two programmes for the issue of covered bonds.



4 Operating leases

4.1 Future minimum lease payments due under operating leases

Items/Amounts	31 12 2018
Up to 1 year	137,919
From 1 to 5 years	522,158
Over 5 years	1,006,979
Future minimum lease payments due	1,667,056
Non-cancellable future minimum lease payments receivable	31,567

The amounts in the table also include the lease payments to Perimetro Gestione Proprietà Immobiliari S.C.P.A.

5 Asset management and trading on behalf of third parties

	Amount 31 12 2018
1. Trading of financial instruments on behalf of third parties	
a) Purchases	1,786,696
1. Settled	1,786,696
2. Unsettled	-
b) Sales	1,876,432
1. Settled	1,876,432
2. Unsettled	-
2. Asset management accounts	-
a) individual	2,804,337
b) collective	1,019
3. Custody and administration of securities	-
a) third party securities on deposit associated with custodian bank transactions (excluding asset management)	-
b) Other third party securities on deposit (excluding asset management)	54,164,593
1. Securities issued by companies included in consolidation	1,986,387
2. Other securities	52,178,206
c) third party securities deposited with third parties	42,996,587
d) own securities deposited with third parties	39,190,851
4. Other transactions	20,669,420



6 Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

Type	Gross amount of financial assets (a)	Amount of financial liabilities offset in balance sheet (b)	Net amount of financial assets recognised in the balance sheet (c=a-b)	Related amounts not subject to balance sheet offsetting		Net amount (f=c-d-e) 31 12 2018	Net amount 31 12 2017
				Financial instruments (d)	Deposits of cash collateral received (e)		
1. Derivatives	774,699	126,613	648,086	473,955	113,471	60,660	4,759
2. Repurchase agreements	5,757,576	-	5,757,576	5,757,576	-	-	0
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total as at 31 12 2018	6,532,275	126,613	6,405,662	6,231,531	113,471	60,660	X
Total as at 31 12 2017	4,482,655	148,751	4,333,904	4,190,352	138,793	4,759	4,759

7 Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

Type	Gross amount of financial liabilities (a)	Amount of financial assets offset in balance sheet (b)	Net amount of financial liabilities recognised in the balance sheet (c=a-b)	Related amounts not subject to balance sheet offsetting		Net amount (f=c-d-e) 31 12 2018	Net amount 31 12 2017
				Financial instruments (d)	Deposits of cash collateral received (e)		
1. Derivatives	1,426,975	126,613	1,300,362	473,955	572,014	254,393	211,320
2. Repurchase agreements	10,850,987	-	10,850,987	10,850,987	-	-	0
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total as at 31 12 2018	12,277,962	126,613	12,151,349	11,324,942	572,014	254,393	X
Total as at 31 12 2017	7,412,402	148,751	7,263,651	6,535,420	516,911	211,320	211,320

IFRS 7 requires disclosure of information for all financial instruments that:

- were offset in the balance sheet pursuant to IAS 32;
- could potentially be offset, given certain conditions, but presented in the balance sheet as open balances as they are governed by “framework offsetting agreements or similar agreements” which do not meet the criteria established in IAS 32 for offsetting.

The amount offset in the financial statement refers to trading in OTC derivatives through central counterparties.

For the purposes of reconciliation of the amounts shown in the column (c) “net amount of financial assets/liabilities recognised in the balance sheet” with the opening balances shown in “Part B – Information on the balance sheet”, it should be noted that:

- the amount related to both trading and hedging derivative financial instruments, aided by netting agreements or similar, is represented in asset items 20 a) “Financial assets held for trading” and 50 “Hedging derivatives” and in liability items 20 “Financial liabilities held for trading” and 40 “Hedging derivatives”;
- the amount related to repurchase agreements subject to netting agreements or similar is shown in line “Repurchase agreements/Reverse repurchase agreements” in the tables containing a breakdown of asset item 40 “Financial assets measured at amortised cost” and liability item 10 “Financial liabilities measured at amortised cost”.

It should also be noted that



- with regard to securities lending transactions, in these tables transactions involving the payment of cash collateral fully owned by the lender are included in the item "Repurchase agreements";
- the repurchase agreements are recognised in the tables at amortised cost, while the financial collateral and derivative transactions are reported at their fair value.

8 Securities lending transactions

The Bank has in place, as borrower, securities lending transactions guaranteed by other securities, amounting to approximately EUR 2.5 bn, signed with leading market counterparties.

The Bank has also in place, as borrower, securities lending transactions (mainly Italian government securities) with customers, amounting to approximately EUR 1.6 bn. The main purpose of the operations is government securities that the Bank, in turn, transfers to the subsidiary MPS Capital Services.

These transactions, which in accordance with current accounting regulations have no impact on the balance sheet, are carried out with the aim of increasing the counter-balancing capacity of the Bank.

9 Information on joint control activities

This paragraph was not completed as no such activities are present for the Bank.



Part C – Information on the income statement

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Section 1 - Interest income/expense and similar revenues/charges - Items 10 and 20

1.1 Interest income and similar revenues: breakdown

Item/Type	Debt securities	Loans	Other transactions	Total 31 12 2018	Total 31 12 2017*
1. Financial asset measured at fair value through profit and loss	41,613	13,454	4,767	59,834	23,962
1.1 Financial asset held for trading	1	-	4,767	4,768	23,962
1.2 Financial assets designated at fair value	-	-	-	-	-
1.3 Financial assets measured at fair value mandatory	41,612	13,454	-	55,066	-
2. Financial asset measured at fair value through other comprehensive income	129,733	-	X	129,733	147,147
3. Financial assets measured at amortised cost	99,418	1,844,890	X	1,944,308	2,377,102
3.1. Loans to banks	35,026	158,127	X	193,153	250,572
3.2 Loans to customers	64,392	1,686,763	X	1,751,155	2,126,530
4. Hedging derivatives	X	X	22,656	22,656	32,264
5. Other assets	X	X	2,830	2,830	4,487
6. Financial liabilities	X	X	X	27,271	-
Total	270,764	1,858,344	30,253	2,186,632	2,584,962
<i>of which interest income on credit impaired assets</i>	-	218,812	-	218,812	389,028

* The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9; in addition, the comparative data were reclassified on the basis of the new accounting statements set forth in the 5th update of Bank of Italy Circular 262.

Line 1.1 "Financial assets held for trading", in the "Other transactions" column, includes the positive net balance of spreads relating to derivatives connected with financial liabilities measured at fair value (fair value option), for an amount of EUR 4.7 mln (EUR 24.0 mln as at 31 December 2017).

The amount in line 5 "Other assets", in the "Other transactions" column, mainly shows interest accrued on tax credits.

The amount in line 6 "Financial liabilities" shows interest accrued on financial liabilities for EUR 27.3 mln.

Interest income, calculated for financial assets measured at amortised cost under the effective interest rate method, is entered in different columns based on the original 'technical form'. The amount accrued during the year for positions that are classified as "non-performing" as at the reporting date totalled EUR 219.0 mln (EUR 389 mln as at 31 December 2017). Note that, in line with the provisions of IFRS 9, the figure for 2018 is recognised based on the net exposures; instead, the figure referring to the prior year, with the exception of bad loans, was recognised based on the gross exposures of non-performing loans, since the relative write-down was reflected in item 130 of the income statement, "Net impairment losses/reversals on loans".

Interest on arrears accrued during the year is posted to interest income only for the portion actually recovered. Any amounts recovered in subsequent years are treated as a write-back on receivables and recognised in item 130 of the income statement.

For a trend analysis of the concerned items, reference should be made to the Report on Operations.



1.2 Interest income and similar revenues: other information

1.2.1 Interest income from financial assets denominated in foreign currency

Interest income from financial assets denominated in foreign currency for 2018 amounted to EUR 38.3 mln as compared to EUR 39.5 mln in 2017.

1.2.2 Interest income from finance leases

This table was not compiled since the Bank had no finance leases on which interest accrued for either the period under review or the previous year.



1.3 Interest expense and similar charges: breakdown

Items/Types	Deposits	Securities	Other transactions	Total 31 12 2018	Total 31 12 2017
1. Financial liabilities measured at amortised cost	(352,009)	(263,476)	-	(615,485)	(893,656)
1.1 Deposits from central banks	-	X	X	-	(1,313)
1.2 Deposits from banks	(102,556)	X	X	(102,556)	(141,652)
1.3 Deposits from customers	(249,453)	X	X	(249,453)	(364,236)
1.4 Debt securities issued	X	(263,476)	X	(263,476)	(386,455)
2. Financial liabilities held for trading	-	-	-	-	(1,719)
3. Financial liabilities designated at fair value	-	(9,136)	-	(9,136)	44,907
4. Other liabilities	X	X	(3,904)	(3,904)	(5,507)
5. Hedging derivatives	X	X	-	-	-
6. Financial assets	X	X	X	(36,180)	-
Total	(352,009)	(272,612)	(3,904)	(664,705)	(855,975)

Lines 1.2, “Deposits from banks” and 1.3, “Deposits from customers”, in the “Deposits” column, include interest on payables under repurchase agreements on: treasury securities recognised in the balance sheet or securities not recognised in the balance sheet obtained through repo transactions or from self-securitisations without derecognition.

Line 1.4, “Debt securities issued”, indicates the interest expense accrued during the year on bonds and certificates of deposit valued at amortised cost.

Line 6 “Financial assets”, which amounts to EUR 36.2 mln, highlights the negative interest accrued on financial assets.

For a trend analysis of the concerned items, reference should be made to the Report on Operations.

1.4 Interest expense and similar charges: other information

1.4.1 Interest expense on liabilities denominated in foreign currency

Interest expense on financial liabilities denominated in foreign currency for 2018 amounted to EUR 32.9 mln as compared to EUR 31.7 mln in 2017.

1.4.2 Interest expense on liabilities from finance leases

No values are shown in this table as there is no significant data to be reported for either the current or the previous year (less than EUR 1 mln).



1.5 Spreads on hedging transactions

Items	Total 31 12 2018	Total 31 12 2017
A. Positive spreads on hedging transactions	254,451	312,929
B. Negative spreads on hedging transactions	(231,795)	(280,666)
C. Balance (A+B)	22,656	32,263

In line with its hedging objectives and consequent minimisation of risks in the banking book, the Bank carries out both fair value and cash flow hedging transactions.

Section 2 - Fee and commission income/expense - Items 40 and 50

2.1 Fee and commission income: breakdown

Type of service / Amount	Total 31 12 2018	Total 31 12 2017
a) guarantees issued	52,957	63,546
b) credit derivatives	-	-
c) management, brokerage and advisory services:	821,996	861,395
1. trading of financial instruments	19,755	22,330
2. currency trading	4,648	4,584
3. asset management	39,403	45,207
4. custody and administration of securities	7,079	7,578
5. custodian bank	-	-
6. placement of securities	5,791	6,079
7. client instructions	22,391	25,253
8. advisory on	16,524	10,689
8.1 investments	7,768	7,388
8.2 financial structure	8,756	3,301
9. distribution of third-party services	706,405	739,675
9.2 insurance products	202,255	183,697
9.3 other products	504,150	555,978
d) collection and payment services	229,345	260,780
e) servicing of securitisations	1,248	50
f) factoring transaction services	-	-
g) tax collection services	-	-
h) management of multilateral trade systems	-	-
i) current account keeping	441,247	479,038
j) other services	114,467	131,720
Total	1,661,260	1,796,529

For an analysis of the fee and commission income and for the disclosure on disaggregation of revenues, as required by IFRS 15.114-115, please refer to Part C of the Notes to the consolidated financial statements, which outlines the trend in fees and commissions for each of the operating segments identified, for the services rendered and according to geographic area served.

The disclosure for performance obligations is provided for the main services offered by the Bank, in accordance with IFRS 15.113 and 119.

- provision of collection and payment services, which includes the offer to customers of credit and debit cards issued by the Parent Company, against which the customer pays, depending on the different products and services associated with the



card, both an annual fee in advance for the administrative management of the card, recognised over time, as well as fees calculated on the individual transactions linked to the card's configuration, which, if not included in the annual fee, are recognised at a point in time as they are linked to the individual performance obligation carried out at a specific time; collection and payment services also include all foreign currency trading services, as well as other generic collection services that entail the collection of fees against the performance obligation made at consumption and recognised at a point in time;

- administration of current accounts: this category includes fees received for various products offered to customers, which may include a periodic fee for the current account management service that may or may not include a package of services, as well as fees received on individual transactions performed by customers that are not included in the annual fee. The first type of fee is structured as a performance obligation over time; the second type, as it relates to services performed at a specific time and which are essentially the same, having the same distribution over time and compensated separately from the quarterly fee, is structured as a performance obligation performed at a point in time;
- distribution of third-party products and services based on partnership agreements with external counterparties, for which placement commissions are recognised at a point in time as they are compensation for the intermediation performance obligation provided by the Group, and continuing commissions connected to the administrative management of the customer in the network, recorded over time, as it represents compensation for the performance obligation rendered over the course of the investment's duration (the related revenues are recognised in the same period). Some distribution agreements also include variable commissions (Rappel), recognised by external counterparties upon achieving certain annual placement volumes envisaged in the distribution agreements. Based on the various contractual provisions and in accordance with provisions contained in IFRS 15, if conditions apply in the interim periods, analyses are carried out in order to determine if there are conditions that allow the accounting of the revenue or portion thereof, that is, this can only occur if it is highly likely that, once the uncertainty is resolved, there will be no downward adjustment of the amount recognised. Lastly, some contracts contain claw-back clauses, which entail, in the event certain conditions apply, the full or partial reimbursement of placement commissions previously recognised upon execution of the initial performance obligation (i.e. point in time): in this case, the claw-back clause represents a variable component of the transaction price, since the amount recognised upon product placement is not definitive, but will depend on future events that are beyond the control of the Bank. In such situations the amount of the commissions that could potentially be subject to restitution is estimated, charging the amount that is expected to be returned to the third party to a specific risk provision; the income that is posted to the income statement is equal to the amount recognised against the performance obligation for the placement activity carried out during the year, net of the amount set aside in the provision;
- individual portfolio management, which mainly include management fees, calculated with a percentage proportional to the assets under management, recognised over time as they compensate a service rendered over time.

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With regard to the breakdown in revenues (IFRS 15.116-118), it should be noted that EUR 0.6 mln was recorded for the adjustment price component accrued during the year on commissions collected for placement of third-party services carried out by the Parent Company in the previous year;



2.2 Fee and commission income: distribution channels of products and services

Channel/Sectors	31 12 2018	31 12 2017
a) Group branches	743,668	782,118
1. portfolio management	39,403	45,207
2. placement of securities	5,791	6,079
3. third party services and products	698,474	730,832
b) "Door-to-door" sales	-	-
c) Other distribution channels	7,932	8,843
1. portfolio management	-	-
2. placement of securities	-	-
3. third party services and products	7,932	8,843

2.3 Fee and commission expense: breakdown

Type of service / Amount	Total 31 12 2018	Total 31 12 2017
a) guarantees received	(98,251)	(116,024)
b) credit derivatives	-	-
c) management, brokerage and advisory services:	(11,235)	(19,475)
1. trading of financial instruments	(3,999)	(6,774)
2. currency trading	(4)	(4)
3. asset management:	-	(309)
3.1 own portfolio	-	-
3.2 third-party portfolios	-	(309)
4. custody and administration of securities	(5,639)	(10,303)
5. placement of financial instruments	-	-
6. off-site marketing of financial instruments, products and services	(1,593)	(2,085)
d) collection and payment services	(36,602)	(63,426)
e) other services	(41,756)	(63,538)
Total	(187,844)	(262,463)

Line "a) guarantees received" includes EUR 95.9 mln (EUR 113.6 mln as at 31 December 2017) of fees and commissions paid to the MEF for the guarantee pledged by the Italian Government on securities issued by the Bank in first half 2017, for a residual nominal amount of EUR 8,000 mln as at 31 December 2018.

Line "e) other services" includes fee and commission expense for an amount of EUR 4.3 mln (EUR 5.1 mln as at 31 December 2017) on securities lending.

For a trend analysis of the concerned items, reference should be made to the Report on Operations.



Section 3 - Dividends and similar income - Item 70

3.1 Dividends and similar income: breakdown

Item/Income	31 12 2018			31 12 2017*		
	Dividends	Similar revenues	Total	Dividends	Similar revenues	Total
A. Financial assets held for trading	7	-	7	69	-	69
B. Other financial assets measured at fair value mandatory	39	-	39	-	-	-
C. Financial assets measured at fair value through other comprehensive income	9,997	-	9,997	10,256	3,854	14,110
D. Investments	89,240	-	89,240	20,135	-	20,135
Total	99,283	-	99,283	30,460	3,854	34,314

* The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9; in addition, the comparative data were reclassified on the basis of the new accounting statements set forth in the 5th update of Bank of Italy Circular 262.

Line "C. Financial assets measured at fair value through other comprehensive income" includes the dividend of EUR 8.5 mln collected on the investment in the Bank of Italy.

Line "D. Equity investments" includes dividends collected from the insurance investments: EUR 64.6 mln for Axa Assicurazioni Vita SpA and EUR 20 mln for Axa Assicurazioni Danni SpA.



Section 4 - Net profit (loss) from trading - Item 80

4.1 Net profit (loss) from trading: breakdown

Transactions / P&L items	Unrealized Profits	Trading Profits	Unrealized Losses	Trading Losses	31 12 2018 Net Profit (Loss)	31 12 2017 Net Profit (Loss)
1. Financial assets held for trading	11	14,785	(246)	(13,726)	824	(192)
1.1 Debt securities	10	304	(232)	(691)	(609)	(999)
1.2 Equity instruments	1	1	(14)	(12)	(24)	37
1.3 Units of UCITS	-	-	-	-	-	-
1.4 Loans	-	-	-	-	-	-
1.5 Other	-	14,480	-	(13,023)	1,457	770
2. Financial liabilities held for trading	-	-	-	-	-	-
2.1 Debt securities	-	-	-	-	-	-
2.2 Deposits	-	-	-	-	-	-
2.3 Other	-	-	-	-	-	-
3. Other financial assets and liabilities: exchange differences	X	X	X	X	15,993	19,338
4. Derivatives	316,829	533,034	(337,573)	(496,831)	15,480	(5,192)
4.1 Financial derivatives:	315,539	533,034	(336,283)	(496,831)	15,480	(5,260)
- on debt securities and interest rates	315,279	511,571	(331,517)	(494,287)	1,046	(2,732)
- on equity instruments and stock indices	260	-	(311)	(1)	(52)	191
- on currency and gold	X	X	X	X	21	1,073
- other	-	21,463	(4,455)	(2,543)	14,465	(3,792)
4.2 Credit derivatives	1,290	-	(1,290)	-	-	68
Total	316,840	547,819	(337,819)	(510,557)	32,297	13,954

“Gains” and “Losses” include the results of the measurement of derivatives connected operationally with financial liabilities measured at fair value through profit and loss (FVO).

The impact on this item deriving from the application of the Credit Value Adjustment (CVA) on OTC derivatives is a positive EUR 12.6 mln; likewise, the application of the Debt Value Adjustment (DVA) on OTC derivatives entailed a negative impact of EUR 3.0 mln.



Section 5 - Net profit (loss) from hedging - Item 90

5.1 Net profit (loss) from hedging: breakdown

P&L items /Values	Total 31 12 2018	Total 31 12 2017
A. Gains on:		
A.1 Fair value hedging instruments	114,491	228,974
A.2 Hedged financial assets (fair value)	201,389	4,674
A.3 Hedged financial liabilities (fair value)	25,657	77,085
A.4 Cash-flow hedging derivatives	-	3,572
A.5 Assets and liabilities denominated in foreign currency	-	-
Total gains on hedging activities (A)	341,537	314,305
B. Losses on:		
B.1 Fair value hedging instruments	223,887	83,489
B.2 Hedged financial assets (fair value)	72,464	218,996
B.3 Hedged financial liabilities (fair value)	44,325	11,983
B.4 Cash-flow hedging derivatives	17,861	18,085
B.5 Assets and liabilities denominated in foreign currency	-	-
Total losses on hedging activities (B)	358,537	332,553
C. Net profit (loss) from hedging activities (A - B)	(17,000)	(18,248)
<i>Of which: resulting from net position hedging</i>	-	-

For information on hedging derivatives, the gains and losses on which are indicated in lines A.1 and A.4, B.1 and B.4 of this table, see Section 5, "Hedging derivatives – Item 50" of the Assets and Section 4, "Hedging derivatives – item 40" of the Liabilities in Part B of the notes to the financial statements.

More information on hedged assets and liabilities can be found in the tables in Part B of the notes for each section of the accounts to which hedges are posted.



Section 6 - Gains/(losses) on disposal/repurchase - Item 100

6.1 Gains (losses) on disposal/repurchase: breakdown

Items / P&L items	Total 31 12 2018			Total 31 12 2017*		
	Gains	Losses	Net Profit (Loss)	Gains	Losses	Net Profit (Loss)
Financial assets						
1. Financial assets measured at amortised cost	40,073	(35,741)	4,332	1,939	(7,560)	(5,621)
1.1 Loans to banks	-	-	-	58	(6,939)	(6,881)
1.2 Loans to customers	40,073	(35,741)	4,332	1,881	(621)	1,260
2. Financial assets measured at fair value through other comprehensive income	41,396	(16,894)	24,502	117,205	(31,314)	85,891
2.1 Debt securities issued	41,396	(16,894)	24,502	117,205	(31,314)	85,891
2.2 Loans	-	-	-	-	-	-
Total assets	81,469	(52,635)	28,834	119,144	(38,874)	80,270
Financial liabilities						
1. Deposits from banks	-	-	-	94,671	(1,201)	93,470
2. Deposits from customers	-	-	-	23,311	-	23,311
3. Debt securities issued	10,605	(134)	10,471	440,823	(2,450)	438,373
Total liabilities	10,605	(134)	10,471	558,805	(3,651)	555,154

* The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9; in addition, the comparative data were reclassified on the basis of the new accounting statements set forth in the 5th update of Bank of Italy Circular 262.

As regards financial liabilities, note that the profit recorded in 2017 was almost entirely associated with profits from the repurchase of financial liabilities included within the burden sharing transaction.



Section 7 - Net profit (loss) from other financial assets and liabilities measured at fair value through profit and loss - Item 110

7.1 Net changes in other financial assets and liabilities measured at fair value through profit and loss: breakdown of financial assets and liabilities measured at fair value

Transaction/P&L items	Unrealized profits	Realized profits	Unrealized Losses	Realized losses	Net Profit (loss) as at 31 12 2018
1. Financial assets	-	-	-	-	-
1.1 Debt securities issued	-	-	-	-	-
1.2 Loans	-	-	-	-	-
2. Financial liabilities	3,606	416	(63)	-	3,959
2.1 Debt securities issued	3,606	416	(63)	-	3,959
2.2. Deposits from banks	-	-	-	-	-
2.3. Deposits from customers	-	-	-	-	-
3. Other financial assets and liabilities: exchange differences	X	X	X	X	-
Total	3,606	416	(63)	-	3,959

The item includes solely the profit, loss, capital gains and capital losses from structured fixed-rate bonds included in the fair value option. The balances of the economic valuations of derivatives through which said securities are subject to natural hedging are instead recognised under item 80 “Net profit (loss) from trading”.

Note that the changes in fair value due to changes in own creditworthiness are recognised under other revenue items without reversal to the income statement.

7.2 Net changes in other financial assets and liabilities measured at fair value through profit and loss: breakdown of financial assets and liabilities measured at fair value as per mandatory requirements

Transaction/P&L items	Unrealized profits	Realized profits	Unrealized losses	Realized losses	Net profit (loss) 31 12 2018
1. Financial assets					
1.1 Debt securities issued	60,200	766	(7,998)	(27,924)	25,044
1.2 Equity instruments	1	2,125	(103,684)	(36)	(101,594)
1.3 Units of UCITS	14,958	-	(4,967)	-	9,991
1.4 Loans	2,009	17,024	(49,183)	(19,891)	(50,041)
2. Other financial assets: exchange differences	X	X	X	X	-
Totale	77,168	19,915	(165,832)	(47,851)	(116,600)

Line “1.1 Financial assets - debt securities”, in the column “Losses”, includes the write-down due to a non-performing counterparty for EUR 1.8 mln.

Line “1.2 Financial assets - equity securities”, in the column “Losses”, includes changes in fair value of the equity instruments of Perimetro S.C.p.A for EUR 102.7 mln.

Line “1.4 Financial assets - Loans” includes:

- in the column “Gains and Losses from realisation”, the result of disposal of loans classified as unlikely to pay;
- in the column “Losses”, the write-downs of non-performing loans.



Section 8 - Net impairment (losses)/reversals for credit risk - Item 130

8.1 Net impairment (losses)/reversals on financial assets measured at amortised cost: breakdown

Transaction/P&L items	Value adjustments (1)			Write-backs (2)		Total 31 12 2018	Total 31 12 2017*
	Stage 1 Stage 2	Stage 3		Stage 1 Stage 2	Stage 3		
		write-off	Altre				
A. Loans to banks	(3,430)	(9)	(1,795)	1,935	1,739	(1,560)	(1,720)
- Loans	(3,416)	(9)	(1,795)	1,483	1,739	(1,998)	(2,195)
- Debt securities	(14)	-	-	452	-	438	475
<i>Of which: purchased or originated credit impaired financial assets</i>	-	-	-	-	-	-	-
B. Loans to customers	(195,344)	(53,686)	(1,394,740)	294,752	791,152	(557,866)	(4,386,004)
- Loans	(191,162)	(53,686)	(1,394,740)	294,079	791,152	(554,357)	(4,386,149)
- Debt securities	(4,182)	-	-	673	-	(3,509)	145
<i>Of which: purchased or originated credit impaired financial assets</i>	(20)	-	(1,722)	5,013	8,756	12,027	(6,397)
C. Total	(198,774)	(53,695)	(1,396,535)	296,687	792,891	(559,426)	(4,387,724)

* The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9; in addition, the comparative data were reclassified on the basis of the new accounting statements set forth in the 5th update of Bank of Italy Circular 262.

For stage 3 impairment losses, the column "Write-off" shows losses recorded in relation to the derecognition of financial instruments exceeding the amount of the corresponding total adjustments, whereas the "Others" column includes specific write-downs on non-performing loans subject to analytical as well as lump-sum/statistical measurement.

Expected losses relating to operating receivables within the scope of application of IFRS 15 are of an insignificant amount.

For further information on loans to banks and customers, see Section 1, "Credit risk", in Part E of the notes to the financial statements.

8.2 Net impairment (losses)/reversals on financial assets measured at fair value through other comprehensive income: breakdown

Transactions / P & L items	Value Adjustments			Write - backs		Total 31 12 2018	Total 31 12 2017
	Stage 1 and 2	Stage 3		Stage 1 and 2	Stage 3		
		Write-off	Others				
A. Debt securities issued	(2,387)	-	(4,054)	11,542	-	5,101	(89,697)
B. Loans	-	-	-	-	-	-	-
- to banks	-	-	-	-	-	-	-
- to customers	-	-	-	-	-	-	-
<i>of which: purchased or originated credit impaired assets</i>	-	-	-	-	-	-	-
F. Total	(2,387)	-	(4,054)	11,542	-	5,101	(89,697)

* The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9; in addition, the comparative data were reclassified on the basis of the new accounting statements set forth in the 5th update of Bank of Italy Circular 262.



Section 9 – Modification gains/(losses) - Item 140

9.1 Modification gains/(losses): breakdown

Portofolio	31 12 2018
1. Financial assets measured at amortised cost	(8,184)
2. Financial assets measured at fair value through other comprehensive income	-
Total	(8,184)

Section 10 - Administrative expenses - Item 160

10.1 Personnel expenses: breakdown

Type of Expense / Area	Total 31 12 2018	Total 31 12 2017
1. Employees	(1,506,341)	(1,775,561)
a) wages and salaries	(1,008,569)	(1,088,906)
b) social-welfare charges	(274,952)	(293,224)
c) severance pay	(43,822)	(46,456)
d) social security expenses	-	-
e) provision for staff severance pay	(2,284)	(3,898)
f) pension fund and similar obligations:	(260)	(709)
- defined contribution	-	-
- defined benefit	(260)	(709)
g) contributions to external pension funds:	(19,458)	(19,384)
- defined contribution	(17,237)	(18,042)
- defined benefit	(2,221)	(1,342)
h) costs related to share-based payments	147	612
i) other employee benefits	(157,143)	(323,596)
2. Other staff	(530)	(1,133)
3. Directors and Statutory Auditors	(1,596)	(2,304)
4. Retired personnel	(5,129)	(4,324)
5. Recovery of expenses for employees of the Bank: seconded to other entities	77,137	78,489
6. Reimbursement of expenses for employees of other entities: seconded to the bank	(16,109)	(15,400)
Total	(1,452,568)	(1,720,233)

Line “b) social security charges” includes recoveries from INPS for the two tranches used for the Solidarity Fund of 2017 (approx. EUR 35.0 mln).

Line f) “Pension fund and similar obligations” includes amounts set aside for internal funds, while line g) “contributions to external pension funds” includes contributions paid and adjustments made to external pension funds.

Line “h) costs deriving from share-based payments” reflects the reduction in provisions for performance shares assigned to the Bank’s “key employees” with regard to incentive plans in effect for the previous years.

Line “i) other employee benefits” includes the provision recognised for the early retirement incentives/solidarity fund envisaged for 1 April 2019, pursuant to the agreement of 31 December 2018 entered into with the trade unions, for EUR 150 mln.

Also note that personnel expenses include provisions to handle the impact on personnel linked to closure of the three foreign branches (approx. EUR 4.0 mln).



10.2 Average number of employees by category

Category / Average Number	31 12 2018	31 12 2017
Employees:	20,250	21,292
a) executives	219	234
b) middle managers	7,835	8,274
c) remaining staff	12,196	12,784
Other personnel	-	-
Total	20,250	21,292

10.3 Defined benefit company pension funds: costs and revenues

Items/Amounts	31 12 2018			31 12 2017		
	Defined benefit company pension funds		Provision for staff severance pay	Defined benefit company pension funds		Provision for staff severance pay
	Internal pension plan	External pension plan		Internal pension plan	External pension plan	
Interest income/expense	(239)	(514)	(2,284)	(693)	(667)	(3,898)
Current service cost and gains (losses) arising from settlements [°]	(21)	(724)	-	(16)	(675)	-
Past service cost	-	(220)	-	-	-	-
Gains (losses) arising from settlements ^{°°}	-	(878)	-	-	-	-
Other operating costs	-	115	-	-	-	-
Total	(260)	(2,221)	(2,284)	(709)	(1,342)	(3,898)

[°] Pursuant to par. 100 of LAS 19, note that the past service cost and the amount of gains and losses arising from settlements need not be distinguished if they occur together.

^{°°} Only in the event of settlement not set out in the terms of the plan.

10.4 Other employee benefits

No information to report pursuant to sections 53, 158 and 171 of IAS 19.



10.5 Other administrative expenses: breakdown

Items/Amounts	31 12 2018	31 12 2017
Stamp duties	(168,486)	(184,869)
Indirect taxes and duties	(25,257)	(37,286)
Municipal real estate property tax	(8,396)	(8,303)
Subscription and purchase of publications	(152,194)	(161,490)
Cleaning service contracts	(12,160)	(12,740)
Insurance	(40,181)	(27,504)
Rentals	(95,297)	(101,483)
Remuneration of external professionals	(114,635)	(148,219)
Lease of equipment	(17,089)	(11,270)
Utilities	(24,186)	(25,936)
Maintenance of movable and immovable properties (used in the business)	(34,516)	(33,117)
Postage	(25,497)	(23,442)
Advertising, sponsorships and promotions	(2,578)	(5,954)
Membership dues	(3,697)	(4,525)
Reimbursement of employee car and travel expenses	(5,262)	(6,718)
Security services	(7,375)	(8,781)
Software	-	-
expenses for personnel training	(4,148)	(3,517)
Charges for services provided by companies and entities of the MPS Group	(286,920)	(349,948)
Printing and stationery	(782)	(1,090)
Expenses for non-rented investment real estate	-	-
Printing and stationery	(7,691)	(8,338)
Telephon, telefax and telegraph	(6,002)	(5,346)
Transportation	(31,691)	(33,613)
Sundry occupancy expenses and refunds for release of immovable property us	(4,336)	(7,177)
Contributions Resolution Funds (SRF) and Deposits Guarantee Schemes (DGS)	(108,078)	(75,246)
DTA fee	(70,863)	(70,913)
Others	(8,031)	(24,965)
Total	(1,265,348)	(1,381,790)

The line "Advertising, sponsorships and promotions" for an amount of EUR 2.6 mln includes advertising, events and printing (EUR 2.2 mln) and expenses for sponsorships and promotions (EUR 0.4 mln).

The line "Contributions Resolution Funds (SRF) and Deposits Guarantee Systems (DGS)" equal to EUR 108.1 mln, comprises EUR 73.5 mln for charges associated with the SRF and NRF (National Resolution Fund) and EUR 34.5 mln for contributions to the DGS.

The line "DTA fees" includes the expenses related to the fee paid on DTAs that can be converted into tax credit as set forth in art. 11 of Law Decree no. 59 of 3 May 2016, converted into Law no. 119 of 30 June 2016.



Section 11 - Net provisions for risks and charges - Item 170

11.1 Net provisions for credit risk relative to commitments to disburse funds and financial guarantees issued: breakdown

Transaction/P&L items	Stage 1	Stage 2	Stage 3	Total 31 12 2017	Total 31 12 2018
1) Financial guarantees issued	3,320	4,154	(60,530)	(53,056)	11,119
Provision for the year	(4,127)	(2,441)	(96,421)	(102,989)	(4,839)
Write-backs	7,448	6,595	35,891	49,934	15,958
2) Loans commitments	575	(476)	7,986	8,085	30
Provision for the year	(1,674)	(1,921)	-	(3,595)	(2)
Write-backs	2,249	1,445	7,986	11,680	32
E. Totale	3,895	3,678	(52,544)	(44,971)	11,149

* The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9; in addition, the comparative data were reclassified on the basis of the new accounting statements set forth in the 5th update of Bank of Italy Circular 262.

11.2 Net provisions relative to other commitments and guarantees issued: breakdown

Transaction/P&L items	Total 31 12 2018	Total 31 12 2017*
1) financial guarantees issued	-	-
Provision for the year	-	-
Write-backs	-	-
2) Loans commitments	47,861	(65,000)
Provision for the year	(5,200)	(65,000)
Write-backs	53,061	-
E. Totale	47,861	(65,000)

* The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9; in addition, the comparative data were reclassified on the basis of the new accounting statements set forth in the 5th update of Bank of Italy Circular 262.

The line "Write-backs" of EUR 53.1 mln refers to revaluation of the commitment (recognised for EUR 65 mln in 2017) made to cover the hedging costs - borne by the transferor - of the Siena NPL vehicle as part of the disposal of bad loans, in accordance with the binding agreement signed on 26 June 2017 with Quaestio.



11.3 Other net provisions for risks and charges: breakdown

Items/Amount	31 12 2018			31 12 2017		
	Provisions for the year	Write-backs	Net Provisions	Provisions for the year	Write-backs	Net Provisions
Legal and tax disputes	(86,469)	59,612	(26,857)	(163,151)	88,333	(74,818)
- cost	(86,328)	59,612	(26,716)	(163,112)	-	(163,112)
- discounting effect	(140)	-	(140)	(39)	-	(39)
Personnel expenses	(5,513)	10,467	4,954	(20,425)	5,492	(14,933)
Other risks and charges	(78,864)	22,176	(56,688)	(149,224)	24,394	(124,830)
Total	(170,846)	92,255	(78,591)	(332,800)	118,219	(214,581)

The line “Legal and tax disputes - discounting effect” includes changes due to the passing of time, namely to the amount of time value accrued during the year due to the expected imminent maturity of the estimated liability.

The line “Other risks and charges” includes the provision for EUR 16.4 mln made pursuant to IFRS 15, against the claw-back clause present in a third-party product placement contract, which includes a contractual provision that reverses in future years a part of the commissions received for activities during the year.

**Section 12 - Net adjustments to/recoveries on property, plant and equipment - Item 180****12.1 Net adjustments to property, plant and equipment: breakdown**

Assets / P&L items	Amortization	Impairment losses	Write-backs	Net Profit (loss) 31 12 2018	Net Profit (loss) 31 12 2017
Tangible assets					
A.1 Owned	(56,455)	(19,769)	-	(76,224)	(69,349)
- used in the business	(51,138)	(6,951)	-	(58,089)	(54,859)
- held for investment	(5,317)	(8,091)	-	(13,408)	(14,490)
- Inventories	X	(4,727)	-	(4,727)	-
A.2 Leased	-	-	-	-	-
- used in the business	-	-	-	-	-
- held for investment	-	-	-	-	-
Total	(56,455)	(19,769)	-	(76,224)	(69,349)

Property and equipment with a finite life is tested for impairment.

Section 13 - Net adjustments to/recoveries on intangible assets - Item 190**13.1 Net adjustments to intangible assets: breakdown**

Assets/P&L items	Amortization (a)	Impairment losses (b)	Write-backs (c)	Net profit (loss) (a+b-c) 31 12 2018	Net profit (loss) 31 12 2017
A. Intangible assets					
A.1 Owned	(24,672)	-	-	(24,672)	(25,936)
- generated internally by the company	-	-	-	-	-
- other	(24,672)	-	-	(24,672)	(25,936)
A.2 Leased	-	-	-	-	-
Total	(24,672)	-	-	(24,672)	(25,936)

Amortisation mainly relates to intangible assets, all with a finite life, recognised in the 2008 financial statements identified during the PPA process for former subsidiary Banca Antonveneta.



Section 14 - Other operating expenses/income - Item 200

14.1 Other operating expenses: breakdown

Items/Amounts	Total	Total
	31 12 2018	31 12 2017
Costs of robberies	(2,180)	(2,645)
Amortisation on improvements of third-party goods recognized	(15,778)	(13,566)
Costs from judgments and settlement agreements	(48,032)	(49,551)
Other expenses	(30,174)	(28,010)
Total	(96,164)	(93,772)

14.2 Other operating income: breakdown

Items/Amounts	Total	Total
	31 12 2018	31 12 2017
Rents from investment real estate	14,792	15,618
Other revenues from real estate (real estate inventory)	337	511
Recovery of taxes	191,106	204,096
Recovery of insurance premiums	31,547	17,232
Recovery of other expenses	52,980	97,423
Other	52,461	61,815
Total	343,223	396,695

The amount of EUR 53.0 mln classified under “Recoveries of other expenses” includes the “fast-track facility fee” introduced by Law Decree 201/2011 (“Save Italy Decree”) amounting to EUR 9.1 mln (EUR 20.8 mln as at 31 December 2017) and the compensation of legal fees incurred for the enforced recovery of non-performing loans of EUR 10.0 mln (EUR 46.7 mln as at 31 December 2017).

“Other operating income” does not include any revenues under the scope of IFRS 15.

**Section 15 - Gains (losses) on investments - Item 220****15.1 Gains (losses) on investments: breakdown**

P&L items/Sectors	Total	Total
	31 12 2018	31 12 2017
A. Income	119,818	9,600
1. Revaluations	-	-
2. Gains on disposal	51,260	9,600
3. Write-backs	68,558	-
4. Other income	-	-
B. Expense	(453,572)	(112,530)
1. Write-downs	-	(1,086)
2. Impairment losses	(451,372)	(111,445)
3. Losses on disposal	-	-
4. Other expenses	(2,200)	-
Net Profit (Loss)	(333,754)	(102,930)

The amount of EUR 51.3 mln shown in line “A.2 Gains on disposal” consists of the gain from the sale of the Juliet Spa platform in the second quarter of 2018 (EUR 50.0 mln) and the sale of investee Firenze Parcheggi (EUR 1.3 mln).

The write-backs pursuant to line A.3 regard the equity investments in BMP Belgio S.A (EUR 34.6 mln) and MP Banque (EUR 34.0 mln).

The amount of EUR 451.4 mln reported in line “B.2 Impairment losses” includes value adjustments made on the subsidiaries MPS Capital Services (EUR 169.0 mln), MPS Leasing & Factoring (EUR 265.1 mln) and MPS Preferred Capital LLC (EUR 10.0 mln).

The amount of EUR 2.2 mln posted to line “B.4 Other expenses” includes the costs related to the disposal of BMP Belgio S.A.

For further information on the methodology for determining impairment losses, please see section 7.5, part B, of these notes to the consolidated financial statements.



Section 16 - Net gains (losses) on property, plant and equipment and intangible assets measured at fair value - Item 230

16.1 Net gains (losses) on property, plant and equipment and intangible assets measured at fair value (or revalued) or at presumed net realisable value: breakdown

The tables for this section were not completed since the Group has no property, plant and equipment and intangible assets carried at fair value to report for either the current or previous year.

Section 17 - Impairment of goodwill - Item 240

17.1 Impairment of goodwill: breakdown

In 2018 the Bank did not recognise any impairment as all the goodwill allocated to the different CGUs (Cash Generating Units) had been fully written down in the financial statements of previous years.



Section 18 – Gains (losses) on disposal of investments - Item 250

18.1 Gains (losses) on disposals of investments: breakdown

P&L items/Sectors	Total	Total
	31 12 2018	31 12 2017
A. Property	1,721	429
- Gains on disposal	1,721	515
- Losses on disposal	-	(86)
B. Other assets	(1,239)	522,255
- Gains on disposal	-	523,592
- Losses on disposal	(1,239)	(1,337)
Net Profit (Loss)	482	522,684

No significant transactions occurred during the year. The amount of EUR 523.6 mln achieved in 2017 referred to the disposal of the merchant acquiring business unit to CartaSi.

Section 19 - Tax (expense)/recovery on income from continuing operations - Item 270

19.1 Tax (expense)/recovery on income from continuing operations: breakdown

P&L items/Sectors	Total	
	31 12 2018	31 12 2017
1. Current tax (-)	(17,778)	(215,198)
2. Adjustments to current tax of prior years (+/-)	15,232	(14,399)
3. Reduction of current tax for the year (+)	-	-
3.bis Reduction in current tax for the period due to tax credits under Law 214/2011	252,750	911,928
4. Changes in prepaid taxes (+/-)	120,714	(259,463)
5. Changes in deferred taxes (+/-)	23,808	10,565
6. Tax expense for the year (-) (-1+/-2 +3+/-4+/-5)	394,726	433,433

The amount under line 4. "Changes in deferred tax assets" which, net of the reduction in deferred tax assets transformed into tax credit of EUR 252.7 mln, equals EUR +373.5 mln, includes:

- recognition of deferred tax assets relative to nine-tenths of the impairment on loans to customers recorded upon first-time adoption of IFRS 9, equal to EUR +326.3 mln (see comments at the bottom of table 10.3 Deferred tax assets: annual changes (with offsetting entry to profit and loss);
- the total effect of DTA measurements arising from the results of the probability test, equal to EUR -38.9 mln;
- recognition of deferred tax assets relative to the ACE benefit accrued for the year 2018 of EUR 35.7 mln.



19.2 Reconciliation of theoretical to actual tax charge

Items/Amounts	31 12 2018	%	31 12 2017	%
Pre-tax profit (loss) from continuing operations	(506,648)	-	(3,290,873)	-
Theoretical IRES Payable	139,328	27.5%	904,990	27.5%
Permanent increases	(112,095)	22.1%	(47,813)	1.5%
Losses on the disposal/valuation of subsidiaries and associates classified at fair value through other comprehensive income	0	0.0%	(2,920)	0.1%
Losses on the disposal/valuation of subsidiaries and associates classified at fair value through other comprehensive income	(105,798)	20.9%	(30,604)	0.9%
Non deductible administrative expenses (Municipal real estate property tax, vehicles, telephone etc)	(6,297)	1.2%	(14,289)	0.4%
Permanent decreases	58,697	11.6%	237,785	7.2%
Gains on sale of equity instruments	81	0.0%	4,933	0.1%
Gains on disposal of subsidiaries and associates	335	0.1%	2,512	0.1%
Capital gains due to conversion of debt instruments into shares, not relevant (Art 22 paragraph 2-bis DL237/2016)	-	0.0%	183,850	5.6%
Deduction ACE	35,750	7.1%	42,075	1.3%
Excluded dividends	22,531	4.4%	4,415	0.1%
DTA write-downs related to prior tax losses	222,200	43.9%	572,270	17.4%
DTA effects-others	(245,890)	48.5%	-	0.0%
Splitting effect of FTA IFRS9 provisions	273,153	53.9%	-	0.0%
Effect due to non-registration of DTA on tax loss of current year	(4,411)	0.9%	(1,214,201)	36.9%
Other components (IRES relative to previous years, spreads between Italian and foreign tax rate, etc.)	5,902	1.2%	(15,073)	0.5%
Effective IRES payable	336,884	66.5%	437,958	13.3%
Theoretical IRAP Payable	23,559	4.6%	153,026	4.7%
Economic items not relevant for IRAP purposes	(18,376)	3.6%	31,678	1.0%
Value adjustments and credit losses	(48)	0.0%	(2,885)	0.1%
Non deductible cost of personnel	(456)	0.1%	(504)	0.0%
Profit (loss) on subsidiaries and associates	(15,993)	3.2%	(6,172)	0.2%
Other non-deductible administrative expenses (10%)	(5,884)	1.2%	(6,424)	0.2%
Amortization non-deductible (10%)	(341)	0.1%	(346)	0.0%
Capital gains due to conversion of debt instruments into shares, not relevant (Art 22 paragraph 2-bis DL237/2016)	-	0.0%	31,087	0.9%
Other P&L items not relevant	2,144	0.4%	16,332	0.5%
Excluded dividends	2,203	0.4%	590	0.0%
Increase regional rates effect	7,836	1.5%	35,535	1.1%
Charges from not recognised tax loss carryforward IRAP	(850)	0.2%	(224,846)	6.8%
DTA valuation effect	(15,181)	3.0%	-	0.0%
Splitting effect of FTA IFRS9 provisions	46,188	9.1%	-	0.0%
Tax refunds from previous year	14,428	2.8%	-	0.0%
Other components (IRAP relative to previous years, spreads between Italian and foreign tax rate, etc.)	239	0.0%	82	0.0%
Effective IRAP payable	57,842	11.4%	(4,525)	0.1%
Total effective IRES and IRAP tax expenses	394,726	77.9%	433,433	13.2%

The reconciliation relating to IRES includes, aside from the main tax at the rate of 24%, also the additional tax of 3.5% introduced by the Law no. 208 of 28 December 2015, paragraphs 65-66.



Section 20 - Profit (loss) after tax from assets held for sale and discontinued operations - Item 290

20.1 Profit (loss) after tax from assets held for sale and discontinued operations: breakdown

20.2 Breakdown of income taxes on discounted operations

The tables in this section are not filled out as no such cases exist in the financial statements as at 31 December 2018 and 31 December 2017.

Section 21 – Other information

No additional disclosure to that presented in accordance with the international accounting standards and Circular no. 262 of the Bank of Italy is required.

Section 22 - Earnings per Share (EPS)

For the following section, see the description in the Consolidated Financial Statements

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Part D - Statement of Comprehensive Income

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Statement of Comprehensive Income

Items	Total 31 12 2018	Total 31 12 2017*
10. Profit (loss) for the year	(111,922)	(2,857,440)
Other income components without reversal to profit & loss	19,141	(151,245)
20. Equity instruments measured at fair value through other comprehensive income	9,058	-
a) changes in fair value	(4,233)	-
b) Transfer to other component of equity	13,291	-
30. Financial liabilities measured at fair value with impact to profit and loss	9,430	(230,699)
a) changes in fair value	9,430	-
b) Transfer to other component of equity	-	-
40. Hedges of equity instruments measured at fair value through other comprehensive income	-	-
50. Tangible assets	-	-
60. Intangible assets	-	-
70. Defined benefit plans	7,888	4,834
80. Non-current assets and groups of assets held for sale	-	83
90. Share of valuation reserves of equity instruments valued at equity	-	-
100. Tax income related to other income components without reversal to profit & loss	(7,235)	74,537
Other income components with reversal to profit & loss	(230,916)	97,516
110. Hedges of foreign investments:	-	-
120. Exchange differences:	4,300	(9,172)
a) changes in value	4,300	(9,172)
b) reversal to profit & loss	-	-
c) other changes	-	-
130. Cash flow hedges:	(25,916)	55,297
a) changes in fair value	(8,055)	10,937
b) reversal to profit & loss	(17,861)	44,360
c) other changes	-	-
<i>Of which, resulted of net position</i>	<i>-</i>	<i>-</i>
140. Hedging Instruments: (non designated items)	-	-
150. Financial assets (other than equity instruments) measured at fair value through other comprehensive income	(322,261)	121,068
a) changes in value	(261,441)	170,149
b) reversal to profit & loss	(75,527)	(49,081)
-impairment provisions	(9,230)	(393)
-released net gains/losses	(66,297)	(48,688)
c) other changes	14,707	-
160. Non current assets and group of assets held for sale	-	(16,360)
a) changes in fair value	-	112
b) reversal to profit & loss	-	(16,472)
c) other changes	-	-
170. Share of valuation reserves of equity-accounted investments	-	-
180. Tax income related to other income components with reversal to profit & loss	112,961	(53,317)
190. Other income components	(211,775)	(53,729)
200. Total comprehensive income (Item 10 + 130)	(323,697)	(2,911,169)

* The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9; in addition, comparative data were reclassified on the basis of the new accounting statements set forth in the 5th update of Bank of Italy Circular 262.



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Note: Public Disclosure (Basel III Pillar) is published on the Group's website: <https://www.gruppomps.it/investor-relations>.



Foreword

This Part of the Notes to the Financial Statements provides quantitative information on risks referring to Banca Monte dei Paschi di Siena. For qualitative information on the risk management process and on the management and monitoring of risks, please refer to Part E of the Notes to the consolidated financial statements.

An analysis of the Group's Internal Capital

As at 31 December 2018, the Bank's Overall Economic Capital (excluding intragroup transactions) is attributable for approximately 58% to credit and counterparty risk (which already includes the requirements relating to issuer risk on the Banking Book, investment risk and real estate risk), for approximately 3% to concentration risk, for around 19% to financial risk, 6% to strategic risks and approximately 14% to operational risks.





Section 1 – Credit Risk

Qualitative Information

Please refer to Part E of the Notes to the consolidated financial statements.

Quantitative Information

A. Credit quality

For the purposes of quantitative information on credit quality:

- the term “balance sheet exposure” refers to all on-balance sheet financial assets with regard to banks or customers, regardless of their portfolio of accounting recognition (measured at fair value through profit and loss, measured at fair value through other comprehensive income, measured at amortised cost, non-current assets held for sale and discontinued operations);
- the term “off-balance sheet exposure” refers to all financial transactions other than on-balance sheet ones (financial guarantees given, revocable and irrevocable commitments, derivatives, etc.) that involve the assumption of credit risk, regardless of the purpose for such transactions (trading, hedging, etc.). Off-balance sheet exposures also include the counterparty risk connected to securities lending transactions and repurchase agreements and to the granting or assumption of goods on a loan basis, as well as to transactions with margins included within the notion of Securities Financing Transactions as defined by prudential regulations.

Non-performing loans (on and off-balance sheet) do not include financial assets held for trading and hedging derivatives, which are therefore traditionally recognised among performing exposures.

Equity securities and units of UCITS are excluded.



A.1 Non-performing and performing loans: amounts, value adjustments, changes, trend and breakdown by business sector

A.1.1 Breakdown of financial assets by portfolio and credit quality (book values)

	Doubtful loans	Unlikely to pay	Past-due Impaired exposures	Past-due not impaired exposures	Performing exposures	Total
1. Financial assets measured at amortised cost	2,364,610	3,195,628	108,227	831,317	95,103,517	101,603,299
- of which forborne	628,630	1,698,899	7,859	84,553	1,556,133	3,976,074
2. Financial assets measured through other comprehensive income	-	2,721	-	-	10,281,579	10,284,300
- of which forborne	-	-	-	-	-	-
3. Financial assets designated at fair value	-	-	-	-	-	-
- of which forborne	-	-	-	-	-	-
4. Financial assets measured at fair value mandatory	73,038	202,516	115	7,017	1,280,175	1,562,861
- of which forborne	72,549	196,483	-	441	11,416	280,889
5. Financial asset held for sale	-	29,562	-	-	-	29,562
- of which forborne	-	25,806	-	-	-	25,806
Total 31 12 2018	2,437,648	3,430,427	108,342	838,334	106,665,270	113,480,021
Total 31 12 2017*	5,594,891	5,334,004	331,399	1,080,753	102,096,577	114,437,624

* The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9; in addition, the comparative data were reclassified on the basis of the new accounting statements set forth in the 5th update of Bank of Italy Circular 262.

As at 31 December 2018, the Bank has outstanding forborne positions for a total value of EUR 4.3 bn, of which EUR 2.7 bn referring to non-performing exposures (EUR 3.6 bn as at 31 December 2017) and EUR 1.6 bn to performing exposures (EUR 1.6 bn as at 31 December 2017).



A.1.2 Breakdown of financial assets by portfolio and credit quality (gross and net amounts)

Portfolio/quality	Non performing assets			Partial Write-off*	Performing			Total (Net exposure)
	Gross exposure	Portfolio adjustments	Net exposure		Gross exposure	Portfolio adjustments	Net exposure	
1. Financial assets measured at amortised cost	11,634,746	5,966,280	5,668,466	138,179	96,430,043	495,210	95,934,833	101,603,299
2. Financial assets measured through other comprehensive income	6,851	4,130	2,721	-	10,291,795	10,216	10,281,579	10,284,300
3. Financial assets designated at fair value	-	-	-	- X	X	-	-	-
4. Financial assets measured at fair value mandatory	651,539	375,870	275,669	3,947	X	X	1,287,192	1,562,861
5. Financial asset held for sale	75,775	46,213	29,562	-	-	-	-	29,562
Total 31 12 2018	12,368,911	6,392,493	5,976,418	142,126	106,721,838	505,426	107,503,604	113,480,021
Total 31 12 2017*	35,415,904	24,155,609	11,260,295	n.d.	103,613,237	435,908	103,177,329	114,437,624

* The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9; in addition, the comparative data were reclassified on the basis of the new accounting statements set forth in the 5th update of Bank of Italy Circular 262.

At the reporting date, the Bank had 268 positions relating to creditors who had filed a “blank” request for a pre-insolvency creditor arrangement procedure “Concordato in bianco” for a net exposure of around EUR 271.3 mln and 2 positions relating to creditors who had filed a request for a pre-insolvency creditor arrangement with going concern “Concordato in continuità” for a net exposure of approx. EUR 0.6 mln.

Note that in 2018 the Bank did not acquire any new non-performing financial assets, and the stock of stated “impaired financial assets acquired” as at 31 December 2018 refers exclusively to old business combinations (Biverbanca) equal to a total of EUR 0.5 mln in terms of carrying amount.

	Low quality assets		Other assets
	Cumulative losses	Net exposure	Net exposure
1 Financial assets held for trading	52,619	1,507	799,000
2 Hedging derivatives	-	-	257,676
Total 31 12 2018	52,619	1,507	1,056,676
Totale 31 12 2017	57,833	5,610	1,228,875

In particular, please note that item “1. Financial assets held for trading” includes exposures generated by derivative contracts with low credit quality for a net value of EUR 1.5 mln; impairment losses recognised on these instruments to take into account the fair value credit adjustment amount to EUR 3.3 mln.



A.1.3 Breakdown of financial assets by past due ranges (book values)

Portfolio/staging	Stage 1			Stage 2			Stage 3		
	Up to 30 days	from 30 to 90 days	Over 90 days	Up to 30 days	from 30 to 90 days	Over 90 days	Up to 30 days	from 30 to 90 days	Over 90 days
1. Financial assets measured at amortised	155,676	4,393	3,870	174,481	345,751	147,146	60,541	194,142	4,120,967
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
Total 31 12 2018	155,676	4,393	3,870	174,481	345,751	147,146	60,541	194,142	4,120,967



A.1.4 Financial assets, commitments to disburse funds and guarantees given: changes in overall value adjustments and in total provisions

Causali/ stadi rischio	Overall value adjustments										Total provision on loans commitments and financial guarantees issued						
	Assets included in Stage 1					Assets included in Stage 2					Assets included in Stage 3			Total			
	Financial assets measured at fair value through other comprehensive income	of which: specific writedowns	of which: collective writedowns	Financial assets measured at amortised cost	of which: collective writedowns	Financial assets measured at fair value through other comprehensive income	of which: specific writedowns	of which: collective writedowns	Financial assets measured at fair value through other comprehensive income	of which: specific writedowns	of which: collective writedowns	of which: purchased or originated financial assets	Stage 1	Stage 2	Stage 3		
Opening balance*	71,448	19,436	-	90,884	570,583	31	-	570,614	7,385,228	-	4,084,180	3,301,048	47,813	8,714	10,357	174,214	8,240,011
Increase in purchased or originated financial assets	6,580	44	-	6,624	24,332	38	-	24,370	-	-	-	-	-	595	342	334	32,265
Derecognition different from write-off	(4,880)	-	-	(4,880)	(40,077)	-	-	(40,077)	(1,975,223)	-	(677,229)	(1,297,995)	(4,146)	(339)	(476)	(10,748)	(2,031,743)
Net losses (recovery) on impairment	(109,757)	(9,393)	-	(119,151)	(58,016)	60	-	(57,956)	481,698	4,130	298,121	187,706	(11,647)	(747)	661	15,296	323,932
Modification gains/losses	-	-	-	-	194	-	-	194	1,929	-	1,324	605	-	-	-	-	2,123
Change in estimate methodology	(2,523)	-	-	(2,523)	(34,467)	-	-	(34,467)	219,181	-	253,049	(33,867)	(379)	(1,257)	(1,990)	52,268	231,212
Write-off	-	-	-	-	-	-	-	-	(232,230)	-	(19,811)	(212,419)	(378)	-	-	-	(232,230)
Others	105,399	-	-	105,399	(33,606)	1	-	(33,606)	85,697	-	34,765	50,932	(2,868)	1,394	(1,645)	(8,719)	148,521
Overall value adjustments, closing balance	66,267	10,087	-	76,353	428,943	130	-	429,072	5,966,280	4,130	3,974,399	1,996,010	28,395	8,360	7,249	222,645	6,714,091
Recovered	1,509	-	-	1,509	-	-	-	-	466	-	466	-	-	-	-	-	1,975
Write-off direct recorded in income statement	-	-	-	-	-	-	-	-	(53,686)	-	(53,700)	15	-	-	-	-	(53,686)

* The initial balance includes the effects of first-time adoption of the new IFRS 9 and IFRS 15 as at 1 January 2018, described in the paragraph "Transition to the IFRS 9 and IFRS 15 accounting standards".

The provision for trade receivables, valued using the simplified method in accordance with IFRS 9, amounts to EUR 0.01 mln, down from EUR 0.06 mln at the beginning of the year. The change is entirely attributable to the decrease in the stock of trade receivables held by the Bank.

For details on the calculation method adopted to determine impairment on financial assets, please refer to the paragraph "Methods for calculating impairment on IFRS 9 financial instruments" in Part A of these Notes to the financial statements.

During 2018, there was an overall reduction in the provision for purchased or originated impaired financial assets of more than EUR 19 mln, for the most part (EUR 11.6 mln) due to a write-back following a return to performing status (stage 2) for certain positions over the course of 2018, as well as an addition EUR 4.1 mln for disposals of positions classified as unlikely to pay.



Total impairment provisions posted an overall reduction of EUR 1.7 bn in 2018 compared to 1 January 2018, due almost entirely (EUR 1.4 bn) to financial assets measured at amortised cost classified in stage 3. In particular, with reference to this accounting portfolio, the following elements contributed to this trend:

- reduction of provisions for “Derecognitions other than write-offs” of EUR 2 bn, due to a large extent to the transaction to dispose of bad loans that were derecognised in June 2018. This figure also reflects the disposal of unlikely to pay exposures that occurred during 2018. For more details on the disposal of impaired loans, please refer to the discussion in the Consolidated Report on Operations.
- reduction of provisions for “Write-offs” for EUR 0.2 bn. Note that the derecognitions not covered by the provision generated an impact of EUR 54 mln in the income statement;
- net increase of EUR 314 mln in the item “Net impairment (losses)/reversals”. Financial asset measured at amortised cost included in stages 1 and 2 recorded a decrease in provisions totalling EUR 168 mln due to the updating of the historical data and the revision of risk parameters, with constant application of the same estimation methodology. Asset included in stage 3 posted an increase of EUR 482 mln;
- net increase of EUR 182 mln attributable to “Changes in estimation methodologies”, essentially referring to stage 3 financial assets that recognised an increase in provisions due to changes in methodology (from collective to analytical).

4.1.5 - Financial assets, commitments to disburse funds and guarantees given: transfers among the various credit risk stages (gross and nominal amounts)

Portfolio/Staging	Gross value / nominal value					
	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3	
	From Stage 1 to Stage 2	From Stage 2 to Stage 1	From Stage 2 to Stage 3	From Stage 3 to Stage 2	From Stage 1 to Stage 3	From Stage 3 to Stage 1
1. Financial assets measured at amortised cost	1,842,527	3,330,769	1,099,366	481,621	246,314	39,238
2. Financial assets measured at fair value through other comprehensive income	3,775	-	-	-	8,408	-
3. Commitments to disburse funds and financial guarantees issued	179,022	213,584	169,414	77,098	7,930	8,690
Total 31 12 2018	2,025,324	3,544,353	1,268,780	558,719	262,652	47,928



4.1.6 - Balance sheet and off-balance sheet exposure to banks: gross and net amounts

Portfolio/quality	Gross exposure		Portfolio adjustments	Net Exposures	Partial Write-off*
	Non-performing Exposures	Performing Exposures			
A. Balance-sheet exposure					
a) Bad loans	17,096	X	15,263	1,833	-
- of which forborne	-	X	-	-	-
b) Unlikely to pay	-	X	-	-	-
- of which forborne	-	X	-	-	-
c) Past-due Impaired exposures	-	X	-	-	-
- of which forborne	-	X	-	-	-
d) Past-due not impaired exposures	X	6,594	161	6,433	-
- of which forborne	X	-	-	-	-
e) Other assets not impaired	X	29,045,640	6,503	29,039,137	-
- of which forborne	X	2,766	5	2,761	-
Total A	17,096	29,052,234	21,927	29,047,403	-
B. Off-balance-sheet exposure					
a) Impaired	6,345	X	1,471	4,874	-
b) Not Impaired	X	9,660,870	2,172	9,658,698	-
Total B	6,345	9,660,870	3,643	9,663,572	-
Total (A+B)	23,441	38,713,104	25,570	38,710,975	-

* Value to be presented for disclosure purposes

At the reporting date for these financial statements, the table does not include purchased or originated impaired financial assets.



A.1.7 - Balance sheet and off-balance sheet exposure to customers: gross and net amounts

Portfolio/quality	Gross exposure		Portfolio adjustments	Net Exposures	Partial Write-off*
	Non-performing Exposures	Performing Exposures			
A. Balance-sheet exposure					
a) Bad loans	6,165,574	X	3,729,760	2,435,814	13,401
- of which forborne	1,327,386	X	626,206	701,180	7
b) Unlikely to pay	6,051,331	X	2,620,902	3,430,429	128,624
- of which forborne	3,202,260	X	1,281,072	1,921,188	124,105
c) Past-due Impaired exposures	134,910	X	26,568	108,342	100
- of which forborne	9,783	X	1,924	7,859	-
d) Past-due not impaired exposures	X	866,376	34,475	831,901	26
- of which forborne	X	92,512	7,519	84,994	-
e) Other assets not impaired	X	78,190,343	464,287	77,726,056	1,755
- of which forborne	X	1,697,861	133,073	1,564,788	1,322
Total A	12,351,815	79,056,719	6,875,992	84,532,542	143,906
B. Off-balance-sheet exposure					
a) Impaired	1,680,604	X	221,173	1,459,431	-
b) Not Impaired	X	31,244,882	13,438	31,231,444	-
Total B	1,680,604	31,244,882	234,611	32,690,875	-
Total (A+B)	14,032,419	110,301,601	7,110,603	117,223,417	143,906

* Value to be presented for disclosure purposes

Please see the Report on Operations for quantification of and reporting on capital ratios for coverage of lending relationships.

For the detailed disclosure on originated impaired financial assets, please refer to Section 1 “Credit risk - Qualitative information” in the Notes to the consolidated financial statements.



4.1.8 - Balance-sheet exposure to banks: changes in gross non-performing loans

Source/Categories	Doubtful loans	Unlikely to pay	Non-performing Past due
A. Gross exposure, opening balance	17,234	9	-
- of which: transferred but not derecognised	-	-	-
B. Increases	119	-	-
B.1 Transfers from performing loans	-	-	-
B.2 Transfers from purchased or originated credit impaired (POCI)	-	-	-
B.3 Transfers from other non performing exposure	-	-	-
B.4 Modification gains/losses	-	-	-
B.5 Other increases	119	-	-
C. Decreases	256	9	-
C.1 Transfers to performing loans	-	-	-
C.2 Write-off	32	-	-
C.3 Collections	224	9	-
C.4 Amounts realised upon disposal of positions	-	-	-
C.5 Losses from disposal	-	-	-
C.6 Transfers from other non performing exposure	-	-	-
C.7 Modification gains/losses	-	-	-
C.8 Other decreases	-	-	-
D. Gross exposure, closing balance	17,097.00	-	-
- of which: transferred but not derecognised	-	-	-

*The initial balance includes the effects of first-time adoption of the new IFRS 9 and IFRS 15 as at 1 January 2018, described in the paragraph "Transition to the IFRS 9 and IFRS 15 accounting standards".

At the reporting date, there are no impaired financial assets that were purchased during the year through business combination transactions.



A.1.8 bis - Balance sheet exposure to banks: changes in gross forborne exposures by credit quality

Source/Categories	Non performing forborne exposures	Performing forborne exposures
A. Goss exposure, opening balance	-	2,783
- of which: transferred but not derecognised	-	-
B.Increases	-	-
B.1 Transfers from performing loans non forborne exposure	-	-
B.2 Transfers from performing forborne exposures	-	X
B.3 Transfers from Non-performing forborne exposures	X	-
B.4 Other increases	-	-
C. Decreases	-	17
C.1 Transfers to performing loans non forborne exposure	X	-
C.2 Transfers to performing forborne exposures	-	X
C.3 Transfers to non-performing forborne exposures	X	-
C.4 Write-offs	-	-
C.5 Collections	-	-
C.6 Amounts realised upon disposal of positions	-	-
C.7 Losses from disposal	-	-
C.8 Other decreases	-	17
D.Gross exposure, closing balance	-	2,766
- of which: transferred but not derecognised	-	-



4.1.9 - Balance-sheet exposure to customers: changes in gross non-performing loans

Source/Categories	Doubtful loans	Unlikely to pay	Non-performing Past due
A. Gross exposure, opening balance*	24,999,345	8,668,824	420,615
- of which: transferred but not derecognised	220,176	86,470	85,380
B. Increases	1,984,056	1,521,297	166,123
B.1 Transfers from performing loans	247,819	977,444	128,824
B.2 Transfers from purchased or originated credit impaired (POCI)	-	-	-
B.3 Transfers from other non performing exposure	1,573,897	165,697	1,889
B.4 Modification gains/losses	4	621	9
B.5 Other increases	162,336	377,535	35,401
C. Decreases	20,817,827	4,138,791	451,829
C.1 transfers to performing loans	5,893	466,322	48,645
C.2 write-offs	64,800	210,705	22,017
C.3 collections	374,513	864,833	82,125
C.4 amounts realised upon disposal of positions	3,632,779	376,370	12,441
C.5 Losses from disposal	191	50,130	-
C.6 transfers to other categories of impaired exposure	4,599	1,513,477	223,407
C.7 Modification gains/losses	11	5,357	158
C.8 other decreases	16,735,041	651,597	63,036
D. Gross exposure, closing balance	6,165,574	6,051,330	134,909
- of which: transferred but not derecognised	219,575	21,430	1,172

* The initial balance includes the effects of first-time adoption of the new IFRS 9 and IFRS 15 as at 1 January 2018, described in the paragraph "Transition to the IFRS 9 and IFRS 15 accounting standards".

Line C.8 "Other decreases", for the columns "Bad loans" and "Unlikely to pay", is primarily comprised of impaired exposures sold during 2018.

At the reporting date, there are no impaired financial assets purchased during the year through either business combination transactions or other types of acquisitions.

*A.1.9bis - Balance sheet exposure to customers: changes in gross forborne exposures by credit quality*

Causali/Qualità	Esposizioni oggetto di concessioni deteriorate	Esposizioni oggetto di concessioni non deteriorate
A. Goss exposure, opening balance*	6,297,447	1,650,284
- of which: transferred but not derecognised	176,833	75,864
B.Increases	1,114,824	1,043,943
B.1 Transfers from performing loans non forborne exposure	159,103	524,482
B.2 Transfers from performing forborne exposures	183,050	X
B.3 Transfers from Non-performing forborne exposures	X	351,373
B.4 Other increases	772,671	168,088
C. Decreases	2,872,842	903,854
C.1 Transfers to performing loans non forborne exposure	X	337,743
C.2 Transfers to performing forborne exposures	351,372	X
C.3 Transfers to non-performing forborne exposures	X	183,050
C.4 Write-offs	216,090	131
C.5 Collections	748,238	362,197
C.6 Amounts realised upon disposal of positions	537,177	-
C.7 Losses from disposal	30,226	-
C.8 Other decreases	989,739	20,733
D.Gross exposure, closing balance	4,539,429	1,790,373
- of which: transferred but not derecognised	181,804	38,299

* The initial balance includes the effects of first-time adoption of the new IFRS 9 and IFRS 15 as at 1 January 2018, described in the paragraph "Transition to the IFRS 9 and IFRS 15 accounting standards".

Line B.4 "Other increases" includes EUR 266.7 mln in the "Non-performing forborne exposures" column relating to non-performing credit exposures at the start of the year which were subject to forbearance measures in the course of the year.

Line C.8 "Other decreases" includes EUR 916 mln in the "Non-performing forborne exposures" column relating to impaired forborne exposures sold during the year.



4.1.10 - Non-performing balance-sheet exposure to banks: changes in overall value adjustments

Source/Categories	Doubtful loans		Unlikely to pay		Non-performing Past due	
	Total	of which forborne	Total	of which forborne	Total	of which forborne
A. Opening balance of overall adjustments*	15,244	-	1	-	-	-
- of which: transferred but not derecognised	-	-	-	-	-	-
B. Increases	1,795	-	-	-	-	-
B.1 Value adjustments from purchased or originated credit impaired	-	X	-	X	-	X
B.2 Other value adjustment	1,795	-	-	-	-	-
B.3 Loss from disposal	-	-	-	-	-	-
B.4 Transfers from other categories of impaired exposures	-	-	-	-	-	-
B.5 Modification gains/losses	-	X	-	X	-	X
B.6 Other increases	-	-	-	-	-	-
C. Decreases	1,776	-	1	-	-	-
C.1 Write-backs from valuation	1,520	-	1	-	-	-
C.2 Write-backs from collection	224	-	-	-	-	-
C.3 Profit from disposal	-	-	-	-	-	-
C.4 Write-offs	32	-	-	-	-	-
C.5 Transfers to other categories of impaired exposure	-	-	-	-	-	-
C.6 Modification gains/losses	-	X	-	X	-	X
C.7 Other decreases	-	-	-	-	-	-
D. Closing balance of overall adjustments	15,263	-	-	-	-	-
- of which: transferred but not derecognised	-	-	-	-	-	-

* The initial balance includes the effects of first-time adoption of the new IFRS 9 and IFRS 15 as at 1 January 2018, described in the paragraph "Transition to the IFRS 9 and IFRS 15 accounting standards".

At the reporting date, there are no impaired financial assets purchased during the year through either business combination transactions or other types of acquisitions.



A.1.11 - Non-performing balance-sheet exposure to customers: changes in overall value adjustments

Source/Categories	Doubtful loans		Unlikely to pay		Non-performing Past due	
	Total	of which forborne	Total	of which forborne	Total	of which forborne
A. Opening balance of overall adjustments*	19,789,614	1,169,426	3,730,456	1,669,467	143,008	4,884
- of which: transferred but not derecognised	109,240	81,287	27,586	4,672	31,360	114
B. Increases	1,354,884	286,395	1,012,750	544,713	46,597	1,929
B.1 Value adjustments from purchased or originated credit impaired	-	X	-	X	-	X
B.2 Other value adjustment	610,752	171,827	871,657	373,802	41,241	1,279
B.3 Loss from disposal	191	-	50,130	30,226	-	-
B.4 Transfers from other categories of impaired exposures	732,499	107,174	40,600	93,178	290	137
B.5 Modification gains/losses	1	X	147	X	1	X
B.6 Other increases	11,441	7,394	50,216	47,507	5,065	513
C. Decreases	17,414,738	829,615	2,122,304	933,109	163,036	4,889
C.1 Write-backs from valuation	253,429	51,917	271,659	209,772	25,209	1,872
C.2 Write-backs from collection	145,985	27,125	135,156	132,910	90	-
C.3 Profit from disposal	361	-	53,236	34,415	-	-
C.4 Write-offs	64,800	6,555	210,705	134,436	22,017	109
C.5 Transfers to other categories of impaired exposure	811	464	722,624	107,487	49,955	2,512
C.6 Modification gains/losses	10	X	2,061	X	19	X
C.7 Other decreases	16,949,342	743,554	726,863	314,089	65,746	396
D. Closing balance of overall adjustments	3,729,760	626,206	2,620,902	1,281,071	26,569	1,924
- of which: transferred but not derecognised	109,492	94,323	3,505	1,554	99	20

* The initial balance includes the effects of first-time adoption of the new IFRS 9 and IFRS 15 as at 1 January 2018, described in the paragraph "Transition to the IFRS 9 and IFRS 15 accounting standards".

The amount of collections in 2018 for non-performing balance-sheet exposures to customers classified as NPE (other than bad loans) is equal to EUR 950 mln (see Table A.1.9), of which 11.2% related to repayments on accrued interest. Furthermore, note that EUR 440 mln was forfeited during 2018 following disposal transactions. In reference to non-performing loans classified as bad loans, judicial collections were 52% of total collections. Realisations for disposals of EUR 3.6 bn as at 31 December 2018 refer to collections following the deconsolidation of positions included in the maxi-securitisation of bad loans, which took place in June 2018, as well as the "Merlino" transaction concluded in December of that year.

At the reporting date, there are no impaired financial assets purchased during the year through either business combination transactions or other types of acquisitions.



Exposure to sovereign debt risk

Below are the net sovereign credit risk exposures in government bonds, loans and credit derivatives held by the Bank as at 31 December 2018 pursuant to the criteria of the European Securities and Markets Authority (ESMA).

The exposures are broken down by accounting categories. For securities classified as 'Loans and Receivables (L&R)' and "Loans", the book value (amortised cost) is also reported.

COUNTRY	DEBT SECURITIES					LOANS	CREDIT DERIVATIVES
	Financial assets measured at fair value through profit and loss		Financial assets measured at fair value through other comprehensive income		Financial assets measured at amortised cost	Financial assets measured at amortised	Financial assets held for trading
	Nominal	Fair value=book value	Nominal	Fair value=book value	Book value	Book value	Nominal
France	-	-	175.0	176.2	-	-	-
Italy	100.0	100.0	9,438.0	9,404.6	4,107.0	2,099.0	-
Spain	-	-	300.0	301.0	210.0	-	-
United States	-	-	50.0	43.7	-	-	-
Total 31 12 2018	100.0	100.0	9,963.0	9,925.5	4,317.0	2,099.0	-
Total 31 12 2017*	0.14	-	13,110.04	13,654.55	490.10	2,383.50	-

* The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9; in addition, the comparative data were reclassified on the basis of the new accounting statements set forth in the 5th update of Bank of Italy Circular 262.

Details on the Bank's exposure is presented taking into consideration that, according to instructions from the European Securities and Market Authority (ESMA), "sovereign debt" is defined as bonds issued by central and local Governments and by government Entities, as well as loans disbursed to said entities.

These financial instruments were measured according to the standards applicable to the category to which they belong.

The overall exposure amounted to approx. EUR 16,441.5 mln, almost entirely in Italian debt, and is concentrated under financial assets measured at fair value through other comprehensive income. Exposures to Italy are nearly exclusively level 1, with the exception of EUR 570 mln under level 2, attributable for EUR 463 mln to government bonds.

Following are the details of reserves on financial assets measured at fair value through other comprehensive income and of Italian credit derivatives (in EUR/mln):

Financial assets measured at fair value through other comprehensive income: Italy	31 12 2018	31 12 2017*
Book value	9,404.6	13,114.8
OCI reserve (after tax)	(127.4)	(62.7)
of which: hedging effect (after tax)	(122.0)	60.8

* The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9; in addition, the comparative data were reclassified on the basis of the new accounting statements set forth in the 5th update of Bank of Italy Circular 262.



Credit derivatives - Italy	31 12 2018	31 12 2017*
Purchase of protection		
Nominal	(130.0)	(130.0)
Positive fair value	7.2	4.6
Negative fair value	-	-
Sale of protection	-	-
Nominal	130.0	130.0
Positive fair value	-	-
Negative fair value	(7.2)	(4.6)



A.2 Classification of exposure by external and internal ratings

A.2.1 – Distribution of financial assets, commitments to disburse funds and financial guarantees given by external rating (gross values)

Exposures	External rating classes						Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	
A. Financial assets measured at amortised cost	610.467	3.140.045	4.900.460	646.431	176.176	27.446	108.064.789
- Stage 1	610.467	3.015.485	4.892.063	646.259	64.941	-	86.504.603
- Stage 2	-	76.357	8.397	172	40.278	-	9.925.440
- Stage 3	-	48.203	-	-	70.957	27.446	11.634.746
B. Financial assets measured at fair value through other comprehensive income	247.364	337.967	9.562.083	143.342	1.039	6.851	10.298.646
- Stage 1	247.364	337.967	9.562.083	136.112	1.023	-	10.284.549
- Stage 2	-	-	-	7.230	16	-	7.246
- Stage 3	-	-	-	-	-	6.851	6.851
Total (A+B)	857.831	3.478.012	14.462.543	789.773	177.215	34.297	118.363.435
of which: purchased or originated impaired financial assets	-	-	-	-	-	-	73.597
C. Commitments to disburse funds and financial guarantees issued	553.267	1.558.196	1.474.729	1.341.303	323.078	60.059	41.094.778
- Stage 1	553.267	1.558.196	1.471.781	1.341.249	122.318	154	38.313.318
- Stage 2	-	-	2.948	54	4.812	-	1.094.512
- Stage 3	-	-	-	-	195.948	59.905	1.686.948
Total (A+B+C)	1.411.098	5.036.208	15.937.272	2.131.076	500.293	94.356	159.458.213

class 1=AAA/AA- class 2=A+/A- class 3=BBB+/BBB- class 4=BB+/BB- class 5=B+/B- class 6=lower than B-

The external rating categories used to complete the table are from Standard & Poor's. The on balance exposures shown are those reported in Tables A.12 and A.1.6 (exposures out of balance). If multiple external ratings are assigned, the rating is selected based on Bank of Italy's criteria (when two ratings are available, the lower of the two is used, and when three or more ratings are assigned, the second highest rating is selected). To ensure relevance of information, internal cross-reference tables were used to convert classification by various rating agencies into classification by Standard & Poor's.

As at 31 December 2018, the Bank had outstanding trade receivables of EUR 13,6 mln, for which the Bank did not use external ratings.

A.2.2 – Distribution of financial assets, commitments to disburse funds and financial guarantees given by internal rating (gross values)

[illegible]

High Quality customers (Master Scale categories A2, A3 and B1) Fair Quality customers (Master Scale categories B2, B3, C1 and C2)
Medioocre Quality customers (Master Scale categories C3, D1, D2 and D3) Poor Quality customers (Master Scale categories E1, E2 and E3)

The table provides a breakdown of customers of the MPS Group by risk categories assigned on the basis of ratings arising from internal models. For this purpose, account is given only of exposures (borrowers) for which an internal rating is periodically recorded for models/legal entities/portfolios which have been subject to a validation process with the regulatory authorities without any cross-reference from official ratings especially with regard to the following customer segments: "Banks," "Non-banking financial institutions," and "Governments and Public Administration". Thus, based on this provision, exposures related to the latter segments, even if covered by official ratings, were reported as "unrated" in the internal rating models.

As at 31 December 2018, the Bank had outstanding trade receivables of EUR 13,6 mln. With regard to these receivables, the Bank valued the defined loss coverage provision with the simplified method, assigning to the counterparties a benchmark rating (C2), equivalent to the average rating of the AIRB portfolio and a loss rate of 45%.



A.3 Breakdown of secured exposures by type of collateral

A.3.1 - Secured balance sheet and off-balance sheet exposure to banks

	Amount of gross exposure	Amount of Net Exposure	collateral security			Personal guarantees										Total collateral security and personal guarantees
						Credit derivatives					Unsecured signature loans					
			Real estate mortgages	Real estate leasing	Securities	Other collaterals	CLN	Central counterparties	Banks	Other Financial entities	Other entities	Public entities	Banks	Other financial entities	Other entities	
1. Secured balance-sheet exposures:	5,761,835	5,761,835	1,193	-	5,596,575	-	-	-	-	-	-	-	95	-	24	5,597,887
1.1 totally secured	5,758,784	5,758,784	1,193	-	5,596,575	-	-	-	-	-	-	-	-	-	16	5,597,784
- of which non performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2 partially secured	3,051	3,051	-	-	-	-	-	-	-	-	-	-	95	-	8	103
- of which non performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Secured off-balance sheet exposures:	2,106,291	2,106,289	-	-	1,986,445	108,964	-	-	-	-	-	-	92	-	-	2,095,501
2.1 totally secured	1,989,907	1,989,907	-	-	1,986,445	3,380	-	-	-	-	-	-	67	-	-	1,989,892
- of which non performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 partially secured	116,384	116,382	-	-	-	105,584	-	-	-	-	-	-	25	-	-	105,609
- of which non performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

In addition to balance-sheet exposures, the table shows the amount of off-balance-sheet exposures to banks (including derivative contracts with banks) which are fully or partially secured. As regards personal guarantees, the economic segments to which guarantors and sellers of protection belong (in the case of unsecured loans and credit derivatives, respectively) are identified making reference to the classification criteria provided for in the brochure “classification of customers by segments and groups of economic activity” published by the Bank of Italy.

Exposures are classified as “fully secured” by comparing the gross exposure with the amount of the guarantee established in the contract; for that purpose, any supplemental guarantees are also considered.

The fair value of collaterals estimated as at the balance sheet date is shown in the columns “Real guarantees” and “Personal guarantees”; if such information is not available, the contractual value is reported. Both values cannot be higher than the book value of secured exposures, in line with the 5th update of Bank of Italy Circular 262.



A.3.2 - Secured balance sheet and off-balance sheet exposure to customers

	Personal guarantees													
	Collateral security	Credit derivatives		Unsecured signature loans										
		Other collateral security	Other financial entities	Banks	Public entities	Other financial entities	Banks	Public entities	Other financial entities	Other entities	Total collateral security and personal guarantees			
												Other collateral security	Other financial entities	Banks
1. Secured balance-sheet exposures:	52,149,819	48,152,512	37,852,355	-	399,206	159,359	-	-	-	1,054,906	968	556,343	7,668,313	47,691,450
1.1 Totally secured	50,304,755	46,761,055	37,820,563	-	329,132	138,929	-	-	-	635,672	533	426,224	7,312,800	46,663,853
- of which non performing	7,315,764	4,128,555	3,244,524	-	17,378	8,138	-	-	-	116,742	79	78,916	653,214	4,118,991
1.2 Partially secured	1,845,064	1,391,457	31,792	-	70,074	20,430	-	-	-	419,234	435	130,119	355,513	1,027,597
- of which non performing	654,803	216,887	6,355	-	23,695	1,246	-	-	-	10,791	-	16,596	121,905	180,588
2. Secured off-balance sheet exposures:	7,205,398	7,118,889	289,765	-	145,008	184,714	-	-	-	35,931	53,356	83,783	5,906,323	6,698,880
2.1 Totally secured	6,378,442	6,293,652	288,750	-	114,036	154,282	-	-	-	24,687	53,109	56,438	5,509,753	6,201,055
- of which non performing	490,802	409,801	148,773	-	5,877	1,214	-	-	-	1,249	52,777	1,637	194,955	406,482
2.2 Partially secured	826,956	825,237	1,015	-	30,972	30,432	-	-	-	11,244	247	27,345	396,570	497,825
- of which non performing	52535	51,380	980	-	1,542	532	-	-	-	487	188	654	40,053	44,436

In addition to balance-sheet exposures, the table shows the amount of off-balance-sheet exposures to customers (including derivative contracts) which are fully or partially secured. As regard personal guarantees, the economic segments to which guarantors and sellers of protection belong (in the case of unsecured loans and credit derivatives, respectively) are identified making reference to the classification criteria provided for Bank of Italy Circular no. 140 of 11 February 1991 "Instructions for classifying customers". Exposures are classified as "fully secured" by comparing the gross exposure with the amount of the guarantee established in the contract; for that purpose, any supplemental guarantees are also considered.

The fair value of collaterals estimated as at the balance sheet date is shown in the columns "Real guarantees" and "Personal guarantees"; if such information is not available, the contractual value is reported. Both values cannot be higher than the book value of secured exposures, in line with the 5th update of Bank of Italy Circular 262.



A.4 – Financial and non-financial assets obtained through enforcement of guarantees received

The table was not completed as this type of asset was not present in the year under review.



B. Breakdown and concentration of credit exposure

B.1 Breakdown of on- and off-balance sheet exposures to customers by business segment

Exposure/ Customers	Public administration		Financial companies		Financial companies (of which insurance companies)		Non financial companies		Families	
	Net exposure	Portfolio adjustments	Net exposure	Portfolio adjustments	Net exposure	Portfolio adjustments	Net exposure	Portfolio adjustments	Net exposure	Portfolio adjustments
A. Balance-sheet exposure										
A.1 Doubtful loans	-	3,122	27,344	145,695	-	-	1,383,153	2,694,686	1,025,317	886,256
- of which forborne	-	-	1,746	6,057	-	-	370,446	462,717	328,987	157,432
A.2 <i>Unlikely to pay</i>	117,053	120,796	83,843	133,573	3	-	2,446,502	2,021,397	783,031	345,135
- of which forborne	-	-	49,966	93,531	-	-	1,493,856	1,063,418	377,366	124,123
A.3 Past-due Impaired	1,730	1,338	1,889	1,125	-	-	21,174	8,312	83,549	15,793
- of which forborne	-	-	26	7	-	-	2,066	819	5,766	1,098
A.4 Other Performing exposures	16,324,489	16,148	6,574,542	9,076	75,879	-	23,801,189	336,458	31,857,738	137,079
- of which forborne	4,246	68	21,854	2,010	-	-	904,283	93,537	719,399	44,977
Total A	16,443,272	141,404	6,687,618	289,469	75,882	-	27,652,018	5,060,853	33,749,635	1,384,263
B. Off-balance-sheet exposures										
B.1 Performing exposure	120,184	-	9,774	263	-	-	1,288,585	215,941	40,887	4,970
B.2 Non performing exposure	1,689,531	33	1,560,989	150	39,618	-	25,170,671	11,152	2,804,970	2,102
Total B	1,809,715	33	1,570,763	413	39,618	-	26,459,256	227,093	2,845,857	7,072
Total (A+B) 31 12 2018	18,252,987	141,437	8,258,381	289,882	115,500	-	54,111,274	5,287,946	36,595,492	1,391,335
Total (A+B) 31 12 2017*	17,720,570	106,010	5,837,999	713,028	439,424	1,218	44,390,418	20,900,056	29,599,260	3,110,097

* The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9; in addition, the comparative data were reclassified on the basis of the new accounting statements set forth in the 5th update of Bank of Italy Circular 262



B.2 Breakdown of on- and off-balance-sheet exposures to customers by geographic area

Exposure/Geographic Areas	ITALY			OTHER EUROPEAN COUNTRIES			AMERICA			ASIA			REST OF THE WORLD		
	Net exposure	Overall value adjustments		Net exposure	Overall value adjustments		Net exposure	Overall value adjustments		Net exposure	Overall value adjustments		Net exposure	Overall value adjustments	
A. Balance-sheet exposures															
A.1 Doubtful loans	2,426,835	3,664,539		8,006	42,954		571	10,323		100	11,714		303		230
A.2 Unlikely to pay	3,417,282	2,595,004		11,789	15,918		116	91		1,124	9,366		119		522
A.3 Past-due Impaired	107,997	26,440		140	19		173	104		24	4		7		1
A.4 Other performing exposures	77,242,979	497,412		962,178	560		237,152	379		109,599	392		6,048		18
Total A	83,195,093	6,783,395		982,113	59,451		238,012	10,897		110,847	21,476		6,477		771
B. Off-balance-sheet exposures															
B.1 Non performing exposures	1,458,535	220,995		880	179		16	-		-	-		-		-
B.2 Performing exposures	30,799,687	13,265		329,833	148		57,246	2		36,290	22		3,106		1
Total B	32,258,222	234,260		330,713	327		57,262	2		36,290	22		3,106		1
Total (A+B) 31 12 2018	115,453,315	7,017,655		1,312,826	59,778		295,274	10,899		147,137	21,498		9,583		772
Total (A+B) 31 12 2017	95,380,212	24,713,793		1,474,424	84,438		481,097	9,713		195,001	16,115		17,512		5,134



B.3 Breakdown of on- and off-balance-sheet exposures to banks by geographic area (book value)

Exposure/Geographic Areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments
A. Balance-sheet exposures										
A.1 Doubtful loans	-	-	1,671	2,936	101	12,190	-	-	61	136
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Past-due Impaired	-	-	-	-	-	-	-	-	-	-
A.4 Other performing exposures	26,931,181	4,670	1,786,691	1,206	232,352	436	81,874	322	13,471	31
Total A	26,931,181	4,670	1,788,362	4,142	232,453	12,626	81,874	322	13,532	167
B. Off-balance-sheet exposures										
B.1 Doubtful loans	-	-	1	-	4,873	1,471	-	-	-	-
B.2 Substandard loans	3,063,990	53	2,452,399	675	589,147	239	2,112,538	403	589,958	802
Total B	3,063,990	53	2,452,400	675	594,020	1,710	2,112,538	403	589,958	802
Total (A+B) 31 12 2018	29,995,171	4,723	4,240,762	4,817	826,473	14,336	2,194,412	725	603,490	969
Total (A+B) 31 12 2017	24,083,475	394	3,196,829	7,595	263,136	23,971	196,738	990	115,153	2,011



B.4 Large exposures

Item/Amount	31 12 2018	31 12 2017
a) Book value	72,225,592	58,461,888
b) Weighted value	3,749,542	3,876,029
c) Number	11	10

Regulations provide for positions to be defined as "large exposures" by making reference to credit-risk unweighted exposures.

An exposure is deemed as a "large exposure" when its amount is equal to or greater than 10% of Regulatory capital.

The accounting treatment envisaged in governing regulations - CRR art. 400 (1j) - for transactions with central counterparties, which is the primary reason for the increase in item "a) Book value", provides for the exclusion of the weighted value of i) trading exposures, ii) contributions to guarantee funds with these counterparties, and iii) reductions on exposures due to collateral received.

Pursuant to the afore-mentioned regulations, exposures in government securities were also included.



C. Securitisation Transactions

Qualitative Information

Structures, processes and goals

For qualitative information, please refer to Part E of the Notes to the consolidated financial statements.

More specifically, for the securitisation of performing loans, the Credit Servicing Service and the securitised PE Portfolio, within the Credit Portfolio Governance Area, is responsible for establishing operational guidelines and general practices. For this purpose, it looks after related aspects and obligations associated with servicing activities and monitors the performance of existing transactions through monthly and quarterly reports on collections of remaining principal, positions in arrears and disputed positions arising from securitisation transactions. The same Service prepares the summary statements containing the data of the portfolio sold and, as part of critical situation management, it reports cases that may pose potential risks for noteholders to the relevant functions in the organisation.

In its capacity as third-level control body, the Credit Audit Service uses sampling procedures to periodically validate:

- whether the degree of recoverability of loans sold is accurate and, as a result, whether the fair value of securities issued is appropriate;
- whether line checks assigned to the various units have been carried out and roles and responsibilities properly identified;
- the compliance of reporting/accounting procedures with current regulations in collaboration with other units, as necessary;
- the existence of any conflicts of interest with respect to noteholders; and compliance, on a sampling basis, with the obligations of Law 197/91, as amended.

For securitisations of non-performing loans, the servicing and debt collection performance control services are handled by market operators outside the Bank.

Own securitisations with derecognition of the underlying assets

Casaforte Srl

This securitisation was carried out in 2010 and consisted in the transfer to Vehicle Casaforte Srl of a pool of receivables arising from a mortgage loan granted to the consortium company, Perimetro Gestione Proprietà Immobiliari. The underlying receivables were fully derecognised from the Bank's balance sheet, since the associated risks and rewards were - both formally and substantially - transferred to the vehicle. As at 31 December 2018 the residual debt amounts to EUR 1,221.8 mln. In December 2013 the Bank announced the completed buyback in full of the PGPI 2010 equity financial instruments and related Class Z Notes for a value of approximately EUR 70 mln. As a result of these purchases, the Bank acquired control of the Company, which was subsequently consolidated in the Financial Statements. Under the "2017-2021 Restructuring Plan", approved by the Board of Directors of BMPS on 26 June 2017 and by the European Commission on 4 July 2017, and the commitments undertaken with respect to the Directorate General for Competition of the European Commission, a second phase of restructuring of the "Chianti Classico" transaction was launched in 2018, envisaging the merger of "Perimetro Gestione Proprietà Immobiliari" and advance unwinding of the securitisation. To proceed with such activities, on 29 October 2018, Banca MPS launched a public tender offer for securities that were still placed with third-party investors at the time. Upon conclusion of the public tender offer in November 2018, Banca MPS became owner of 97.59% of the Class A notes and 99.81% of the Class B notes.

Siena NPL 2018 Srl

In the course of 2017, on the basis of what is set forth in the Restructuring Plan and in line with the terms of the agreements entered into with Quaestio Capital Management SGR S.p.A., the Bank



completed a transfer through securitisation of a portfolio of bad loans along with other Group companies.

The portfolio was sold on 20 December 2017 to the vehicle Siena NPL 2018 S.r.l., established for this purpose. The vehicle financed acquisition of the portfolio through issuance of the following asset-backed securities (the "Securities"), with limited recourse:

- (i) Senior A1 notes for EUR 2,683.5 mln;
- (ii) Senior A2 notes for EUR 412.1 mln;
- (iii) Mezzanine notes for EUR 847.6 mln;
- (iv) Junior notes for EUR 565.0 mln

centralised in dematerialised form at Monte Titoli S.p.A. and initially not listed on any Italian and/or foreign regulated market.

The transaction respected the timing of the 2017-2021 Restructuring Plan and the agreements with Quaestio Capital SGR S.p.A. On 9 January, transfer of 95% of the mezzanine notes to Quaestio Capital SGR on behalf of the Italian Recovery Fund (Atlante II Fund) was completed. In May 2018, at the end of the rating assignment process, the Senior Notes were restructured into a single class, obtaining an investment grade rating from the 3 ratings agencies involved, as outlined below. Consequently, the securities issued by the vehicle are the following:

- (i) Senior A notes for EUR 2,918 mln, rating A3/BBB+/BBB (Moody's/Scope Ratings/DBRS). The outstanding amount as at 31 December 2018 was EUR 2,752 mln;
- (iii) Mezzanine B notes for EUR 847.6 mln, without rating and sold to the Italian Recovery Fund managed by Quaestio Capital SGR, for a portion of 95% of the issue;
- (iv) Junior notes for EUR 565.0 mln, without rating.

In June 2018, with the transfer of 95% of the Junior notes to Quaestio Capital SGR on behalf of the Italian Recovery Fund (Atlante II Fund), in addition to that of the Mezzanine notes, deconsolidation of the entire securitised portfolio was completed. The remaining 5% of the junior and mezzanine notes was retained for the purposes of observance of the retention rule.

Lastly, in July 2018, the MEF granted, with its decree, the government guarantee (GACS) on the senior tranche of the securitisation. Obtainment of the GACS completed the entire securitisation process.

Own securitisations without derecognition of the underlying assets

Following is an outline of the Bank's performing securitisation transactions as at 31 December 2018.

Siena Mortgages 10-7 Srl

On 30 September 2010, a portfolio of 34,971 performing residential mortgages originated by the Bank was sold for approx. EUR 3,479.5 mln. As at 31 December 2018, the remaining debt balance amounted to EUR 1,632.4 mln (22,007 outstanding contracts).

To fund the acquisition of the portfolio, the Vehicle issued residential mortgage-backed securities (RMBS); Class A1 and A2 notes - now fully repaid - were placed with market investors, whereas the remaining classes of notes issued were underwritten by the Bank and part of them were subsequently placed with market investors (class A3).

Market placement of these classes did not entail the derecognition of the underlying assets from the balance sheet of the Bank (transferor), which has substantially retained all risks and rewards associated with the ownership of the assets sold.



Norma SPV S.r.l.

On 1 July 2017, as part of a securitisation of non-performing loans, also originated by banks outside the MPS Group, the Bank completed the sale of a portfolio of non-performing loans in the real estate and shipping sectors.

As at the transfer date, the entire portfolio acquired by the vehicle consisted of 54 loans for a value of EUR 495.5 mln, of which 12 loans disbursed by Banca MPS for EUR 24 mln in the real estate sector and EUR 145.3 mln in the shipping sector.

As at 31 December 2018, the remaining debt balance (including interest on arrears accrued) of the total portfolio amounted to EUR 494.3 mln, including EUR 94.2 mln in loans of the real estate sector and EUR 400.1 mln in loans referring to shipping, for a total of 54 loans. Of these, the MPS Group portfolio amounts to EUR 281.1 mln (19 outstanding loans), of which EUR 166.7 mln disbursed by Banca MPS.

To fund the acquisition of this portfolio, on 21 July 2017 the Vehicle issued Class A1, B, C and D ABS securities (the “Securities”) for the real estate sector and Class A1, B, C1, C2 and D ABS securities for the shipping sector.

The senior classes of both the real estate and shipping transactions were placed with institutional investors, while the mezzanine and junior classes were subscribed by each transferring bank in proportion with the transferred loans.

Specifically, the Bank subscribed the following securities:

Real Estate: Class B for a nominal amount of EUR 11.6 mln; Class C for a nominal amount of EUR 2.5 mln; Class D for a nominal amount of EUR 9.2 mln.

Shipping: Class B for a nominal amount of EUR 46.2 mln; Class C1 for a nominal amount of EUR 20.7 mln; Class C2 for a nominal amount of EUR 6.6 mln; Class D for a nominal amount of EUR 66.8 mln.

The placement of part of the notes did not entail the derecognition of the underlying assets from the balance sheet of the Bank, which has substantially retained all risks and rewards associated with the ownership of the assets sold.

Redemption of securitisations in 2018

In November, the Siena Consumer 2015 S.r.l. securitisation was redeemed in advance with the repurchase of the residual loans, involving personal, auto and special purpose loans disbursed by Consum.it S.p.A. (now incorporated into the Bank) and consequent reimbursement of the existing securities.

In December, the Siena PMI 2015 S.r.l. securitisation was redeemed in advance with the repurchase of the residual loans, involving performing, unsecured or mortgage loans disbursed to Italian SMEs and consequent reimbursement of the existing securities.



Quantitative Information

C.1 - Exposures arising from major own securitisation transactions broken down by type of securitised asset and type of exposure

Quality of underlying assets/Exposures	Balance-sheet exposure						Guarantee issued						Lines of credit					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Gross exposure	Net exposure €	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure €
A. Fully derecognised	3,058,636	(33,208)	226,330	(22,809)	26,346	1,370	-	-	-	-	-	-	-	-	-	-	-	-
Bond	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-performing loans	2,166,378	956	33,249	611	23,346	1,562	-	-	-	-	-	-	-	-	-	-	-	-
Mortgages Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Residential mortgages	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non residential mortgages	892,258	(34,164)	193,081	(23,420)	3,000	(192)	-	-	-	-	-	-	-	-	-	-	-	-
Bonds and Credit derivatives	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B. Partially derecognised	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
C. Not derecognised	-	-	1,406,933	-	249,511	-	-	-	-	-	-	-	-	-	-	-	-	-
Consumer credit	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Mortgages Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Residential mortgages	-	-	1,406,933	-	98,879	-	-	-	-	-	-	-	-	-	-	-	-	-
Shipping	-	-	-	-	150,632	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	3,058,636	(33,208)	1,633,263	(22,809)	275,857	1,370	-	-	-	-	-	-	-	-	-	-	-	-

In relation to securitisation transactions with own and third-party underlying assets, the table indicates balance-sheet exposures, unsecured exposures, and other forms of credit enhancement.



C.2 – Exposures arising from major 'third-party' securitisation transactions broken down by type of securitised asset and type of exposure

Type of securitised asset/Exposure	Balance-sheet exposure						Guarantees issued						Lines of credit					
	Senior			Mezzanine			Junior			Senior			Mezzanine			Senior		
	write-downs/			write-downs/			write-downs/			write-downs/			write-downs/			write-downs/		
	Book value	write-backs		Book value	write-backs		Book value	write-backs		Book value	write-backs		Book value	write-backs		Book value	write-backs	
Non performing loans	62,877	47	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	62,877	47	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-



C.3 Special purpose securitisation vehicles

Securitisation/Vehicle company name	Registered office	Consolidation	Assets			Liabilities		
			Credit	Debt securities	Other	Senior	Mezzanine	Junior
Norma Spv S.r.l.	Via V.Alfieri, 1 Conegliano (TV)	NO	494,291		106	8,674	164,820	320,902
Siena Npl 2018 S.r.l.	Via Piemonte, 38 Roma	NO	4,171,871			2,752,431	847,600	565,000
Casaforte S.r.l.	Via E.Duse, 53 Roma	SI	1,220,912		31,177	1,063,804		188,285
Siena Mortgages 10-7 S.r.l.	Via V.Alfieri, 1 Conegliano (TV)	SI	1,672,044		197,173	840,154	817,600	211,463
Fino 1 Securitisation S.r.l.	Viale Luigi Majno, 45 Milano	NO	739,000		32,500	636,298	69,640	50,311
Total			4,126,247	-	260,955	5,301,361	1,899,660	1,335,961

As regards the “Casaforte Srl” own securitisation with the derecognition of underlying assets, please note that the assets acquired from the originator are included under “Loans”. Liabilities of third-party securitisation transactions do not have the remaining items different from the financial instruments issued, including cumulative profit (loss) for the year.

C.4 Non-consolidated special purpose securitisation vehicles

The information referred to in this table is not provided in that the Bank prepares the consolidated financial statements.



C.5 - Servicer activities - own securitisations: collections of securitised loans and redemptions of securities issued by the special purpose vehicle

Servicer	Special Purpose Vehicle	Securitisations assets (year-end data)		Loans collected during the year		Percentage of securities redeemed (year-end data)					
		Impaired	Performing	Impaired	Performing	Senior		Mezzanine		Junior	
						Impaired assets	Performing loans	Impaired assets	Performing loans	Impaired assets	Performing loans
BMPS	Casaforte S.r.l.	-	1,221,892	-	131,182	0.0%	36.7%	0.0%	0.0%	0.0%	0.0%
	Total 31 12 2018	-	1,221,892	-	131,182						
	Total 31 12 2017	-	1,269,567	-	134,348						

The table shows the securitisation of assets transferred and derecognised relative to Casaforte, for which the Bank carries out servicer activities.



D. Information on structured entities not consolidated for accounting purposes (other than special purpose vehicles for securitisation)

Qualitative Information

Quantitative Information

The information referred to in this section is not provided in that the Bank prepares the consolidated financial statements.

E. Transfers

A. Financial assets sold and not fully derecognised

Qualitative Information

For a description of the transactions contained in the tables reported in this section, please refer to the footnotes of the tables themselves.



Quantitative Information

E.1 - Financial assets sold and fully recognised and associated financial liabilities: book values

	Financial assets fully recognised				Financial liabilities		
	Book value	of which: subject to securitization transactions	of which: subject to repurchase agreement	of which: impaired	Book value	of which: subject to securitization transactions	of which: subject to repurchase agreement
Financial assets held for trading	-	-	-	X	-	-	-
Financial assets measured at fair value mandatory	63,832	63,832	-	63,832	3,101	3,101	-
1. Debt securities	-	-	-	-	-	-	-
2. Equity instruments	-	-	-	X	-	-	-
3. Loans	63,832	63,832	-	63,832	3,101	3,101	-
Financial assets designated at fair value	-	-	-	-	-	-	-
Financial assets measured at fair value through other comprehensive income	5,218,742	-	5,218,742	-	5,101,235	-	5,101,235
1. Debt securities	5,218,742	-	5,218,742	-	5,101,235	-	5,101,235
2. Equity instruments	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
Financial assets measured at amortised cost	1,669,980	1,669,980	-	65,272	188,882	188,882	-
1. Debt securities	-	-	-	65,272	-	-	-
2. Loans	1,669,980	1,669,980	-	-	188,882	188,882	-
Totale 31 12 2018	6,952,554	1,733,812	5,218,742	129,104	5,293,218	191,983	5,101,235
Totale 31 12 2017*	5,185,062	3,410,789	1,774,273	n.d.	2,048,117	-	2,048,117

* The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9; in addition, the comparative data were reclassified on the basis of the new accounting statements set forth in the 5th update of Bank of Italy Circular 262

E.2 - Financial assets sold and partially recognised and associated financial liabilities: book values

This table was not completed as the Bank has no assets of this type.



E.3 - Sales transactions relating to financial liabilities with repayment exclusively based on assets sold and not fully derecognised: fair value

	Fully recognised	Partially recognised	Total	
			31 12 2018	31 12 2017*
Financial assets held for trading	-	-	-	-
Financial assets measured at fair value mandatory	63,832	-	63,832	-
1. Debt securities	-	-	-	-
2. Equity instruments	-	-	-	-
3. Loans	63,832	-	63,832	-
Financial assets designated at fair value	-	-	-	-
Financial assets measured at fair value through other comprehensive income	-	-	-	-
Financial assets measured at amortised cost	1,711,437	-	1,711,437	3,590,757
1. Debt securities	-	-	-	-
2. Loans	1,711,437	-	1,711,437	-
Total financial assets	1,775,269	-	1,775,269	3,590,757
Total financial associated liabilities	191,983	-	191,983	X
Net value 31 12 2018	1,583,286	-	1,583,286	X
Net value 31 12 2017*	-	-	X	3,145,302

* The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9; in addition, the comparative data were reclassified on the basis of the new accounting statements set forth in the 5th update of Bank of Italy Circular 262

Note that all amounts reported in the item “Financial assets measured at amortised cost - Loans” refer exclusively to the fair value of loans sold with own securitisations without derecognition, which continue to be fully recognised in the Bank's balance sheet assets. The amount of EUR 191.9 mln reported under associated liabilities refers to the fair value of the portion of senior notes sold to market counterparties as part of the same securitisation. The Bank recognised a liability with the notes-issuing vehicles as an offsetting entry for the cash flows arising from these disposals. Against this liability, the creditor's entitlement to repayment is limited to cash flows arising from the assets underlying senior notes sold.



B. Financial assets sold and fully derecognised with assessment of “continuing involvement”

Qualitative Information

Quantitative Information

None to report as at 31 December 2018.

E.4 - Covered bond transactions

Characteristics of the Covered Bond Issuance Programmes

The characteristics of the covered bond issuance programmes are shown in the corresponding section of the consolidated financial statements.

Accounting treatment

The accounting treatment is shown in the corresponding section of the consolidated financial statements.

Risks and Control Measures

The risks and control measures are shown in the corresponding section of the consolidated financial statements.

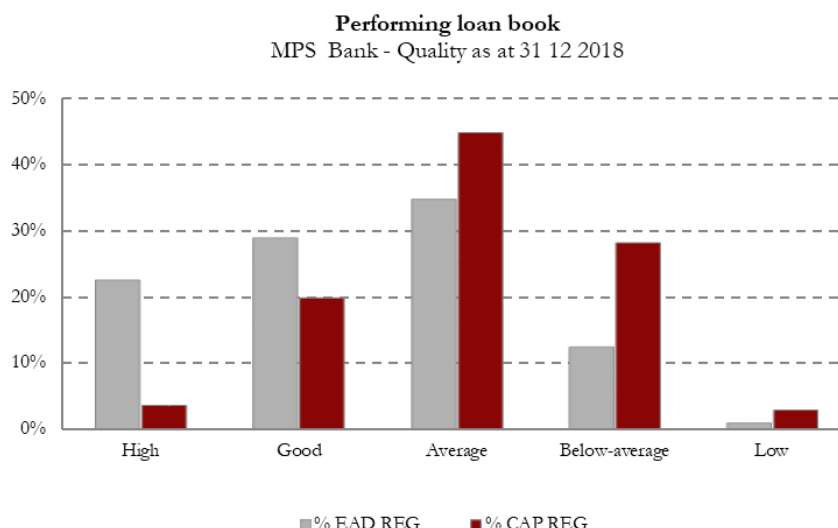
Description of individual issuances

The description of individual issuances is provided in the corresponding section of the consolidated financial statements.

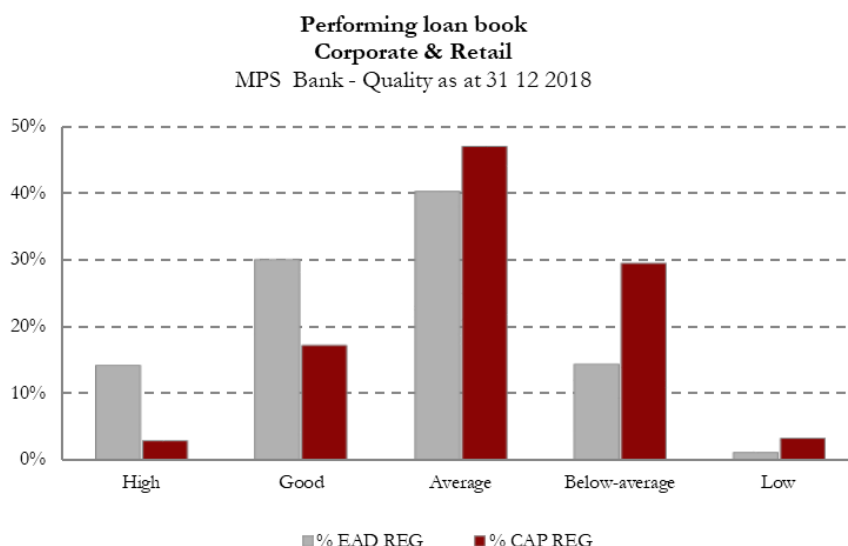


F. CREDIT RISK MEASUREMENT MODELS

The chart below provides a credit quality breakdown of the Banca MPS portfolio as at 31 December 2018 by Exposure to Risk (EAD REG) and Regulatory Capital (CAP REG). The following graph shows that about 51.6% of risk exposure is to high and good quality customers (positions in financial assets are excluded). It should be noted that the ranking below also includes exposure to banks, government agencies and non-regulated financial and banking institutions, which are not included in the AIRB approaches. As borrowers, these entities are nevertheless subject to a credit standing assessment using official ratings, if any, or appropriate benchmark values that have been determined internally.



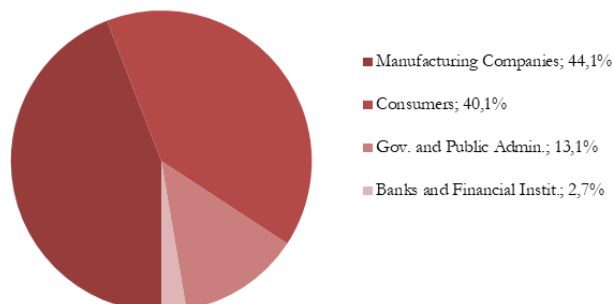
On the other hand, the following chart provides a breakdown of credit quality only for Corporate and Retail portfolios (which are largely validated by regulatory authorities for the use of internal PD and LGD models). As at 31 December 2018, high or good quality exposure accounted for approximately 44.3% of total exposure.



An analysis conducted at the end of 2018 shows that the risk exposure of Banca MPS is mainly toward "Manufacturing Companies" (44.1% of total loans disbursed) and "Households" (40.1%). The remaining portion is broken down between "Government and Public Administration" and "Banks and Financial Institutions", respectively at 13.1% and 2.7%.

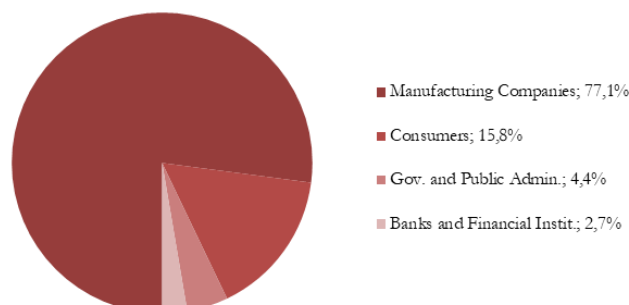


Risk Exposure
MPS Bank - 31 12 2018



In terms of Regulatory Capital, the analysis reveals that the customer segment of Manufacturing Companies accounts for 77.1%, while the “Households” segment stands at 15.8%.

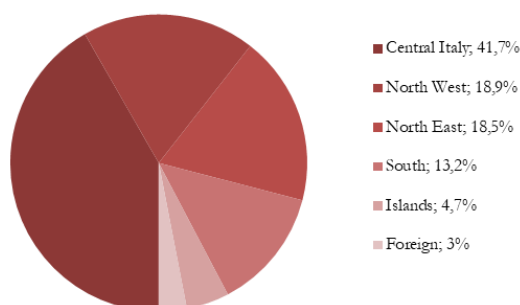
Regulatory Capital
MPS Bank - 31 12 2018



An analysis of the geographical breakdown of Banca MPS customers shows that exposure to risk is primarily concentrated in Italy's Central regions (41.7%), followed by the North East and North West (18.9% and 18.5% respectively), Southern Italy (13.2%), Italy's islands (4.7%) and foreign countries (3%).

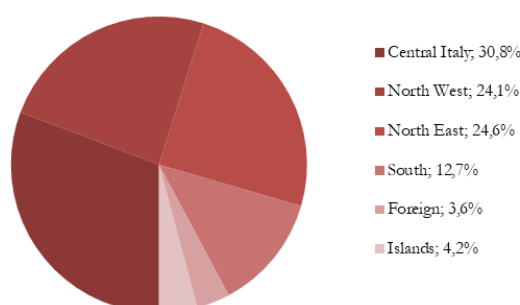


Risk Exposure
MPS Bank - 31 12 2018



Regulatory Capital absorption is also higher in Central Italy (30.8%), in North West Italy (24.6%) and North East Italy (24.1%) due to the greater concentration of loans in those areas. These are followed by Southern Italy (12.7%), the Islands (4.2%) and Foreign Countries (3.6%).

Regulatory Capital
MPS Bank - 31 12 2018

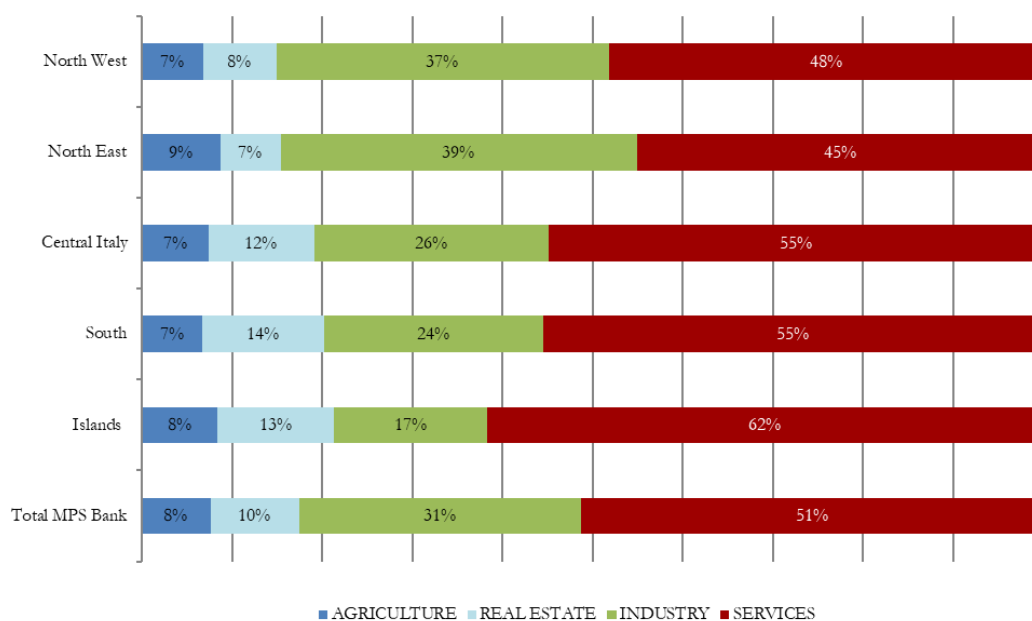


Lastly, the following graphs show, solely for Italian corporate customers, the percentage breakdown of Default Exposure by individual Geographic Area and Regulatory Capital absorption by Business Sector.

The largest share of Default Exposure for businesses in all Geographic Areas is accounted for by the "Services" sector. Out of the Bank's total exposure, the share of Services accounts for 51% and is followed by Industry (31%), Real Estate (10%) and Agriculture (8%)

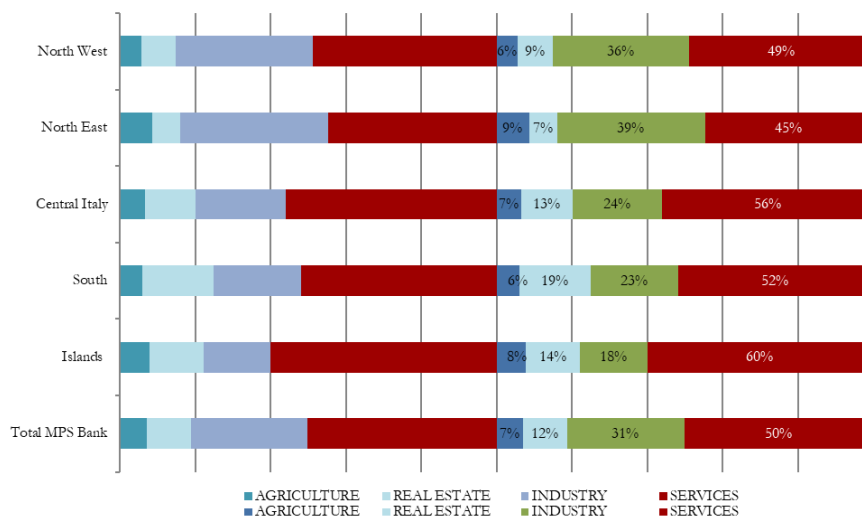


MPS Bank - Italian Corporate customers – performing loan book as at 31/12/2018
EAD REG by geography and business segment



Also as regards Regulatory Capital (CAP), the greater concentration relates to the Services sector in all Geographic Areas.

MPS Bank - Italian Corporate customers – performing loan book as at 31/12/2018
CAP REG by geography and business segment





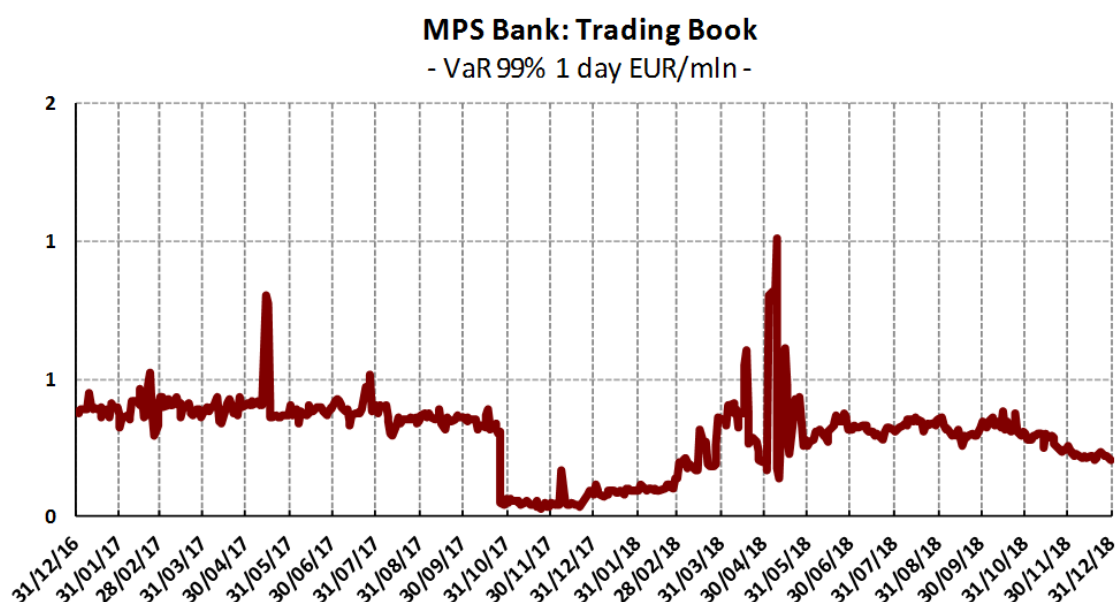
Section 2 - Market risk

2.1. Interest rate and price risk – Regulatory trading book

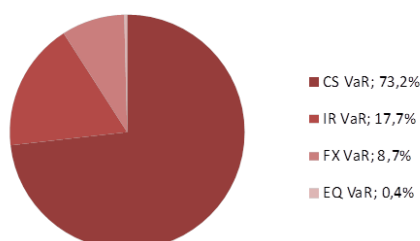
For general information on the management model of market risks concerning the Trading Book of the Bank, refer to Part E in the Notes to the consolidated financial statements.

The VaR diversified by risk factors and portfolios of the Bank at the end of 2018 came to EUR 0.20 mln, an increase of EUR 0.12 mln compared to the end of 2017.

In 2018 the VaR level, diversified by risk factors and portfolios of the Bank, remained at essentially limited values on average. The increase in volatility recorded during April and May of 2018 is directly correlated to temporary transactions in interest rate derivatives, while the exposure in short-term Italian government bonds predominantly characterised the VaR in the second half of the year.



MPS Bank: Trading Book
VaR by Risk Factor as at 31/12/2018



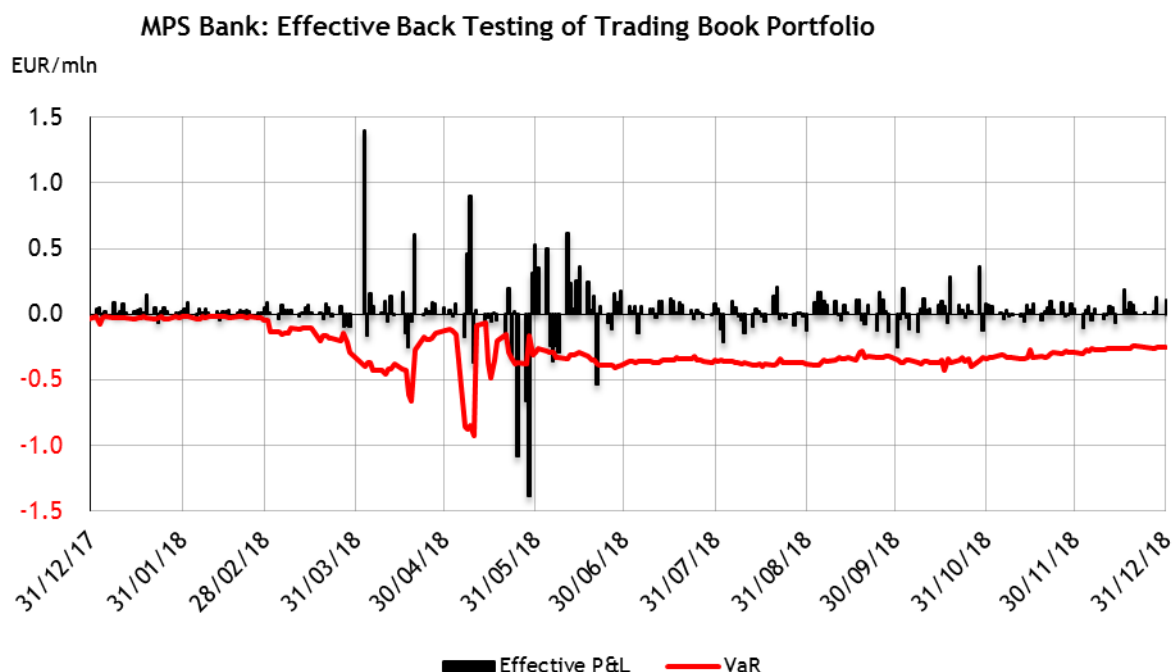
In terms of breakdown of VaR by risk factors as at 31 December 2018, the portfolio of Banca MPS was mainly absorbed by Credit Spread risk factors (CS VaR, 73.2%). These are followed by the interest rate risk factor (IR VaR, 17.7%), the foreign exchange risk factor (FX VaR, 8.7%) and the equity risk factor (EQ VaR, 0.4%).

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

	VaR	Date
End of Period	0.20	31/12/2018
Min	0.07	08/01/2018
Max	0.01	09/05/2018
Average	0.28	

In 2018, the Regulatory Trading Book VaR of Banca MPS ranged between a low of EUR 0.07 mln recorded on 08 January 2018 and a high of EUR 1.01 mln on 09 May 2018 with an average value registered of EUR 0.28 mln. The Regulatory Trading Book VaR as at 31 December 2018 amounted to EUR 0.20 mln.

The chart below shows the actual backtesting results of the internal Market Risks model in relation to the Regulatory Trading Book of Banca MPS:



The backtesting shows eight exceptions during the year on the Bank's trading book. These exceptions are more 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.

Qualitative Information

Qualitative information regarding the measurement of the interest rate and price risk of the Regulatory Trading Book are shown in Part E of the Notes to the consolidated financial statements.



Quantitative Information

1. Regulatory trading book: breakdown of balance sheet financial assets/liabilities and financial derivatives by residual life (repricing date)

This table has not been prepared since an analysis of the regulatory trading book's sensitivity to interest rate risk and price risk is produced based on internal models.

2. Regulatory trading book: breakdown of exposures in equity instruments and stock indices by major countries of the listing market

This table has not been prepared since an analysis of the regulatory trading book's sensitivity to interest rate risk and price risk is produced based on internal models.

3. Regulatory trading book: internal models and other sensitivity analysis methods

Each business unit within the Bank operates independently on the basis of the objectives and powers it has been assigned. The positions are managed by special desks provided with specific operational limits. Each desk adopts an integrated risk management approach (covering more than rate risk, when allowed) in order to benefit from the natural hedge resulting from simultaneously holding positions on risk factors that are not perfectly correlated.

All positions related to the Trading Book are classified as FVTPL for accounting purposes, with changes in market value posted directly to the income statement.

Simulations include the following interest rate risk scenarios:

- +100 bps parallel shift for all interest rate and inflation curves;
- -100 bps parallel shift for all interest rate and inflation curves;
- +1 point parallel shift for all volatility surfaces of all interest rate curves.

Below is the overall effect of the scenario analyses.

■ MPS Bank: Trading Book

EUR/mln

Risk Family	Scenario	Global Effect
Interest Rate	+100bp all Interest Rate C	(1.10)
Interest Rate	-100bp all Interest Rate C	1.12
Interest Rate	+1% all Interest Rate Vola	0.00

The sensitivity analysis of the credit spread risk of the Trading Book of the Bank associated with the volatility of issuers' credit spreads is not shown in that it is not material.

The sensitivity analysis of the price risk of the Bank's Regulatory Trading Book is not shown in that it is not material.

The contribution of the Commodity segment to the sensitivity analysis is zero.



2.2. Interest rate and price risk - banking book

Qualitative Information

Qualitative information regarding the measurement of the interest rate and price risk of the Banking Book are shown in Part E of the Notes to the consolidated financial statements.

Quantitative Information

1. Banking book: breakdown of financial assets and liabilities by residual life (repricing date)

This table has not been prepared since an analysis of the banking book's sensitivity to interest rate risk and price risk is produced based on internal models.

2. Banking book: internal models and other sensitivity analysis methods

2.1 Interest rate risk

The amount of economic value at risk in the event of a +100 bps parallel shift of the rate curve came to EUR +84.24 mln at the end of the year for the Bank (vs. EUR +40.19 mln for a shift of -100 bps).



2.2 Price risk

Shown below is a scenario analysis which includes all directional positions assumed, based on instructions by the Board of Directors or those that operationally fall under the Banking Book of Banca MPS (e.g. FVOCI securities) which are not included in the previously-reported scenario analyses for price risk in the Trading Book.

■ MPS Bank: Banking Book

EUR/mln

Risk Family	Scenario	Effetto totale
Equity	+1% Equity Prices (prices)	1.24
Equity	-1% Equity Prices (prices)	(1.24)
Equity	+1% Equity Volatility	0.00

In the scenario analysis noted above, equity investments in item 70 of balance sheet - assets are excluded.

2.3. Foreign exchange risk

Qualitative Information

Qualitative information, including the hedging of exchange rate risk, is shown in Part E of the Notes to the consolidated financial statements.



B. Hedging of exchange rate risk

Quantitative Information

1. Breakdown by currency of assets, liabilities and derivatives

Items	Currencies					
	US dollar	Pound sterling	Swiss Franc	Yen	Hong Kong dollar	Other currencies
A. Financial assets	1,724,170	32,972	26,689	2,646	33,088	51,306
A.1 Debt securities	425,020	-	-	-	-	-
A.2 Equity securities	8,961	336	-	-	2	243
A.3 Loans to banks	789,646	9,965	18,724	2,183	22,729	40,320
A.4 Loans to customers	500,543	22,671	7,965	463	10,357	10,743
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	119,443	4,100	2,195	612	843	4,076
C. Financial liabilities	838,814	29,629	3,202	6,799	34,956	48,829
C.1 Deposits from banks	336,322	4,110	1,175	3,257	30,438	37,913
C.2 Customer accounts	457,666	25,519	2,027	3,542	4,518	10,916
C.3 Debt securities	44,826	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	19,676	9,278	893	362	17	4,080
E. Financial derivatives						
- Options						
+ Long positions	366,541	49,638	3,946	-	2,239	138,695
+ Short positions	366,541	49,638	3,946	-	2,239	138,695
- Other						
+ Long positions	1,368,296	142,600	18,953	15,141	14,115	100,905
+ Short positions	2,326,225	144,639	43,808	10,321	13,363	90,048
Total assets	3,578,450	229,310	51,783	18,399	50,285	294,982
Total liabilities	3,551,256	233,184	51,849	17,482	50,575	281,652
Difference (+/-)	27,194	(3,874)	(66)	917	(290)	13,330

2. Internal models and other sensitivity analysis methods

For general information on the management model of foreign exchange risks, refer to Part E in the Notes to the consolidated financial statements.

The following scenarios were used for foreign exchange rate simulations:

- +1% for all foreign exchange rates to the Euro,
- -1% for all foreign exchange rates to the Euro,
- +1 point for all volatility surfaces of all foreign exchange rates.

The impact on total income from banking activities and profit/loss for the year was estimated taking account only of FVTPL positions, with market value changes posted directly to the income statement. The effect on equity, instead, is estimated with reference to all positions classified as FVOCI and related Fair Value Hedges (FVH). The total effect is the result of the algebraic sum of the two components. Below is a summary of the scenario analyses.

■ Banca MPS

Valori in milioni di EUR

Risk Family	Scenario	Effetto su Margine di Intermediazione e Risultato Economico	Effetto sul Patrimonio Netto	Effetto totale
Forex	+1% Tassi di Cambio contro EUR	0.04	(0.05)	0.00
Forex	-1% Tassi di Cambio contro EUR	(0.04)	0.05	0.00
Forex	+1 punto Volatilità Forex	0.00	0.00	0.00



Section 3 - Derivatives and hedging policies

3.1 Derivatives for trading

A. Financial derivatives

A.1 Financial derivatives for trading: end of period notional amounts

Underlying asset/Type of derivative	Total 31 12 2018				Total 31 12 2017*			
	Over the counter			Organised financial markets	Over the counter			Organised financial markets
	Central counterparties	No Central counterparties	Contracts not subject to Master netting agreements		Central counterparties	No Central counterparties	Contracts not subject to Master netting agreements	
		Contracts subject to Master netting agreements				Contracts subject to Master netting agreements		
1. Debt securities and interest rate	-	17,826,411	3,825,057	-	-	13,347,499	4,080,388	-
a) Options	-	10,967,424	1,585,452	-	-	6,352,677	1,832,160	-
b) Swaps	-	6,858,987	2,239,605	-	-	6,994,822	2,248,229	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity securities and stock indices	-	415,939	1,787	-	-	738,933	27,533	-
a) Options	-	415,939	1,787	-	-	738,656	27,533	-
b) Swaps	-	-	-	-	-	278	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Exchange rates and gold	-	1,739,340	2,881,628	-	-	1,847,764	3,791,521	-
a) Options	-	892,179	892,545	-	-	983,007	983,052	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forward	-	847,161	1,989,083	-	-	864,757	2,808,469	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	-	134,160	134,160	-	-	214,160	213,570	-
5. Other underlying	-	-	-	-	-	-	-	-
Total	-	20,115,850	6,842,632	-	-	16,148,356	8,113,012	-

* The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9; in addition, the comparative data were reclassified on the basis of the new accounting statements set forth in the 5th update of Bank of Italy Circular 262.



A.2 Financial derivatives for trading: gross positive and negative fair value - breakdown by products

Underlying asset/Type of derivative	Total 31 12 2018				Total 31 12 2017*			
	Over the counter			Organised financial markets	Over the counter			Organised financial markets
	Central counterparties	No Central counterparties Contracts subject to Master netting agreements	Contracts not subject to Master netting		Central counterparties	No Central counterparties Contracts subject to Master	Contracts not subject to Master	
1. Positive Fair value	-	-	-	-	-	-	-	-
a) Options	-	37,926	12,725	-	-	102,510	22,019	-
b) Interest rate swap	-	487,090	101,911	-	-	555,722	129,879	-
c) Cross currency swap	-	-	-	-	-	-	-	-
d) Equity swap	-	-	-	-	-	-	-	-
e) Forward	-	13,240	16,387	-	-	3,963	58,566	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	5,945	20,564	-	-	14,599	11,535	-
Total	-	544,201	151,587	-	-	676,794	221,998	-
2. Negative fair value	-	-	-	-	-	-	-	-
a) Options	-	34,373	19,000	-	-	106,989	15,101	-
b) Interest rate swap	-	499,772	10,640	-	-	604,641	11,255	-
c) Cross currency swap	-	-	-	-	-	-	-	-
d) Equity swap	-	-	-	-	-	2	-	-
e) Forward	-	6,472	18,960	-	-	24,445	8,914	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	20,658	5,963	-	-	7,266	19,306	-
Total	-	561,275	54,563	-	-	743,343	54,577	-

* The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9; in addition, the comparative data were reclassified on the basis of the new accounting statements set forth in the 5th update of Bank of Italy Circular 262.



A.3 Financial derivatives for OTC trading: notional amounts, gross positive and negative fair value - breakdown by counterparty

Underlying assets	Central Counterparties	Banks	Other Financial Companies	Other entities
Contracts not subject to master netting agreements				
1) Debt securities and interest rates				
- notional value	X	-	122,350	3,702,709
- positive fair value	X	-	1,083	104,226
- negative fair value	X	-	10,404	6,391
2) Equity securities and stock indices				
- notional value	X	-	21	1,765
- positive fair value	X	-	10	-
- negative fair value	X	-	-	-
3) Exchange rates and gold				
- notional value	X	901,638	73,470	1,906,519
- positive fair value	X	7,986	250	15,974
- negative fair value	X	3,297	292	27,971
4) Commodities				
- notional value	X	-	-	134,160
- positive fair value	X	-	-	22,058
- negative fair value	X	-	-	6,208
5) Other underlying				
Contracts subject to master netting agreements				
1) Debt securities and interest rates				
- notional value	-	17,174,964	651,447	-
- positive fair value	-	505,064	6,400	-
- negative fair value	-	419,551	99,986	-
2) Equity securities and stock indices				
- notional value	-	415,939	-	-
- positive fair value	-	707	-	-
- negative fair value	-	5,236	-	-
3) Exchange rates and gold				
- notional value	-	1,739,340	-	-
- positive fair value	-	25,840	-	-
- negative fair value	-	14,331	-	-
4) Commodities				
- notional value	-	134,160	-	-
- positive fair value	-	6,190	-	-
- negative fair value	-	22,171	-	-
5) Other underlying				



A.4 Residual life of financial derivatives for OTC trading: notional amounts

Underlying asset/residual life	Up to 1 year	1 to 5 years	Over 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	2,517,184	9,493,728	9,640,556	21,651,468
A.2 Financial derivatives on equity securities and stock indices	16,333	252,910	148,483	417,726
A.3 Financial derivatives on exchange rates and gold	4,335,314	285,654	-	4,620,968
A.4 Financial derivatives on other underlying assets	260,098	8,222	-	268,320
A.5 Other financial derivatives	-	-	-	-
Total 31 12 2018	7,128,929	10,040,514	9,789,039	26,958,482
Total 31 12 2017*	8,466,229	10,350,415	5,444,727	24,261,370

* The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9; in addition, the comparative data were reclassified on the basis of the new accounting statements set forth in the 5th update of Bank of Italy Circular 262.

**B. Credit derivatives****B.1. Credit derivatives for trading: end of period notional amounts**

Transaction categories	Regulatory trading book	
	single name	with multiple counterparties (basket)
1. Purchases of protection		
a) Credit default products	130,000	-
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Others	-	-
Total 31 12 2018	130,000	-
Total 31 12 2017	130,000	-
2. Sales of protection	-	-
a) Credit default products	130,000	-
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Others	-	-
Total 31 12 2018	130,000	-
Total 31 12 2017*	130,000	-

* The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9; in addition, the comparative data were reclassified on the basis of the new accounting statements set forth in the 5th update of Bank of Italy Circular 262.



B.2. Credit derivatives for trading: gross positive and negative fair value - breakdown by products

Portfolios/Types of derivatives	Positive Fair Value	
	Total 31 12 2018	Total 31 12 2017*
A. Positive fair value	-	-
a) Credit default products	7,196	4,588
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
Total	7,196	4,588
B. Negative fair value	-	-
a) Credit default products	7,196	4,588
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
Total	7,196	4,588

* The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9; in addition, the comparative data were reclassified on the basis of the new accounting statements set forth in the 5th update of Bank of Italy Circular 262.

B.3. Credit derivatives for OTC trading: notional amounts, gross (positive and negative) fair value - breakdown by counterparty

Underlying assets	Central counterparties	Banks	Other financial companies	Other entities
Contracts not subject to master netting agreements				
1) Purchase of protection				
2) Sales of protection				
Contracts subject to master netting agreements				
1) Purchase of protection				
- notional value	-	-	130,000	-
- positive fair value	-	-	7,196	-
- negative fair value	-	-	-	-
2) Sales of protection				
- notional value	-	130,000	-	-
- positive fair value	-	-	-	-
- negative fair value	-	7,196	-	-

**B.4 Residual life of credit derivatives for OTC trading: notional amounts**

Underlying asset/residual life	Up to 1 year	1 to 5 years	Over 5 years	Total
1. Sales of protection	-	-	130,000	130,000
2. Purchase of protection	-	-	130,000	130,000
Total 31 12 2018	-	-	260,000	260,000
Total 31 12 2017*	-	-	260,000	260,000

* The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9; in addition, the comparative data were reclassified on the basis of the new accounting statements set forth in the 5th update of Bank of Italy Circular 262.

B.5 Credit derivatives connected to the fair value option: annual changes

This table was not drawn up as the Bank does not apply the accounting rules on hedging pursuant to IFRS 9.



3.2 Hedges

Qualitative Information

The purpose of interest rate risk hedging is to protect the banking book from changes in the fair value of deposits and loans caused by movements in the interest rate curve or to reduce the variability of cash flows linked to a particular asset/liability.

At Bank level, the risk predominantly hedged is the interest rate risk with fair value hedges, for a total of approximately EUR 40 bn in nominal amount of hedging derivatives.

The Bank uses IAS compliant hedges for interest rate risk management. The main types of hedging used include:

- Micro Fair Value Hedges: hedging of non-trading assets (loans/mortgage loans), securities and bonds held;
- Macro Fair Value Hedges: hedging of non-trading assets (loans/mortgage loans) and corporate funding (time deposits);
- Micro Cash Flow Hedges: hedging of floating-rate deposits.
- Macro Cash Flow Hedges: hedging of retail floating-rate deposits.

In addition to the above, the Bank uses the Fair Value Option for some types of business activities. In particular, the Fair Value Option was used for (structured and fixed rate) debt securities, in particular when:

- ✓ the Bank intended to maintain the hedge on the risk of fair value changes, upon issuance, for the contractual duration and entire amount of the hedged position;
- ✓ the Bank assumed the commitment to repurchase its securities at the issue spread.

A. Fair value hedging

The fair value hedges of the Bank regard both micro hedges of assets and liabilities, identified specifically and represented by bonds in the banking book and bonds issued by the Bank, as well as macro hedges (Macro hedge - version with Bottom Layer closed portfolio approach) of retail fixed-rate deposits.

The derivatives used for this purpose are predominantly interest rate swaps (IRS).

B. Cash-flow hedging

The Bank's cash flow hedges regard both macro hedges of floating-rate retail assets (Macro cash flow hedge - Bottom Layer approach) as well as micro hedges of floating-rate bonds.

The derivatives used for this purpose are predominantly interest rate swaps (IRS).

C. Hedging of foreign investments

The Bank does not have any such hedging in place.



D. Hedging instruments

For the various hedging transactions of both a macro and micro nature, no hedging derivative has a situation of ineffectiveness such as to substantially change the hedging relationship, either at the time of initial designation or subsequently. Therefore, there are no significant effects on total income.

E. Hedged items

At the Banca MPS level, the elements hedged with hedge accounting transactions are primarily government securities, the Bank's own fixed-rate issues, and residential mortgages at fixed and variable rates.

The hedges on government securities and fixed-rate securities issued by the Bank are either full or partial hedges and the hedged risk is mainly "interest rate risk"; the derivative instruments used are essentially IRSs (interest rate swaps) and the hedging relationship is IAS compliant (designation form is drafted and effectiveness is measured monthly).

The hedges on residential mortgages at fixed and variable rates are substantially partial hedges and the hedged risk is mainly "interest rate risk"; the derivative instruments used are essentially IRSs (interest rate swaps) and the hedging relationship is IAS compliant (designation form is drafted and effectiveness is measured monthly).



Quantitative Information

A. Financial hedging derivatives

A.1 Financial hedging derivatives: end of period notional amounts

Underlying asset/Type of derivative	Total 31 12 2018				Total 31 12 2017*			
	Over the counter			Organised financial markets	Over the counter			Organised financial markets
	Central counterparties	Contracts subject to master netting agreements	Contracts not subject to master netting agreements		Central counterparties	Contracts subject to master netting	Contracts not subject to master netting	
1. Debt securities and interest rate	-	38,599,459	1,896,462	-	-	39,763,486	1,973,308	-
a) Options	-	3,971,284	-	-	-	10,915,993	-	-
b) Swaps	-	34,628,175	1,896,462	-	-	28,847,493	1,973,308	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity securities and stock indices	-	-	-	-	-	-	-	-
3. Exchange rates and gold	-	382,009	-	-	-	379,809	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	382,009	-	-	-	379,809	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	-	-	-	-	-	-	-	-
5. Other underlying	-	-	-	-	-	-	-	-
Total	-	38,981,468	1,896,462	-	-	40,143,295	1,973,308	-

* The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9; in addition, the comparative data were reclassified on the basis of the new accounting statements set forth in the 5th update of Bank of Italy Circular 262.



4.2 Financial hedging derivatives: gross positive and negative fair value - breakdown by products

Underlying asset/Type of derivative	Total 31 12 2018				Total 31 12 2017*			
	Over the counter			Organised financial markets	Over the counter			Organised financial markets
	Central counterparties	No Central counterparties			Central counterparties	No Central counterparties		
		Contracts subject to master netting agreements	Contracts not subject to master netting agreements			Contracts subject to master netting	Contracts not subject to master netting	
1. Positive fair value	-	-	-	-	-	-	-	-
a) Options	-	2,409	-	-	-	3,593	-	-
b) Interest rate swap	-	219,703	158,585	-	-	299,798	176,352	-
c) Cross currency swap	-	1,190	-	-	-	-	-	-
d) Equity swap	-	-	-	-	-	-	-	-
e) Forward	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-
g) others	-	-	-	-	-	-	-	-
Total	-	223,302	158,585	-	-	303,390	176,352	-
2. Negative fair value	-	-	-	-	-	-	-	-
a) Opzioni	-	102,374	-	-	-	93,418	-	-
b) Interest rate swap	-	738,542	159,116	-	-	756,457	132,500	-
c) Cross currency swap	-	34,198	-	-	-	-	-	-
d) Equity swap	-	-	-	-	-	-	-	-
e) Forward	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-
g) Others	-	-	-	-	-	-	-	-
Total	-	875,114	159,116	-	-	849,875	132,500	-

* The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9; in addition, the comparative data were reclassified on the basis of the new accounting statements set forth in the 5th update of Bank of Italy Circular 262.



4.3 Financial OTC hedging derivatives: notional amounts, gross positive and negative fair value - breakdown by counterparty

Contracts not subject to netting agreements	Central counterparties	Banks	Other financial companies	Other entities
Contracts not subject to master netting agreements				
1) Debt securities and interest rates				
- notional value	X	-	896,462	1,000,000
- positive fair value	X	-	158,585	-
- negative fair value	X	-	-	159,116
2) Equity securities and stock indices				
3) Exchange rates and gold				
4) Commodities				
5) Other underlying				
Contracts subject to master netting agreements				
1) Debt securities and interest rates				
- notional value	-	34,512,027	627,735	3,459,697
- positive fair value	-	219,256	645	2,211
- negative fair value	-	800,763	36,414	3,739
2) Equity securities and stock indices				
3) Exchange rates and gold				
- notional value	-	382,009	-	-
- positive fair value	-	1,190	-	-
- negative fair value	-	34,198	-	-
4) Commodities				
5) Other underlying				

A.4 Residual life of financial OTC hedging derivatives: notional amounts

Underlying asset/residual life	Up to 1 year	1 to 5 years	Over 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	8,481,284	19,990,259	12,024,378	40,495,921
A.2 Financial derivatives on equity securities and stock indices	-	-	-	-
A.3 Financial derivatives on exchange rates and gold	382,009	-	-	382,009
A.4 Financial derivatives on other underlying assets	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31 12 2018	8,863,293	19,990,259	12,024,378	40,877,930
Total 31 12 2017*	4,427,099	28,473,883	9,215,621	42,116,604

* The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9; in addition, the comparative data were reclassified on the basis of the new accounting statements set forth in the 5th update of Bank of Italy Circular 262.



B. Credit hedging derivatives

B.1 Credit hedging derivatives: end of period notional amounts

The tables for this section were not completed since the Bank has no credit hedging derivatives for either the current or previous year.

B.2 Credit hedging derivatives: gross positive and negative fair value - breakdown by products

The tables for this section were not completed since the Bank has no credit hedging derivatives for either the current or previous year.

B.3 Credit OTC hedging derivatives: notional amounts, gross positive and negative fair value - breakdown by counterparty

The tables for this section were not completed since the Bank has no credit hedging derivatives for either the current or previous year.

B.4 Residual life of credit OTC hedging derivatives: notional amounts

The tables for this section were not completed since the Bank has no credit hedging derivatives for either the current or previous year.

C. Non-derivative hedging instruments

D. Hedged instruments

E. Effects of hedging transactions on equity

The tables for Sections C, D and E were not completed, as the Bank exercised the option, envisaged on first-time application of IFRS 9, to continue to use, as regards “hedge accounting”, the provisions of IAS 39.



3.3 Other information on derivatives (trading and hedging)

A. Financial and credit derivatives

A.1 OTC financial and credit derivatives: net fair value by counterparty

Underlying assets	Central counterparties	Banks	Other financial companies	Other entities
A. Financial derivatives				
1. Debt securities and interest rates				
- notional value	-	51,686,991	2,297,994	8,162,406
- positive fair value	-	-	159,668	104,226
- negative fair value	-	-	10,404	165,508
2. Equity securities and stock indices				
- notional value	-	415,939	21	1,765
- positive fair value	-	-	10	-
- negative fair value	-	-	-	-
3. Exchange rates and gold				
- notional value	-	3,022,987	73,470	1,906,519
- positive fair value	-	7,986	250	15,974
- negative fair value	-	3,297	292	27,971
4) Commodities				
- notional value	-	134,160	-	134,160
- positive fair value	-	-	-	22,058
- negative fair value	-	-	-	6,208
4. Other underlying				
- notional value	-	-	-	-
- positive fair value	-	169,101	5,031	-
- negative fair value	-	714,299	127,188	1,528
B. Credit derivatives				
1. Purchase of protection				
- notional value	-	-	130,000	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
2. Sales of protection				
- notional value	-	130,000	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-



Section 4 - Liquidity risk

Qualitative Information

A. Liquidity risk: general aspects, operational processes and measurement methods

The qualitative information on the management and measurement of the liquidity risk is shown in Part E of the Notes to the consolidated financial statements.



Quantitative Information

Account / Maturity	On demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	over 5 years	Unspecified maturity
Balance-sheet assets										
A.1 Government securities	14,994,164	3,570,518	2,260,648	1,977,131	3,356,252	3,767,054	5,841,258	30,378,393	40,780,630	6,993,413
A.2 Other debt securities	40	-	-	100,250	59,799	50,422	408,366	9,064,130	4,450,918	-
A.3 Units of UCITS	86,783	-	6,081	8,615	10,111	33,298	45,410	500,015	4,674,032	69,959
A.4 Loans	114,568	-	-	-	-	-	-	-	-	-
- Banks	14,792,773	3,570,518	2,254,567	1,868,266	3,286,343	3,683,334	5,387,482	20,814,248	31,655,680	6,923,454
- Customers	2,573,076	3,426,962	1,872,458	881,521	546,864	313,052	1,837,597	5,074,987	3,815,631	6,507,634
- Customers	12,219,697	14,556	382,109	986,745	2,739,479	3,370,282	3,549,885	15,739,261	27,840,049	415,820
Balance-sheet liabilities										
B.1 Deposits and current accounts	58,923,839	746,512	778,568	2,787,223	5,296,029	4,580,171	2,698,008	28,415,499	4,943,273	-
- Banks	55,519,116	55,932	71,715	431,611	669,400	936,941	248,283	4,794,639	325,000	-
- Customers	5,502,239	-	-	37,508	-	95,000	-	76,750	325,000	-
B.2 Debt securities	50,016,877	55,932	71,715	394,103	669,400	841,941	248,283	4,717,889	-	-
B.3 Other liabilities	2,295,631	861	440	62,414	553,875	1,097,672	336,811	5,730,879	3,552,768	-
1,109,092	689,719	706,413	2,293,198	4,072,754	2,545,558	2,112,914	17,889,981	1,065,505	-	-
Off-balance-sheet transactions										
C.1 Financial derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	8,537	186,216	43,460	406,265	1,057,590	239,048	182,662	43,990	-	-
- short positions	230	151,587	33,561	306,711	299,285	209,448	178,090	47,252	-	-
C.2 Financial derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	441,863	85	298	2,217	10,109	64,652	50,621	-	-	-
- short positions	445,192	-	48	4,109	34,303	9,371	43,894	-	-	-
C.3 Deposits and borrowings to be received	-	-	-	-	-	-	-	-	-	-
- long positions	147,437	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	-	-	-	-	-	-	-	-	-	-
- long positions	508,820	3,468,351	13,068	120,839	338,576	495,689	1,151,116	222,036	814,972	-
- short positions	7,055,442	-	-	-	100,000	-	-	-	-	-
C.5 Financial guarantees given	22,008	39	111	478	8,098	13,811	5,914	16,419	151	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	260,000	-
- short positions	-	-	-	-	-	-	-	-	260,000	-
C.8 Credit derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-



2. Breakdown of financial assets and liabilities by residual contractual duration - Currency: Other

Account / Maturity	On demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	over 5 years	Unspecified maturity
Balance-sheet assets	773.387	30.647	53.135	80.609	229.942	82.387	25.272	184.238	389.978	138.562
A.1 Government securities	-	-	-	-	964	-	1.239	57.319	-	-
A.2 Other debt securities	-	-	-	106	2.433	2.820	5.359	1.764	388.755	-
A.3 Units of UCITS	35	-	-	-	-	-	-	-	-	-
A.4 Loans	773.352	30.647	53.135	80.503	226.545	79.567	18.674	125.155	1.223	138.562
- Banks	634.961	17.739	33.741	28.717	103.865	28.410	5.545	31.286	-	-
- Customers	138.391	12.908	19.394	51.786	122.680	51.157	13.129	93.869	1.223	138.562
Balance-sheet liabilities	519.096	7.835	35.603	316.114	25.855	13.179	1.687	44.012	-	-
B.1 Deposits and current accounts	516.735	7.835	35.603	99.313	8.276	12.688	705	-	-	-
- Banks	153.742	-	21.834	-	655	755	-	-	-	-
- Customers	362.992	7.835	13.769	99.313	7.621	11.933	705	-	-	-
B.2 Debt securities	-	-	-	-	491	491	982	44.012	-	-
B.3 Other liabilities	2.361	-	-	216.801	17.088	-	-	-	-	-
Off-balance-sheet transactions										
C.1 Financial derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	229	173.293	42.440	317.444	306.799	240.038	185.016	49.232	-	-
- short positions	8.536	218.936	50.531	417.285	1.092.274	259.202	190.077	46.044	-	-
C.2 Financial derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	108.676	-	-	-	-	97	-	-	-	-
- short positions	108.723	-	-	-	352	-	260	-	-	-
C.3 Deposits and borrowings to be received	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.4 Loans commitments	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	521	1.621	2.548	1.063	-	-	-
- short positions	5.752	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	6	-	-	-	1.338	-	18.122	7	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-



Self-securitisations

The securitisation transactions whereby the Bank underwrites securities issued by vehicle companies (self-securitisations) are not shown in the tables of Part E of the Notes to the Financial Statements, section C "Asset securitisation and disposal transactions", pursuant to the provisions of Circular 262 of the Bank of Italy.

Self-securitisations of assets are transactions aimed at improving liquidity risk management by optimising the amount of assets readily available to cover liquidity requirements.

Although the Bank's direct and full underwriting of the notes issued by the vehicle does not make it possible to obtain direct liquidity from the market, it still provides the Group with securities that could be used for ECB refinancing and repo transactions on the market, thereby improving the Bank's safety margin against liquidity risk.

These sale transactions had no economic impact on the financial statements: loans continue to be reported under item 40b) "Financial assets measured at amortised cost: loans to customers" on the assets side, while underwritten notes are not reported.

As at 31 December 2018, this category includes the self-securitisations completed in December 2007 (Siena Mortgages 07-5), April 2008 (Siena Mortgages 07-5 2nd series), April 2009 (Siena Mortgages 09-6) and October 2016 (Siena PMI 2016).

The self-securitisations of Siena Consumer S.r.l. and Siena NPL 2018 S.r.l. no longer exist.

For Siena Consumer S.r.l., in October 2018, the residual loans were repurchased (consisting of personal, auto and special purpose loans) and, consequently, the securities reimbursed.

For Siena NPL 2018 S.r.l., due to the transfer of 95% of the junior notes on 22 June 2018, the portfolio of underlying loans was derecognised. The stakes in this securitisation are highlighted in the tables of own securitisations sold and derecognised.

Siena Mortgages 07-5, 1st and 2nd series

On 21 December 2007, through the vehicle Siena Mortgages 07-5 S.p.a., the Bank finalised a securitisation of performing loans consisting of a portfolio of 57,968 residential mortgages for a total of EUR 5,162.4 mln, of which a balance of EUR 1,165.3 mln (22,532 mortgage loans) outstanding as at 31 December 2018.

In order to fund the acquisition, the Vehicle issued Residential Mortgage Backed Floating Rate Notes (RMBS) in the following classes, rated by Moody's and Fitch as at 31 December 2018:

- Class A notes (Aa3/AA) for a nominal amount of EUR 4,765.9 mln, of which EUR 3,989.0 mln redeemed;
- Class B notes (Aa3 and AA), for a nominal amount of EUR 157.4 mln;
- Class C notes (B3 and B), for a nominal amount of EUR 239.0 mln.

A cash reserve was also set up to support the transaction for an amount of EUR 124.0 mln, through the issuance of class D notes, which was posted to the assets side under item 40 b) "Financial assets measured at amortised cost: loans to customers". The transaction reached the Protection Ratio (ratio between total Class B and C notes and total Class A, B and C notes) which allowed for the gradual reduction of the cash reserve which amounted to EUR 33.8 mln as at 31 December 2018.

The first series was followed on 24 April 2008 by a second series (Siena Mortgages 07-5 second series), collateralised by a separate pool of assets consisting of an additional sale of a portfolio of performing loans composed of 41,888 residential mortgages for a total of EUR 3,416.0 mln and with a residual life of about 20 years.

As at 31 December 2018, 13,690 loans were outstanding for a balance of EUR 884.4 mln.



In order to fund the acquisition of loans, the Vehicle (the existing Siena Mortgages 07-5 S.p.a.) issued RMBS in the following classes, rated by Moody's and Fitch as at 31 December 2018:

- Class A notes (Aa3 and AA) for a nominal amount of EUR 3,129.4 mln, of which EUR 2,527.7 mln redeemed;
- Class B notes (Aa3 and A), for a nominal amount of EUR 108.3 mln;
- Class C notes (NR and B), for a nominal amount of EUR 178.3 mln.

A cash reserve was also set up to support the transaction for an amount of EUR 81.9 mln, through the issuance of class D notes, posted to the assets side under item 40 b) "Financial assets measured at amortised cost: loans to customers". The transaction reached the Protection Ratio (ratio between total Class B and C notes and total Class A, B and C notes) which allowed for the gradual reduction of the cash reserve which amounted to EUR 23.1 mln as at 31 December 2018.

Siena Mortgages 09-6, 1st series

On 22 April 2009, the Bank finalised a securitisation through the vehicle Siena Mortgages 09 – 6 Srl of a portfolio of performing mortgages in real estate and building for a total of EUR 4,436.5 mln. As at 31 December 2018, the remaining debt balance stands at EUR 1,473.3 mln, for a total of 22,007 loans.

In order to fund the acquisition of the portfolio sold, the Vehicle issued Residential Mortgage Backed Floating Rate Notes (RMBS) in the following classes, rated by Moody's and Fitch as at 31 December 2018:

- Class A notes (Aa3 and AA) for a nominal amount of EUR 3,851.3 mln, of which EUR 2,994.3 mln redeemed;
- Class B notes (NR and AA), for a nominal amount of EUR 403.7 mln;
- Class C notes (NR and A-), for a nominal amount of EUR 181.4 mln.

A cash reserve was also set up to support the transaction for an amount of EUR 106.5 mln, through the issuance of class D notes, posted to the assets side under item 40 b) "Financial assets measured at amortised cost: loans to customers". As at 31 December 2018, the reserve amounted to EUR 137.9 mln.

Siena PMI 2016

In 2016 the Bank carried out a securitisation through the vehicle named Siena PMI 2016 S.r.l. The transaction was finalised on 30 September 2016 through the sale of a portfolio of performing loans to Italian small and medium enterprises, for a total of EUR 1,739.3 mln. As at 31 December 2018, the remaining debt balance stands at EUR 648.6 mln, for a total of 12,199 loans.

In order to fund the acquisition of the portfolio sold, on 27 October 2016 the Vehicle issued Asset-Backed Securities (ABS) in the following classes, rated by Fitch and DBRS as at 31 December 2018:

- Class A1 notes (AA and AAA) for a nominal amount of EUR 470.0 mln, redeemed in full;
- Class A2 notes (AA and AAA) for a nominal amount of EUR 400.0 mln, redeemed in full;
- Class B notes (AA and AAH) for a nominal amount of EUR 150.0 mln, of which EUR 5.0 mln redeemed;
- Class C notes (BBB and BBBL) for a nominal amount of EUR 313.0 mln;
- Class J notes (not rated) for a nominal amount of EUR 406.3 mln, of which EUR 121.2 mln redeemed.



Section 5 - Operational risk

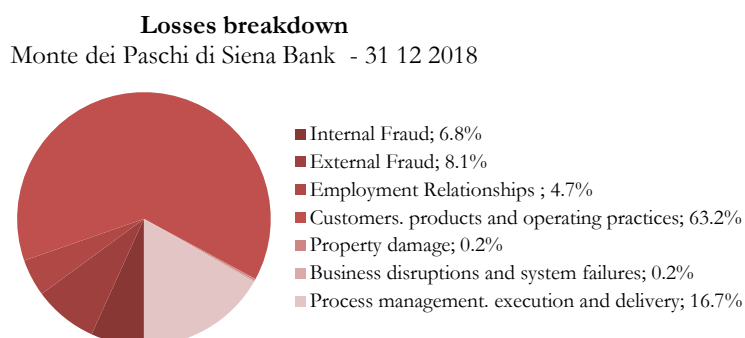
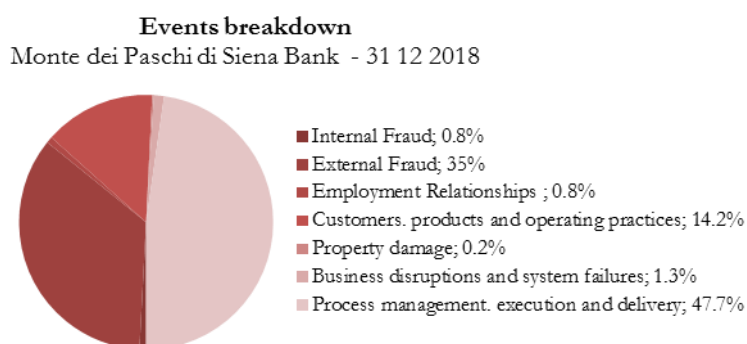
Qualitative Information

A. Operational risk: general aspects, operational processes and measurement methods

The qualitative information on the management and measurement of operational risks is shown in Part E of the Notes to the consolidated financial statements.

Quantitative Information

The percentage breakdown of events and operational losses recognised in 2018 is reported below, divided into various risk classes.



As at 31 December 2018, the number of operational risk events remained largely stable as compared to December 2017, while operational losses declined.

The types of event with the greatest impact on the income statement remain attributable to non-fulfilment of professional obligations with customers (under "Customers, products and operating practices": approximately 63% of the total) and operational and process management shortfalls (under "Process management, execution and delivery": approximately 17% of the total).

With regard to "non-fulfilment of professional obligations with customers", risk events are mainly associated with claims due to the application of compound interest and to the compensation initiative with regard to customers indicated to third-party companies for the purchase of diamonds.



Main types of legal risks

Summary information is reported below including, when relevant and/or advisable, that relating to individual claims with reference to significant issues involving Banca Monte dei Paschi di Siena and which are not considered completely groundless or normal within the context of the Bank's activities.

Unless specified otherwise, labour law and tax disputes or disputes relating to debt collection are briefly described in the notes included in other sections of this document and, therefore, they are not addressed in this section.

The risks associated with or connected to legal disputes – i.e. disputes brought before judicial authorities and arbitrators – are kept under specific and careful review by the Bank.

In case of disputes for which the disbursement of financial resources to perform the underlying legal obligation is believed to be “likely” and the relevant amount can be reliably estimated, allocations are made to the Reserve for Risks and Charges using statistical or analytical criteria.

As at 31 December 2018, the pending legal disputes, where quantified, amounted to a total of approximately EUR 4.6 bn. In particular:

- approx. EUR 2.4 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 0.9 bn in claims regarding disputes for which there is a “possible” risk of losing the case; no provisions for risks and charges are allocated for such disputes, as envisaged by the accounting standard, although they are disclosed if they are of a significant amount;
- approx. EUR 1.3 bn in claims regarding disputes for which there is a “remote” risk of losing the case; no provisions for risks and charges are allocated and no disclosures are provided for such disputes.

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

The key characteristics of significant cases, by macro-category or individually, are described below.

Disputes regarding compound interest and conditions

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



regulatory and interpretative framework. For this type of dispute, provisions for risks of EUR 149 mln were allocated, against a total claim amount of EUR 332 mln.

Disputes regarding bankruptcy rescindments

The reform implemented from 2005 has reduced and limited the scope of bankruptcy rescindments, particularly those relating to current account remittances. For those that can still be filed, or already pending at the effective date of the reform, the Bank is giving maximum emphasis to all the arguments available in defence. For this type of dispute, provisions for risks of EUR 55 mln were allocated, against a total claim amount of EUR 212 mln.

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

The considerable defensive efforts made in this type of lawsuit resulted over the years in the emergence of some favourable jurisprudential orientations, at least with respect to certain specific cases, which are allowing balanced risk control. In 2015 there were some negative decisions, particularly as regards financial plans, which as things currently stand have not had tangible negative impacts, but the developments of which will be closely monitored to ensure proper oversight over any greater risk factors. For this type of dispute, provisions for risks of EUR 10 mln were allocated, against a total claim amount of EUR 37 mln.

Dispute with purchasers of subordinated bonds issued by Group companies

Following the burden-sharing plan implemented in 2017 in application of Law Decree no. 237/2016, some investors who had purchased subordinated bonds issued by Group companies (later becoming shareholders as a result of the aforementioned measure, with resulting losses compared to the amount initially invested) sued the Bank, claiming that, at the time of the investment, it did not inform customers regarding the nature and characteristics of the financial instruments purchased, also raising objections on the proper fulfilment of obligations with which the Bank must comply as a financial intermediary. Note that the dispute was brought by investors who did not meet the conditions for participating in the public offering and exchange promoted by the Bank in application of the aforesaid Law Decree no. 237/2016. For this type of dispute (approximately 60 claims totalling EUR 23 mln), provisions for risks of EUR 8 mln were allocated.

Disputes and out-of-court claims connected to the financial information disclosed during the period 2008-2015

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

In particular, as at 31 December 2018, the total claims for this type of dispute amounted to approximately EUR 1.5 bn, subdivided as follows (data in EUR mln).



Type of dispute	31/12/18
Civil dispute	764
Civil Part Constitutions cp 29634/14	42
Civil Part Constitutions cp 955/16	76
Out-of-court claims ¹¹	607
	1,489

With regard to civil disputes (Banca Monte dei Paschi di Siena S.p.A. / (former) Shareholders and Investors of Banca MPS), as at 31 December 2018 there are 30 lawsuits pending, brought forward by shareholders and/or former shareholders for a total claim of approximately EUR 764 mln, in which the plaintiffs claim to have purchased shares during the capital increases of 2008, 2011, 2014 and 2015 and/or on the electronic market based on allegedly incorrect information contained in the prospectuses and/or financial statements and/or in the price sensitive information issued by the Bank during the period 2008/2015.

These legal proceedings originate within an extraordinary and exceptional context also connected to the criminal investigations launched by the courts and the legal issues involving the Bank during the years 2012 and 2013, which mainly refer to the financial transactions to acquire resources to purchase Banca Antonveneta and to a number of financial transactions carried out by the Bank, including the transactions connected to the restructuring of the “Santorini” transaction and the “Alexandria” notes, to the prior capital increases carried out by the Bank in 2008 and 2011 and to the FRESH 2008 transaction.

The main lawsuits are outlined below by type.

Banca Monte dei Paschi di Siena S.p.A. vs. Marangoni Arnaldo + 124 shareholders and investors

In July 2015, Mr. Arnaldo Marangoni sued the Bank, claiming to have purchased shares between 2008 and 2013, during subscription of the capital increases of 2008 and 2011, as well as on the Electronic Stock Market, based on false information provided by the Bank with regard to its capital, economic, financial, profit and management situation. Another 124 shareholders intervened in the lawsuit, submitting the same complaints (although their respective positions are not entirely uniform). The 124 interveners requested: (i) examination of the false nature of the statutory financial statements, quarterly and interim reports, capital increase prospectuses of 2008 and 2011, price-sensitive press releases relative to the years 2008, 2009, 2010, 2011 and 2012 of BMPS and, consequently, (ii) a ruling sentencing BMPS to compensate for damages. The counterparties claiming compensation for monetary and non-monetary damages for a total of about EUR 89 mln.

The case was referred to the Board for a decision on the preliminary objections raised by the Bank. The Judge handed down a decision on 25 January 2018, rejecting the preliminary objections, and adjourned to 13 February 2018 for the continuation of the proceedings. At that hearing, the Bank reserved the right to appeal the non-definitive ruling of the Court of Milan and the Judge, after granting the terms pursuant to art. 183, paragraph 6 of the Italian Code of Civil Procedure, adjourned the proceedings to the hearing scheduled for 18 December 2018. At the hearing, the Judge reserved the right to decide on the preliminary evidence and subsequently, once the reservation had been lifted, ordered a CTU (court-

¹¹ The out-of-court claims are not included in the claim related to the legal dispute referenced in the introduction to this section.



appointed expert) to identify any information omissions and to determine the damage resulting from them, postponing the case until 19 February 2019 for the consultant to take the oath. At the hearing on 19 February 2019, certain issues inherent in the appraisals were discussed and clarified and the court-appointed expert was duly sworn in. The appraisals are set to begin on 1 April 2019, while the case was postponed until the hearing scheduled for 19 November 2019.

Banca Monte dei Paschi di Siena S.p.A. vs. Coop Centro Italia s.c.p.a

On 26 July 2016, Coop Centro Italia S.c.p.a. served a writ of summon against the Bank, together with CONSOB, before the Court of Florence (Section specialised in corporate matters) for the hearing of 20 January 2017, requesting total damages of EUR 85.5 mln as actual damages, in addition to loss of profits quantified during the course of the proceedings as EUR 17.9 mln for a total claim of EUR 103.4 mln, due to the alleged false nature of the prospectuses relating to the Bank's capital increases of 2008, 2011 and 2014, in which the company participated.

Specifically, the counterparty claimed damages of EUR 20.3 mln for the capital increase of 2008 and EUR 9.2 mln for the capital increase of 2011, for contractual liability pursuant to art. 1218 of the Italian Civil Code, as well as art. 94, paragraph 8 of the Consolidated Law on Finance or art. 2049 of the Italian Civil Code in relation to the actions of its then representatives and employees, also pursuant to art. 1218 of the Italian Civil Code, as well as art. 94, paragraph 8 of the Consolidated Law on Finance, for 56.0 mln, jointly and severally - or alternatively each to the extent applicable - with CONSOB, called upon to respond pursuant to articles 2043 and 2049 of the Italian Civil Code for the actions of the Supervisory Authority and those of its commissioners and officials, with regard to the 2014 capital increase, regarding capital losses incurred as well as loss of profit determined during the course of the proceedings. At the hearing on 12 October 2017, the Judge reserved his decision on the claims. Upon lifting of the reservation, the Judge ordered a court-appointed expert report, with the investigative operations beginning on 30 October 2018 and the case adjourned to 23 May 2019. On 15 January 2019, the court-appointed experts submitted an application asking the Judge for guidelines on whether or not to involve the bond holders in conducting the investigative operations. With ruling of 17 January 2019, the Judge reserved his decision on the matter and suspended the investigative operations in the meantime, to resume upon issuance of the decision and whose timing will therefore be redetermined. Moreover, with a subsequent petition filed on 28 February 2019, the consultants requested the Judge to specify if the investigations can be extended to the question of the proper accounting treatment of loans and if the court-appointed experts can consider the fact that in 2011, in addition to purchasing shares, Coop sold the option rights that it was due. The Judge has not yet ruled on this petition and the investigations are currently pending.

Banca Monte dei Paschi di Siena S.p.A. vs. Coofin s.r.l.

On 26 July 2016, Coofin S.r.l. served a writ of summons on the Bank, together with CONSOB, before the Court of Florence (Section specialised in corporate matters) for the hearing of 20 January 2017, requesting total damages of EUR 51.6 mln as actual damages, in addition to loss of profits quantified during the course of the proceedings as EUR 9.8 mln for a total claim of EUR 61.4 mln, due to the alleged false nature of the prospectuses relating to the Bank's capital increases of 2008, 2011 and 2014, in which the company participated.

Specifically, the counterparty claimed damages of EUR 11.5 mln for the capital increase of 2008 and EUR 6.1 mln for the capital increase of 2011, for contractual liability pursuant to art. 1218 of the Italian Civil Code, as well as art. 94, paragraph 8 of the Consolidated Law on Finance or art. 2049 of the Italian Civil Code in relation to the actions of its then representatives and employees, also pursuant to art. 1218 of the Italian Civil Code, as well as art. 94, paragraph 8 of the Consolidated Law on Finance, for EUR



34.0 mln, jointly and severally - or alternatively each to the extent applicable - with CONSOB, called upon to respond pursuant to articles 2043 and 2049 of the Italian Civil Code for the actions of the Supervisory Authority and those of its commissioners and officials, with regard to the 2014 capital increase, regarding capital losses incurred as well as loss of profit determined during the course of the proceedings. At the hearing on 13 March 2018, the Judge reserved himself for the admission of preliminary evidence. Upon lifting of the reserve, the Judge decided to submit to the Board the decision on the preliminary exceptions raised by the Bank, adjourning the hearing to 6 December 2018 for the specifications of the pleadings. In the meantime, the Judge had set a hearing for 10 October 2018 to discuss a petition for deferment by the Bank with regard to submission of the relative documentation. Following replacement of the Judge, the hearing of 10 October 2018 was adjourned to 5 March 2019, while nothing was decided regarding the hearing for clarification of the conclusions of 6 December 2018, which was not held. With the decree dated 26 February 2019, the Judge set the plaintiff's hearing for 25 February 2021, while with a subsequent measure dated 28 February 2019, the Judge postponed until 13 June 2019 the hearing to discuss the petition formulated by the Bank for relief from the time limits.

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

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



at the hearing of 30 January 2019, the Judge reserved his decision. Upon lifting the reservation, the Judge - considering that these preliminary questions must be decided together with the merit - granted the preliminary terms pursuant to art. 183, paragraph six of the Italian Code of Civil Procedure and adjourned the hearing for discussion of the preliminary requests to 2 July 2019.

Banca Monte dei Paschi di Siena S.p.A. vs. Bentivoglio Roberto + 3

With a writ of summons issued on 15 November 2017, four individuals, as shareholders of BMPS, filed a petition before the Court of Milan against the Bank, as well as against Nomura International PLC and Deutsche Bank A.G. (also parties of the criminal proceedings), to obtain compensation, jointly and severally, for damages allegedly suffered and quantified at EUR 21.5 mln as monetary damage and EUR 0.9 mln as non-monetary damages.

In particular, the plaintiffs, referring to the disclosures made by the Bank on 6 February 2013, and with regard to the facts and charges pursuant to the criminal proceedings before the Court of Milan against former executives of the Bank and other defendants, proceedings from which they were excluded as civil parties, request compensation for the monetary damage following depreciation of the value of BMPS shares in their possession as at 31 December 2007, compared to the value of said shares as at 6 February 2013, date of publication of the press release that disclosed the presence of errors in the Bank's accounts of the prior years.

The parties submit said claims pursuant to articles 2049 and 2622 of the Italian Civil Code, in relation to false corporate communications and other offences committed by executives of the defendant, as well as for the offences punishable under Legislative Decree 231/2001. The plaintiffs also claim non-monetary damages pursuant to article 185 of the Criminal Code and article 2043 of the Civil Code. The Bank appeared within the time limits, challenging the plaintiff's claims and subordinately formulating a "transversal" claim for recourse against the other two defendants. At the hearing held on 11 September 2018, the plaintiff declared that it was withdrawing from the action brought against Deutsche Bank A.G., while Nomura International PLC insisted on the grounds of nullity and the Judge reserved his decision. The Court, through order of 24 September 2018, declared the opposing summons null and void, granting the plaintiffs until 20 November 2018 to supplement the summons and the defendants until 20 December 2018 for any additional defence briefs and for the defence of the "transversal" claims made by the defendants in their relationships with one another. At the hearing of 15 January 2019, after a brief discussion on the suitability of the additions filed by the plaintiffs to overcome the nullity of the summons, the Judge assigned the time limits pursuant to article 183 of the Italian Code of Civil Procedure, postponing the hearing to 25 June 2019.

Dispute between York Funds/York Luxembourg and BMPS Spa, Alessandro Profumo, Fabrizio Viola, Paolo Salvadori, and Nomura International PLC

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



The plaintiffs' claim is based on alleged losses incurred as part of its investment transactions in MPS totalling EUR 520.30 mln, carried out through the purchase of shares (investment of EUR 41.4 mln by York Luxembourg) and derivative instruments (investment of EUR 478.9 mln by York Funds). The plaintiffs' quantified their comprehensive losses at EUR 186.7 mln.

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

The first hearing is scheduled for 29 January 2020; the Parent Company will appear before the Court in the manner and time limits provided by law.

As this is an event that occurred in 2019, the relative claim is not included in the table above.

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

The investors submitted claims for compensation against the Bank as part of the criminal proceedings no. 29634/14 r.g.n.r. (General Criminal Records Registry) (a total of 1,243 civil parties) pending before the Court of Milan, in which the Bank is involved as a civilly liable party, as well as the other criminal proceedings no. 955/16 r.g.n.r. (there are a total of 2,272 civil parties) with reference to the financial statements, reports and other corporate communications of the Bank from 31 December 2012 to 31 December 2014 and with reference to the half-yearly report as at 30 June 2015, in which the Bank is a defendant pursuant to Italian Legislative Decree 231/01 as well as a civilly liable party.

Criminal proceeding no. 29634/14

With reference to the criminal proceedings in relation to "Alexandria", after the service of the order of closing of the preliminary investigations, the Office of the Public Prosecutor at the Court of Milan sought the committal for trial of the former Top Management of the Bank and two members of the Management of Nomura for false corporate disclosures and market manipulation. Note that the criminally liable conduct ascribed to the various parties under investigations refer to the financial statements closed on 31 December in 2009, 2010, 2011 and 2012, and to the balance sheet as at 31 March 2012, 30 June 2012, and 30 September 2012.

As regards the offences allegedly committed by the above-mentioned individuals, the Prosecuting Attorney also sought the committal for trial of the Bank and Nomura in relation to the administrative offences pursuant to Legislative Decree 231/2001.

In March 2016 this proceeding was combined with the other legal action pending before the Court of Milan in relation to the investigations concerning the Santorini, FRESH 2008 and Chianti Classico transactions.

By an order of 13 May 2016, the Preliminary Hearing Judge (in Italian, the "GUP") authorized the lodging and admissibility of the claims for damages of the offended parties against the entities already involved in the proceedings as defendants pursuant to Legislative Decree 231/2001.

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



After the request for plea bargain, the Bank's position was closed. With the plea bargain, accepted by the Preliminary Hearing Judge on 14 October 2016, the Bank exits the proceedings as defendant in the administrative offence following crimes committed by its own former executives, limiting the consequences to an administrative financial penalty of EUR 600 thousand and a confiscation, for EUR 10 mln, without exposing itself to the risk of higher penalties.

Lastly, with regard to the above, on 1 October 2016 the Preliminary Hearing Judge ordered the committal for trial of the defendants other than the Bank. At the hearing on 15 December 2016, the civil parties, those already admitted in the previous "Alexandria" proceedings as well as the new civil parties, requested that the Bank, Nomura and Deutsche Bank be summoned as civilly liable parties in relation to the offences with which the former directors and executives committed for trial were charged.

Following an extensive closed session meeting, the Court summoned the banks as civilly liable parties, providing the notification deadline to the parties of 10 January 2017, allowing for the completion of notifications at the latest by 31 January 2017 and scheduling the hearing for 21 February 2017.

At the hearing on 21 February 2017, the Bank appeared before the court as a civilly liable party.

During the proceedings, by order of 6 April 2017 the Court of Milan decided on the requests for the exclusion of civil parties submitted by the defence teams of the defendants and the civilly liable parties, excluding several civil parties.

In addition, the claim of damages as a civil party by the Bank with respect to Giuseppe Mussari, Antonio Vigni, Daniele Pirondini and Gian Luca Baldassarri was also excluded on the assumption of its contributory liability with respect to the defendants.

At the reference date of this report on operations, a total of 1,243 civil parties have acted against the Bank, of which 480 quantified damages.

As things stand within the above-mentioned proceedings, the advisors are currently being heard.

The claim, if stated in the civil action, amounts, with reference to the proceedings in question, to approximately EUR 42 mln.

Criminal proceeding no. 955/16

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

In relation to these proceedings, in which the Bank is identified as the injured party, the first hearing was held on 5 July 2017, during which several hundred natural persons and a number of trade associations asked to appear before the court as civil parties. The Preliminary Hearing Judge postponed the proceedings to 29 September 2017 for the deliberation of the requests as well as for consolidation with the proceedings pending against the Bank, as the defendant entity pursuant to Italian Legislative Decree 231/01 for the same actions with which Mr Profumo, Mr Viola and Mr Salvadori are currently charged. At the hearing on 29 September 2017, 304 of the 337 who requested were admitted as civil parties. The remaining parties were excluded due to lack of *legittimatio ad causam*. At the same hearing, the proceedings



pending against the Bank, as the party liable under administrative law, were joined with those pending against the natural persons. Therefore, the Judge admitted the summons of the Bank as a civilly liable party and adjourned the proceedings to the hearings of 10 November 2017 and 24 November 2017 to allow for the service of the relative notifications.

At the hearing on 10 November 2017, the defence attorney of Mr Salvadori objected on the basis of the alleged nullity of the committal for trial request against his client as the compulsory charge against the client should have been formulated only for the offence pursuant to art. 2622 of the Italian Civil Code and not also for that pursuant to art. 185 of the Consolidated Law on Finance. In connection with this issue, this defence attorney also objected on the grounds of the Milan A.G.'s lack of jurisdiction.

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

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

Therefore, the Public Prosecutor has issued the notice of the conclusion of investigations with respect to Mr Salvadori for the offence pursuant to art. 185 of the Consolidated Law on Finance and filed the (new) request for committal for trial against Mr Salvadori for such offence and, lastly, requested the (new) preliminary hearing (again for the crime of market manipulation).

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

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

After which time, the Preliminary Hearing Judge convened the proceedings against Mr Salvadori following his removal from the proceedings ordered during the previous hearing with regard to the charge pursuant to art. 185 of the Consolidated Law on Finance.

The civil parties readmitted again requested the summons of BMPS as civilly liable party. Therefore, the Preliminary Hearing Judge adjourned the case - also for the proceedings against Mr Viola and Mr Profumo - to the hearing of 13 March 2018 which was not held by abstention and was therefore postponed to 6 April 2018 for the appearance before the court of the liable party and for the discussion of and decision on the matter of jurisdiction.

Following the formalisation of the appearance before the court by the Bank, the Prosecutor requested the issue of a pronouncement of acquittal because there is no case to answer or because the act does not constitute an offence depending on the charge in question. On the outcome of the hearing, the schedule was updated on 13, 20 and 27 April 2018 for the continuance of discussion and the possible issue of the final ruling of the preliminary hearing.

Following the outcome of the preliminary hearing, the Preliminary Hearing Judge ruled that there were no grounds for a decision not to proceed to judgment and ordered the committal for trial of the defendants, natural persons (Messrs. Viola, Profumo and Salvadori) and Banca MPS (as the defendant entity pursuant to Italian Legislative Decree 231/01).



Only Mr. Salvadori was found not to be subject to proceedings for the charge pursuant to Article 185 of the Consolidated Law on Finance:

At the hearing of 17 July 2018, 2,243 civil parties joined the lawsuit. Some of these have formally requested the mention of the Bank as party with civil liability, while most of the defence attorneys only requested the extension of the lawsuit to their clients with regard to the Bank, as a party with civil liabilities already called in the lawsuit. Some civil parties brought a lawsuit to the Bank as responsible party in pursuant to Italian Legislative Decree no. 231/2001. At the outcome, the Court adjourned to the hearings of 16 October and 6, 13 and 19 November 2018. Only the preliminary questions relating to the civil parties joining the lawsuit were heard at the hearing of 16 October 2018.

On 16 October 2018, the hearing for discussion of the civil parties joining the lawsuit was regularly held, as per the last hearing of 17 July 2018, with the addition of another 165 civil parties. The defendants and the Bank pleaded that the latter were late. At the hearing of 6 November 2018, the Board, upon lifting of the reservation, ordered the exclusion of some civil parties, which consequently amounted to 2,272 (349 of which had quantified the alleged damages), and the extension of the cross-examination between the Bank and the new civil parties admitted, without further formalities and rejecting the request for summons by CONSOB, the Bank of Italy and EY S.p.A. as civilly liable parties.

At the hearing of 19 November 2018, the Court rejected by order the objections relating to the issue of lack of territorial jurisdiction previously raised by the defence. Consequently, the proceedings were declared open and the next hearing was scheduled for 18 March 2019, with reservation of the decision on the request for an order of attachment against Mr Profumo and Mr Viola, submitted by a number of parties. The reserve was lifted with decision dated 3 December 2018, through which the Court rejected the request for an order of attachment against the aforementioned executives.

The claim, if stated in the civil action, amounts, with reference to the proceedings in question, to approximately EUR 76 mln.

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

In relation to capital increases and the allegedly incorrect information contained in the prospectuses and/or in the financial statements and/or in the price sensitive information for the period 2008-2011, as at 31 December 2018, the Bank has received 903 out-of-court claims, for a total of approximately EUR 654 mln in quantified claims, aimed at obtaining reimbursement of the amounts invested and/or compensation for monetary and non-monetary damages following the alleged losses suffered. Of said claims, less than 10% filed civil suits (the majority of which as part of the case filed by Marangoni Arnaldo + 124 as mentioned above).

These claims – brought individually or collectively, through two professionals and by ADUSBEF – although naturally heterogeneous, are mostly justified by generic references to the Bank's alleged violation of the industry legislation governing disclosure and, therefore, were rejected by the Bank in that they were considered generic, unfounded, not backed by suitable documentary evidence, and in some cases past the statute of limitations. As at 31 December 2018, the residual claims of the plaintiffs who did not file civil suits amounted to approximately EUR 591 mln.

Lastly, another 59 out-of-court claims relating to the share capital increases in 2014-2015 must be added to the ones indicated above, for a claim amount of approximately EUR 17 mln, resulting in a total claim amounts of approximately EUR 607 mln.



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

Conversely, for disputes regarding the period 2012-2015, no provisions were made, as the risk of losing was deemed "unlikely". This includes criminal proceeding 955/16, in relation to which the Bank issued a press release last 12 July in which it informed the public of its decision not to join as a civil party, considering that the conditions did not exist, while reserving the right to the widest possible protection in civil proceedings should any elements of liability towards the defendants emerge. Even in this case, the risk of losing assessment made by the Bank took into account the positions of the Supervisory Authorities and, in particular, of the relative common decisions not to join as a civil party and not to impose administrative sanctions. Also of equal importance was the position adopted by the Milan Public Prosecutor's Office, which, although obliged to proceed by the Preliminary Investigations Judge, reiterated its conviction that the objections were unfounded, requesting during the preliminary hearing a decision not to prosecute the defendants. Therefore, for civil and criminal disputes concerning the information disclosed solely in the period 2008-2011, the provisions for risks were determined in such a way as to take into account the amount invested by the counterparty in specific periods of time characterised by the disputed information alterations (net of any disinvestments made during these same periods). The damage subject to compensation was then determined on the basis of the "differential damage" criterion, which identifies the damage as the lowest price that the investor would have had to pay if he had had access to complete and correct information. For the purposes of this determination, econometric analysis techniques have been adopted - with the support of qualified experts - suitable to eliminate, among other things, the component inherent in the performance of the equity securities belonging to the banking sector during the reference period. More in detail, the total damage caused by each event potentially capable of generating information alterations was first quantified and then the amount abstractly attributable to the individual Plaintiff/Civil Party was calculated, taking into account the share of capital held from time to time. The differential damage criterion is appropriate for the events that triggered the aforementioned proceedings. From a purely probabilistic and conservative standpoint, the different criterion of "full compensation" was also taken into account (not accepted by the prevailing law, including that which, as indicated below, has dealt with the events in question up to now), according to which false or incomplete information may have a causal impact on the investment choices of the investor to such an extent that, in the presence of correct information, they would not have made the investment in question; in this case, the damage is therefore commensurate with the entire result of the investment by the Plaintiff/Civil Party. Instead, with reference to out-of-court claims relating to the period 2008-2011, in order to take into account the probability of their transformation into real disputes, the funds were determined by applying an experiential factor, in line with the Bank's policies for similar cases, to requests made by counterparties. In the financial statements as at 31 December 2018, in the absence of news in the available information, there are no significant changes to report with respect to the valuations of the prior year and to the information disclosed on 28 December 2018 upon request by



Consob, pursuant to art. 114 of the Consolidated Law on Finance. In any case, the Bank has exercised the possibility granted by IAS 37 of not providing disclosures on the provisions allocated in the balance sheet if it believes that such information could seriously jeopardise its position in disputes and in potential settlement agreements.

Note that on 4 October 2018, the first three judgements were handed down in the cases brought by certain shareholders. The Court of Florence upheld only a minimal part of the claims for damages based on the asserted inaccuracy of the prospectuses published by the Bank for the share capital increases carried out in 2008 and 2011, acknowledging compensation to the plaintiffs proportional to 10% of the amount invested (and not that of the claim brought before the court) and only in relation to the shares subscribed during the 2011 share capital increase (as no significant disclosure modifications were found with reference to the prospectus published for the 2008 share capital increase). Furthermore, the Court has rejected in full the claims of another shareholder, as the shares in the Bank were sold on the market before the changes to the disclosure were announced to the market.

Other disputes

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

This case, where the Bank was sued together with other credit institutions and companies with the summons of 27 June 2017, seeks the assessment of alleged monetary and non-monetary damage suffered by the plaintiff, as a result of an alleged unlawful report filed with the Italian Central Credit Register. The case is currently under preliminary investigation and the Judge, after ordering the renewal of the court-appointed expert witness, also reserved the right to allow the parties to assess possible settlements. The relative claim amount is EUR 157 mln. The plaintiff also asks that the defendant banks be found jointly liable, each proportionately to the seriousness of its behaviour. The Issuer's defence was based on the fact that the company's extremely severe financial situation fully justified said Issuer's initiatives.

At the hearing on 31 May 2018, the Judge reserved his decision on the challenges raised by the convened parties. On 5 June 2018, the Company declared bankruptcy. On 25 July 2018, upon lifting of the reservation made during the hearing of 31 May 2018, the case was adjourned to 31 October 2018, for the court-appointed expert to take the oath, given the renewal of the court-appointed expert report. In the meantime, the receivership of the Fatrotek S.r.l. bankruptcy summarised the judgement that will continue at the scheduled hearing. At the hearing of 7 December, the Judge referred the case to the President of the Court for reassignment to a magistrate.

Banca Monte dei Paschi di Siena S.p.A. vs. Fallimento Medeghini S.p.A. in liquidazione

The lawsuit, brought a writ of summons of 26 March 2012, concerns a claim for compensation for alleged damages brought before the Court by the trustee in bankruptcy due to banking transactions completed as part of the 2007 capital increase of the company which then failed. In particular, the trustee claims the merely fictitious nature of the capital increase, in that, as a result of a series of bank movements, the sum allocated to this would have been transferred to the company's current accounts only formally, without therefore resulting in an actual increase in capital.

In the course of the proceedings, an expert review was ordered, at the end of which the expert appointed by one of the parties assessed and documented damage for approximately EUR 2.8 mln, but did not specify whether such damage was due to conduct by the Bank or, instead, if it was caused by the directors of the bankrupt company to the mass of creditors as a result of continuation of the company's activities. The claim amounts to approximately EUR 155 mln.



The Bank's defence was based on various considerations in fact and in law, and was aimed at demonstrating the absolute groundlessness of the claims brought by the bankruptcy procedure due to total lack of a causal link between management acts that led to the default and the Bank's conduct.

During the technical appraisal ordered by the Court, the opposite party's demands that a link of causality be recognised between the capital increase and the subsequent transactions that worsened the company's financial difficulties - in which the Bank acted as a mere executor - were repeatedly and effectively rebutted by the Bank's expert witness.

During the appraisal, the Court-appointed expert witness accepted almost entirely the arguments of the defendant Bank, and in any case the plaintiff's claim, as formulated, appears to be groundless in terms of damages to be awarded, as no damage has been suffered. The case was deferred to 6 June 2019 for the clarification of pleadings.

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

On 15 July 2016, Riscossione Sicilia S.p.A. served a writ of summons on the Bank before the Court of Palermo, asking the Court to order it to pay a total amount of EUR 106.8 mln.

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

Specifically, Riscossione Sicilia, in relation to the contractual provisions involved in said disposal, now asks the Bank be ordered to pay, under its contractual liability, for alleged contingent liabilities of Monte Paschi Serit S.p.A./Serit Sicilia S.p.A.

The Bank duly appeared before the court with a cross-action against Riscossione Sicilia S.p.A. The proceeding is under preliminary investigation. The Judge admitted the CTU and postponed the hearing to 16 July 2018 for the Consultant to take the oath. At this hearing, having set the start of the investigative operations for 4 September 2018, the Judge postponed the hearing to 18 February 2019, later deferred to 13 May 2019.

On 11 March 2017, Riscossione Sicilia objected to the above-mentioned order and requested that it be revoked and, by means of a cross-action, that the Bank be sentenced to pay an amount of approximately EUR 66 mln.

To justify its objection, Riscossione Sicilia alleged that the Bank owed it 106.8 mln by virtue of certain representations and warranties set forth in two contracts for the sale of shares whereby the Bank had transferred the entire share capital of the company Serit – Sicilia S.p.A. to Riscossione Sicilia. Moreover, in the petition, Riscossione Sicilia acknowledged that its claims were already subject to other proceedings pending before the same Court.

The Bank duly appeared before the court requesting the dismissal of the opposing party's objection, claiming, *inter alia*, a *lis pendens* scenario in relation to the defences carried out by Riscossione Sicilia as a basis for the opposition.

With ruling dated 26 January 2018, the Judge rejected the application for suspension submitted by the counterparty of the opposing injunction for the part in which provisional enforceability had been granted and accepted the Bank's request for the provisional enforceability of the order for the remaining part of the sum ordered. At the hearing of 12 June 2018, the Judge ordered separation of the position relating to the loan agreement subject of the injunction from the position relating to the defences explained by



Riscossione Sicilia's counter-claims and combined only the counter-claim formulated by Riscossione Sicilia with another judgment in respect of which the aforementioned *lis pendens* profiles exist.

With regard to the judgement concerning the receivable deriving from the loan agreement, the Judge assigned the terms pursuant to art. 183, paragraph 6, of the Italian Code of Civil Procedure. Upon filing of the pleadings, the Judge, considering the case to be ready for a ruling, adjourned the discussion pursuant to art. 281-sexies of the Italian Code of Civil Procedure to 24 September 2019.

Note that with complaint dated 19 October 2017, Riscossione Sicilia challenged the measure of first aid. Even the appeal phase ended with rejection of the Riscossione Sicilia's claims. In this regard, it should be noted that the measure by which the Court of Palermo rejected the complaint lodged by Riscossione Sicilia - in addition to confirming, on the one hand, the groundlessness of the allegations made by the latter and, at the same time, the correctness of the Bank's conduct, which legitimately suspended use of the credit facilities in application of the provisions of articles 1460 and 1461 of the Italian Civil Code - contains a statement concerning the alleged public nature of the money to be collected. In particular, the Court stated that the money collected by the concessionaire "until it becomes available to the Treasury" does not constitute "a mere sum of money as such subject to confusion, but rather an asset falling within the unavailable assets of the collecting entity, which cannot be removed from its public destination" (see Court of Palermo order dated 26 January 2018). Based on the above, the Finance Department of the Sicily Region, on 10 May 2018, made an appeal in pursuant to art. 700 of the Italian Code of Civil Procedure against the Bank and in respect of Riscossione Sicilia, before the Court of Palermo, asking for the Bank to be prevented from suspending credit lines to allow the current account holder Riscossione Sicilia to fulfil its obligation, as Collection Agent, to pay the amounts relating to tax revenues to the tax authority, the Sicily Region, by adopting any urgent means suitable for implementing the transfer of the amount of around 68.6 mln in tax revenues, in addition to the anticipated interests, to the tax authority Sicily Region and through this to the competent Finance Department. In the proceedings in question the Bank is duly constituted and the Court, which at the hearing requiring both parties to appear set for 21 June 2018 had reserved judgement, rejected the appeal with decision communicated on 28 June 2018.

Lastly, on 17 July 2018, the Finance Department of the Sicily Region notified the Bank by means of an order of injunction pursuant to art. 2 of Italian Royal Decree no. 639/1910 and of repayment, pursuant to art. 823, paragraph 2 of the Italian Civil Code of the above amount of around 68.6 mln, assigning the Bank the term of 30 days to make the payment with the warning that, on the back of the failure to do so, it will proceed with the forced recovery through entry of the action in the list of cases. The Bank notified its defence, with the first hearing set for 12 December 2018, against said injunction, drawing up the related application for suspension of the enforceability of said injunction (or execution if launched in the meantime) with the request for a provision without prior hearing of the other side. The Court, which reserved its right to the hearing of 21 August, by order of 24 August rejected the request for suspension, specifying, however, that the injunction may be enforced on the active amounts in the current account of Riscossione Sicilia. The defendant filed an application for the Riscossione Sicilia case, leading to the Court of Palermo's postponement of the first hearing - already scheduled for next 12 December - to 20 March 2019.

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

The appeal concerns the Order of injunction in the part in which, "alternatively, pursuant to art. 823, paragraph 2 of the Italian Civil Code, it orders Banca Monte dei Paschi di Siena (...) to return to the Sicily



Region, within the same period of 30 days from receipt of the present, the amount of 68,573,105.83, plus interest at the rate established by special legislation for late payment in commercial transactions, as provided for by paragraph 4 of art. 1284 of the Italian Civil Code".

Following notification of the appeal on 16 October 2018, the appeal was filed by the Bank on 12 November 2018, without proceeding with the simultaneous request for a hearing to be scheduled (the latter fulfilment, which, if necessary, may be made by 12 November 2019). The Department appeared via the *Avvocatura dello Stato* (office of the State Attorney) on 15 November 2018.

Banca Monte dei Paschi di Siena S.p.A. vs. receivership estate of Antonio Amato & C. Molini e Pastifici in Salerno S.p.A. in liquidazione

This action was brought on 11 June 2013 by the company's trustee in bankruptcy against the former directors and statutory auditors of the later bankrupt company and against the Bank, together with other credit institutions, for compensation for the alleged damage, quantified as the difference between the liabilities and assets of the proceedings, also deriving from a pool loan granted by the financing institutions which would have delayed the emergence of the insolvency of the later bankrupt company, worsening its financial difficulties. The proceeding is under preliminary investigation and the accounting expert appraisal was admitted. The claim amounts to EUR 90 mln.

The Bank rose preliminary objections and filed a motion to dismiss the case for lack of venue jurisdiction and of active legitimation; in the merits, the Bank asked the Court to dismiss the plaintiff's claims as inadmissible and/or groundless or, as a secondary request, to reduce the amount of compensation awarded in consideration of the different degree of guilt in causing the damage, in accordance with art. 2055, paragraph 2 of the Italian Civil Code.

The next hearing is scheduled for 18 June 2019 for the specification of the pleadings.

Banca Monte dei Paschi di Siena S.p.A vs. Edilgarba s.r.l.

Edilgarba served a writ of summons against the Bank on 16 December 2010, claiming the breach by BMPS of its obligations deriving from the mortgage loan agreement entered into on 13 September 2006 by Edilgarba and Banca Antonveneta (later BMPS). Edilgarba demanded compensation for the alleged damages suffered (quantified at roughly EUR 28.5 mln) as well as damages to its image and commercial reputation (quantified at no less than EUR 3 mln).

In the course of the lawsuit, a court-appointed expert report was ordered and integrated, indicating that the damage from the subject transaction by Edilgarba, which must consider the costs incurred by the plaintiff, is equal to EUR 12 mln, the Bank's receivable from the financed bank of EUR 10.6 mln, and the value of a mortgaged area estimated at EUR 6.6 mln at the time of the renegotiation of the loan is EUR 2.6 mln to date. The proceedings were deferred to 5 December 2017 for the closing arguments. The claim amounts to approximately EUR 31.5 mln. With sentence filed 7 January 2019, the Court, in partial acceptance of the plaintiff's claims and partial acceptance of the Bank's claims, ordered the Bank to pay the plaintiff the sum of EUR 1.6 mln, plus revaluation and interest, and partially compensated litigation costs. The Bank appealed this decision, requesting suspension of provisional enforcement. A hearing on the petition for suspension was scheduled for 13 March 2019, while for the appeal lodged, a collective discussion hearing was scheduled for 22 May 2019.

Serventi Micheli Terzilia + Others vs. Fallimento Zenith, Banca Monte dei Paschi di Siena S.p.A + other credit institutes

In this case, brought with the complaint of 25 November 2013, the directors of the bankrupt Zenith S.p.A. - summoned before the court by the insolvency administrator with a liability action pursuant to article 146 of the Bankruptcy Law - in turn summon the Bank and other banking institutions to hear them declare their exclusive and/or concurrent liability, alleged to have replaced the directors by taking action to allow the return and/or acquisition of guarantees for the large amount of receivables claimed. After the judge rejected the preliminary requests, the case was adjourned to 11 December 2018 for closing arguments. The sentence was declared suspended at the hearing of 11 December 2018, due to the passing of one of the plaintiffs. The claim amounts to approximately EUR 26.5 mln.

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

With a writ of summons served on 5 March 2014, the Bank filed a civil suit before the Court of Rome against CODACONS, its legal representative and an external consultant of the association, in order to obtain a joint and several sentence of the latter for compensation for damage suffered and to be suffered by the Bank as a result of the multiple actions unjustly damaging to the Bank's reputation. In particular, the subject unlawful conduct includes the dissemination by CODACONS of multiple press releases issued from the beginning of 2013, in which the Bank was accused of incorrect accounting treatment of transactions related to restructuring of the "Santorini" transaction and the "Alexandria" notes, as well as the unlawful use of government aid through the New Financial Instruments. The damage is quantified at EUR 25 mln in monetary damage and EUR 5 mln in non-monetary damage. The first hearing, set in the writ of summons for 20 November 2014, was automatically deferred to 14 January 2015. The defendants filed counterclaims for damages, quantified by one of the defendants at approximately EUR 23 mln and deducing the existence of an alleged conflict of interest in the initiation of proceedings such as to justify the request for the appointment of a special receiver pursuant to art. 78 of the Italian Code of Civil Procedure. The Judge set the hearing of 17 January 2018 for concluding arguments. In the meantime, an agreement was reached between the Bank, on the one hand, and CODACONS and its



legal representative, on the other, leading to the reciprocal waiver of the claims made in court, as well as waiver by CODACONS and its legal representative of all claims made against the Bank in all civil and criminal courts. The case between the Bank and the external consultant of the Association, originally convened together with the Association, continued. With ruling filed on 12 December 2018, the Court partially upheld the claims made by the Bank against the Consultant, ordering the latter to compensate the Bank for non-monetary damage, paid in the sum of EUR 3,000 and, accordingly, rejecting the counterclaims made. With notice served on 9 January 2019, the counterparty appealed, citing the Bank for the hearing of 23 May 2019.

Banca Monte dei Paschi di Siena S.p.A. and other eleven credit institutes vs. Lucchini S.p.A. in Amministrazione Straordinaria

With a writ of summons issued on 23 March 2018, the Extraordinary Administrators of Lucchini SpA instituted legal proceedings before the Court of Milan against the Bank and other 11 institutes and companies, to obtain compensation, jointly and severally, for damages allegedly suffered and quantified at around EUR 350.5 mln primarily and around EUR 261.2 mln in the alternative.

The Extraordinary Administrators, which primarily quantify the damages in relation to those generated by the delayed subjugation of the Company to the extraordinary administration proceedings and to the receipts by the defendants in the implementation of a restructuring agreement, essentially assumes that the responsibilities of the same defendants could be in fact justified in such restructuring agreement of December 2011 which, according to the plaintiff's submission, would have allowed its signatories, on the one hand, to conceal the real state of failure of the Company so preventing, more specifically delaying the start of the insolvency proceedings and, on the other, to exercise an improper intervention in the management of the Company which could have characteristics of abuse of direction and coordination in pursuant to articles 2497 and 2497 sexies of the Italian Code of Civil Procedure. The Extraordinary Administrators therefore assumes the Banks' responsibilities, in addition to in relation to said hypothesis of abuse of direction and coordination, as they are considered to be de facto administrators and for the activities and violations ascribed to the administrators appointed by the same Banks in pursuant to articles 2055 and 2049 of the Italian Civil Code. The first hearing scheduled for 10 July 2018 was postponed to 30 October 2018 and the Bank appeared before the court within the required terms to present its defence. The next hearing is set for 9 April 2019.

Banca Monte dei Paschi di Siena S.p.A. vs. Extraordinary Administrators of Impresa S.p.A.

On 11 November 2016, the Extraordinary Administrators of Impresa S.p.A. served a writ of summons on the Bank along with other banks participating in a pool (our share is 36.48%) to have the liability of such banks, the members of the Board of Directors of Impresa S.p.A., today under Extraordinary Administration, and the auditing firm confirmed and declared by the court and to have them ordered to provide compensation for damages, jointly and severally, allegedly suffered by the company to the extent of EUR 166.9 mln.

The case is still in the initial phases and the hearing for the first appearance of the parties was held on 31 October 2017.

Along with the defence attorneys of the other Banks in the pool, a preliminary objection was first of all raised concerning the nullity of the complaint; however, the Judge deferred all assessments in this regard to when the decision will be made by the Board.

In the proceedings, the pleadings pursuant to art. 183, paragraph six of the Italian Code of Civil Procedure were filed within the deadlines granted (31 January, 2 March and 22 March 2018) and at the



subsequent hearing on 29 October 2018, the Judge reserved his decision with regard to the plaintiff's preliminary requests.

Banca Monte dei Paschi di Siena S.p.A. vs. CO.E.STRA. Srl in Liquidazione e Concordato Preventivo.

On 4 December 2014, the administrators of the arrangement with creditors served a writ of summons on the Bank along with other banks participating in a pool (our share is 28.51%) to have their contractual or tort liability in relation to the company's debt restructuring agreement entered into on 30 November 2011 confirmed and declared by the court and have the defendant banks ordered to provide compensation for claimed damages, jointly and severally, suffered or for the claimed aggravation of distress that the company allegedly suffered, quantified by the opposing party as EUR 34.6 mln.

A petition was filed for the referral of the case to a different competent court, and the proceeding is still in the initial stage.

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

Following the transfer of the back office business unit to Fruendo S.r.l. in January 2014, involving 1,064 resources, 634 workers (later reduced to 480 due to waivers/settlements and deaths) initiated legal proceedings before the Courts of Siena, Rome, Mantua and Lecce to demand, among other things, the continuation of the employment relationship with the Bank, upon the declaration of ineffectiveness of the transfer agreement entered into with Fruendo S.r.l.

At the reference date of these financial statements, for one plaintiff proceedings are pending in the first instance with a hearing held on 13 March 2019 for examination of witnesses with delay until 4 October 2019 for discussion, while for the other 479 rulings in the first and/or second instance have already been handed down against the Bank, giving the workers concerned the right to be rehired.

Specifically, for 143 workers a ruling in the first instance was handed down (at the Courts of Lecce and Rome) against which the Bank has already appealed before the applicable Courts of Appeals with hearings currently scheduled between February 2019 and February 2020; on the other hand, for 336 workers, a ruling in the second instance was also handed down (at the Courts of Appeals of Florence, Rome and Brescia), against which the Bank 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).

For the sake of full disclosure, note that both before the courts of second instance and before the Supreme Court of Cassation, the Bank and Fruendo S.r.l. have filed a petition for submission to the European Court of Justice of preliminary matters that are essential for the purposes of a decision. In particular, an assessment was requested regarding the conformity with EC Directive 2001/23 of art. 2112 of the Italian Civil Code, as interpreted by the decisions of the Supreme Court of Cassation, with which the appealed judgments comply, and it also asked whether:

- the transfer of an economic entity, functionally autonomous though not pre-existing, as it was identified by the transferor and the transferee at the time of the transfer, would not allow for the automatic transfer of employment relationships pursuant to art. 2112 of the Italian Civil Code and therefore would require the consent of the workers concerned; and
- the automatic transfer of the employment relationships pursuant to art. 2112 of the Italian Civil Code would not be permitted and therefore if the consent of the workers concerned would be required if, in the case of the transfer of an economic entity carrying out bank back office activities, the transferring Bank maintained ownership of the applications and IT infrastructure, only granting them to the transferee for use for valuable consideration.



At the date of this report, of the 479 parties entitled to be rehired by the Bank, 72 workers (later reduced to 31 following 25 waivers to be ratified in accordance with legal procedures and 16 settlements that took place in the meantime) submitted an order requesting to be re-entered in the Bank's Payroll Ledger and to restore their insurance and contribution position, which the Bank objected to by appealing before the Labour Section of the Court of Siena. At the hearing of 15 February 2019, the cases were discussed and the Judge reserved his decision.

Even if the Bank's objection does not bring about the desired effects, to date no economic impacts are expected for the Issuer from the integration of back pay to the workers rehired, as all plaintiffs maintained their wages enjoyed at the Bank at the time of transfer of the business unit and indeed, they did not suffer the wage decreases applied to the employees of the Bank, on the basis of the Union Agreements of 19 December 2012 and 24 December 2015.

Given the above, the Bank, jointly with Fruendo S.r.l., is analysing the matters arising from the unfavourable outcome of the labour dispute.

Lastly, please note that a number of workers (32) filed a lawsuit for the offence of wilful non-performance of a judge's ruling (art. 388 of the Criminal Code). As part of criminal proceedings no. 567/17 before the Criminal Court of Siena, following the above-mentioned lawsuit, the public prosecutor submitted a request for dismissal with respect to the parties under investigation - Tononi Massimo, Viola Fabrizio, Falciai Alessandro and Morelli Marco -, which the complainants objected to.

Following further investigation, on 12 April 2018, the Siena Preliminary Investigations Judge rejected the request and dismissed the proceedings.

Please also note that in 2017, 52 Fruendo S.r.l. workers (later reduced to 32 following waivers/settlement) called the Bank before the Court of Siena (in 6 separate proceedings) to request the continuation of the employment relationship with the Bank, upon declaration of the unlawful interposition of labour ("unlawful contract") as part of the services outsourced by the Bank to Fruendo S.r.l. On 26 January 2019, the Court of Siena ruled in favour of the Bank, rejecting the appeals by the counterparty.

The claim amount and related Provision for Risks and Charges referring to the labour dispute also includes said legal actions in relation to legal fees for the dispute.

Also in this case, any unfavourable outcome of the proceedings would currently result in the re-establishment of the employment relationship of the parties concerned with the Bank with no expenses for previous remuneration differences, as the plaintiffs in question have continuously worked at Fruendo S.r.l., maintaining the remuneration received from the Bank when the business unit was transferred.

Banca Monte dei Paschi di Siena S.p.A. vs. FRESH 2008 Bondholders

Some holders of FRESH Bonds 2008 securities maturing in 2099, with writ of summons served on 19 December 2017, initiated proceedings against the Bank, the company Mitsubishi UFJ Investors Services & Banking Luxembourg SA (which replaced the Bank issuing the bond loan Banca di New York Mellon Luxembourg), the British company JP Morgan Securities PLC and the American company JP Morgan Chase Bank NA (which entered into a swap agreement with the bond loan issuer) before the Court of Luxembourg to request confirmation of the inapplicability of the Burden Sharing Decree to the holders of FRESH 2008 securities and, as a result, to have it affirmed that such bonds cannot be forcibly converted into shares, as well as that such bonds will continue to remain valid and effective in compliance with the issue terms and conditions, in that they are governed by the laws of Luxembourg. Lastly, to ascertain that the Bank has no rights, in the absence of the conversion of the FRESH 2008 securities, to



obtain the payment of EUR 49.9 mln from JP Morgan in damages for holders of FRESH 2008 securities. The schedule of hearings has not been clearly defined by the Court of Luxembourg.

In view of completeness it is noted that, following the start of the proceedings in question, the Bank, on 19 April 2018, tabled a dispute before the Court of Milan against JP Morgan Securities Ltd JP. Morgan Chase Bank n.a. London Branch, as well as the representative of the Fresh 2008 securities holders and Mitsubishi Investors Services & Banking (Luxembourg) Sa to ascertain that the Italian Judge is the only one with jurisdiction and competence to decide about the usufruct contract and the company swap agreement signed by the Bank with the first two defendants in the context of the operation of the share capital increase in 2008. Consequently the Bank asks for: (i) the determination of the ineffectiveness of the usufruct contract and the company swap agreement which anticipate obligations of payment in favour of JP Morgan Securities PLC and JP Morgan Chase Bank Na in relation to the entry into force of Decree 237; (ii) the determination of the intervened ineffectiveness and/or resolution and/or termination of the usufruct contract or, alternatively, (iii) the determination of the intervened resolution of the usufruct contract relating to the capital deficiency event of 30 June 2017. The first hearing was held on 18 December 2018 and the Judge, considering the prejudicial nature of the issue of jurisdiction raised by the defendants, in view of the fact that a dispute is pending before the Luxembourg Court involving the same *petitum* and the same *petendi*, granted the parties terms to reply only to the procedural objections and adjourned the hearing to 16 April 2019 for assessment of the disputed issue.

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

The Antitrust Authority (Autorità Garante della Concorrenza e del Mercato - AGCM), with the resolution adopted at the meeting of 20 September 2017, established the existence of behaviours in violation of the provisions relating to unfair trade practices on the part of DPI and of the banks that had signed agreements with them. With regard to Banca Monte dei Paschi di Siena, a sanction of EUR 2 mln was imposed.

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

The Bank had in any case suspended the reporting activity to DPI of its customers starting from 3 February 2017, as soon as they became aware of the opening (25 January 2017) of the formal AGCM investigation with regard to DPI (later extended to the banks with which it had agreements). On 19 March 2018 the Bank terminated the cooperation agreement with DPI (the activity had in practice already been terminated from the date of suspension) and activated a compensation process for its customers who had received recommendations and intended to exit their diamond investment.

The compensation operation, agreed by the Board of Directors since January 2018, envisages the payment to customers of consideration up to an amount equal to that which the latter had originally paid to DPI to purchase the stones, with the simultaneous transfer of the same to the Bank and completion of the transaction.

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



On 19 February 2019, the Bank was served a preventive attachment decree from the Judge's Office for the Preliminary Investigations in relation to this case. The decree was served to several individuals, two diamond-producing companies (Intermarket Diamond Business S.p.A. and Diamond Private Investment S.p.A.), as well as 5 banks, including the Bank, and resulted, for BMPS, in the preventive attachment of the profit from the crime of continued aggravated fraud, in the amount of EUR 35.5 mln. In addition, a preventive attachment decree was served by equivalence pursuant to art. 53 of Italian Legislative Decree 231/2001, for EUR 0.2 mln for the crime of self-money laundering. Currently, three employees are involved in this proceeding, but the provision specifies that other individuals of BMPS may possibly be identified. The Bank is proposing a request for a review against this precautionary measure.

To meet the initiatives taken, the Bank has set aside provisions which take into account, among other things, the anticipated number of requests and the current wholesale value of the stones to be collected.

As at 31 December 2018, the provisions for risks and charges for the compensation initiative still not used amounted to EUR 126 mln (included in "Other provisions for risks and charges" sub-item "others"); at the same date, diamonds for a current estimated wholesale value of approximately EUR 4 mln were collected.

Risks from tax disputes

Among the cases associated with tax disputes which regard the Bank, those in which the risk of losing is considered likely are limited in number and adequate provisions have been made to the Reserve for risks and charges.

On 10 April 2018, the Revenue Agency, Tuscany Regional Directorate, initiated an IRES, IRAP and withholdings audit with respect to the Bank for the 2015 tax year. Upon completion of the audit on 17 December 2018, the resulting tax audit report claimed additional taxes associated with the findings of the audit, amounting to approximately EUR 10.7 mln (taxes and penalties). The Bank formalised its observations, outlining the reasons for which it does not share the findings indicated in the aforementioned tax audit report.

*Advisory services on offer, customer risk profile and risk of investment products/portfolios*

The strategic choice of the Bank is to systematically combine the placement of financial products with advisory so as to ensure the highest level of protection for the investor and, at the same time, enhance the role played by relationship managers. Again, with a view to protecting customers, the obligation to verify appropriateness has also been extended to the trading activities on the secondary market of the certificates issued by the Bank.

The Bank offers two types of advisory services.

- “basic” transactional advisory, aimed at verifying the suitability of a single specific investment recommendation, or several investment transactions or several disinvestment transactions in relation to the risk of the customer’s investment portfolio as a whole. In this regard, the transactional adequacy model adopts a multivariate control approach to the individual risk factors, taking the risk of the customer’s portfolio, including the recommended investment product(s), as a reference.
- “advanced” advisory, aimed at verifying the suitability of the overall set of transactions recommended, in relation to a set of investment/disinvestment transactions aimed at building one or more advanced advisory portfolios, in accordance with the respective investment objectives, with regard to optimum asset allocation to maximise prospective returns, with respect to the risk of the customer’s investment profile as a whole. In this regard, the adequacy model adopts a multivariate control approach to the individual risk factors, taking the risk of the customer’s portfolio, including the recommended investment product(s), as a reference.

Wealth risk management activities cover the entire distribution perimeter of the network of Group branches, the investment services operated by Banca Widiba and by MPS Capital Services.

From 3 January 2018, the new MiFID II directive (2014/65/EU) came into force in the entire European Union. Together with MiFIR or Markets in financial instruments regulation (EU Regulation 600/2014), this has changed the reference framework of European legislation. By adopting a new MiFID questionnaire introduced on 2 January 2018, Banca MPS revised the methods of customer profiling and the rules for determining the indicators underlying a customer’s risk profile (particularly on: investment objectives, experience and knowledge, time horizon).

For further details, please refer to “Operational risks” section in Part E of the Notes to the consolidated financial statements.



Part F - Information on shareholders' equity

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Section 1 - Shareholders' equity

A. Qualitative information

The Bank pursues strategic objectives for the entire Group focused on quantitative and qualitative strengthening of capital, structural rebalancing of liquidity and achievement of sustainable profitability levels. In this perspective, capital management, planning and allocation activities play a crucial role in ensuring compliance over time with the minimum capitalisation requirements set by the regulations and the supervisory authorities, as well as with the risk appetite level approved by the Group's strategic supervision body.

This is the purpose served by the Risk Appetite Framework (RAF) through which the target capitalisation levels are estimated on a yearly basis and capital is allocated to the business units according to expected development and estimated risk levels, making sure that the allocated capital is sufficient to ensure compliance with minimum requirements. In the context of the RAF it is used to perform prospective capital adequacy assessments over a multiyear period, under both normal and stress conditions. The analyses are carried out both at Group level and by each individual legal entity subject to regulatory capital requirements.

The achievement of objectives and compliance with regulatory minimum requirements is constantly monitored throughout the year.

The formal corporate processes to which the RAF is applied at least on an annual basis are the budget, the risk appetite and the ICAAP.

The Bank defines the targets for the entire Group on the basis of a Risk Adjusted Performance Measurement (RAPM), which measures profitability net of the cost of capital to be held for regulatory purposes relative to the assumed risk level.

The definitions of equity applied are those used in Supervisory Regulations: Common Equity Tier 1, Tier 1 and Capital; moreover, the RAPM metrics also include Invested Capital, i.e. the amount of Shareholders' equity needed to achieve Common Equity Tier 1 values, whether determined ex ante as target levels or realised ex post.

The Capital at Risk concepts applied are those used in the regulatory requirements and correspond to the risk weighted assets (RWA), determined on the basis of the rules set out in the supervisory regulations, and the economic capital corresponding to the maximum losses estimated on measurable risks at a predetermined confidence interval and on the basis of the Group's internal models and rules. Both measurements are used as part of RAPM metrics.



B. Quantitative information

B.1 Equity: breakdown

Net equity items	Totale 31 12 2018	Totale 31 12 2017*
Shareholders' equity	10,328,618	10,328,618
Share premium	-	-
Reserves	(1,441,677)	2,423,789
- retained earnings	(1,359,981)	(3,730)
a) Legal reserves	-	-
b) statutory reserve	-	-
c) Treasury shares	-	-
d) others	(1,359,980)	(3,730)
-others	(81,696)	2,427,519
Equity instruments	-	-
Treasury shares (-)	(185,958)	(185,958)
Valuation reserves	(276,919)	(61,470)
- Equity instruments measured at fair value through other comprehensive income	(28,431)	-
- Hedge's equity instruments measured at fair value through other comprehensive income	-	-
- Finciale assets (other than equity instruments) measured at fair value through other comprehensive income	(139,994)	44,443
- Hedges of foreign investments	-	-
- Cash flow hedges	(50,854)	(33,451)
- hedging Instruments - not designated items	-	-
- Exchange difference	4,893	2,006
- Non-current assets and group of assets held for sale	-	104
- Financial liabilities measured at fair vale through profit and loss (changes in own credit worthiness)	42,023	35,690
- Actuarial gains (losses) on defined benefit plans	(104,556)	(110,262)
- Special revaluation laws	-	-
Profit (loss) for the year - Group and minority interests	(111,922)	(2,857,440)
Net equity	8,312,143	9,647,539

* The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9; in addition, the comparative data were reclassified on the basis of the new accounting statements set forth in the 5th update of Bank of Italy Circular 262.



B.2 Valuation reserves for financial assets measured at fair value through other comprehensive income: breakdown

Asset/Amount	Totale 31 12 2018		Totale 31 12 2017*	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	1,307	(141,302)	92,048	(127,804)
2. Equity instruments	8,199	(36,630)	80,199	-
4. Loans	-	-	-	-
Total	9,506	(177,932)	172,247	(127,804)

* The Bank has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9; in addition, the comparative data were reclassified on the basis of the new accounting statements set forth in the 5th update of Bank of Italy Circular 262.

B.3 Valuation reserves for financial assets measured at fair value through other comprehensive income: annual changes

	Debt securities	Equity instruments	Loans
1. Opening balance	76,405	(35,532)	-
2. Increases	5,136	11,115	-
2.1 Increases in fair value	368	-	-
2.2 Net losses (recoveries) on impairment	1,603	X	-
2.3 Reversal to profit and loss of negative reserves	389	X	-
2.4 Transfers to other component of equity (equity instruments)	-	11,115	-
2.5 Other increases	2,776	-	-
3. Decreases	221,536	4,013	-
3.1 Decreases in fair value	175,928	3,631	-
3.2 impairment provisions	7,801	-	-
3.3 Reversal to profit and loss of positive reserves: following disposal	44,908	X	-
3.4 Transfers to other component of equity	-	44	-
3.5 Other decreases	(7,101)	338	-
IFRS5 "discontinuing operations"	-	-	-
4. Closing balance	(139,995)	(28,430)	-

*The initial balance includes the effects of first-time adoption of the new IFRS 9 and IFRS 15 as at 1 January 2018, described in the paragraph "Transition to the IFRS 9 and IFRS 15 accounting standards".



B.4 Valuation reserves for defined benefit plans: annual changes

	Internal funds	External funds	Provisions for employees severance pay	31/12/18
Opening balance	(34,596)	(149)	(75,517)	(110,262)
Remeasurement of net defined benefit liability (asset):	1,157	1,191	3,358	5,706
Return on plan assets excluding interests	72	(23,230)	-	(23,158)
Actuarial gains (losses) arising from changes in demographic assumptions	1,462	1,819	(101)	3,180
Actuarial gains (losses) arising from experience adjustments	1,280	14,642	1,099	17,021
Actuarial gains (losses) arising from changes in financial assumptions	1,564	5,884	2,360	9,808
Changes in effect of limiting net defined benefit asset to asset ceiling	(3,221)	2,076	-	(1,145)
Gains (losses) on settlements	-	-	-	-
Others	-	-	-	-
Closing balance	(33,439)	1,042	(72,159)	(104,556)

Section 2 – Regulatory banking capital and ratios

See the information on own funds and capital adequacy contained in the public disclosure (Pillar 3).



Part G – Business combinations

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Section 1 – Business combinations during the period

1.1 Business combinations

No business combinations, as defined by IFRS 3, were carried out in 2018.

Section 2 - Business combinations completed after the period

There are no transactions to report.

Section 3 – Retrospective adjustments

No retrospective adjustments are reported.



Part H – Related-party transactions

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1 Compensation of key management personnel

Items/Amounts	Total	Total
	31 12 2018	31 12 2017
Short-term benefits	7,175	9,074
Termination benefits	1,263	-
Total compensation paid to key management personnel	8,438	9,074

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

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

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

The amount shown in the line "Termination benefits", including the indemnity in lieu of advance notice, refers to the termination of employment for 3 executives.



2. Related-party transactions

With resolution no. 17221 of 12 March 2010, Consob adopted the “Regulations containing provisions relating to transactions with related parties”.

In its meeting of 10 November 2010, the Board of Directors established the “Committee of Independent Directors” which, as of 18 July 2013, was renamed “Related-Party Transactions Committee”; the Committee is composed solely of independent directors pursuant to the principles and criteria of the Corporate Governance Code of listed companies, which Banca MPS adhered to, and the Consolidated Law on Finance.

In implementation of art. 53 of the Consolidated Law on Banking and in compliance with resolution no. 277 of the Interministerial Committee for Credit and Savings (ICRC) of 29 July 2008, the directives on regulations concerning risk assets and conflicts of interest in relation to the Associated Parties of the Group were adopted by the Bank of Italy with the 9th update to Circular no. 263/2006, as of 31 December 2012.

Through resolution dated 29 November 2018, the Board of Directors approved - in accordance with regulatory provisions and having obtained the prior favourable opinions of the Related-Party Transactions Committee and of the Board of Statutory Auditors - the “*Group Directive in relation to management of the provisions on Related Parties, Associated Parties and obligations of the Banking entities, adopted with Consob Regulation no. 17221/10 of Bank of Italy Circular no. 263/06, Title V, Section 5, and pursuant to art. 136 of Italian Legislative Decree 385/1993 (Consolidated Law on Banking) (hereinafter, the “Group Directive”)*”, in replacement of the previous “*Global Policy on transactions with related parties, associated parties and obligations of the Banking entities*”, which includes in a single document the provisions on conflict of interest in transactions with related parties, pursuant to aforementioned Consob Regulation no. 17221/2010, with associated parties in accordance with Bank of Italy Circular no. 263/2006, Title V - Section 5, as well as those on the obligations of banking representatives, in accordance with art. 136 of the Consolidated Law on Banking, also containing rules for subsidiaries. The *Group Directive* dictates the principles and rules to be adhered to in order to control the risk arising from situations of possible conflict of interest with certain entities close to the Bank’s decision-making centres.

The *Group Directive* was published on the Bank's web site and is therefore available in full-text version at the following link:

https://www.gruppomps.it/static/upload/ope/operazioni_con_parti_collegate_e_soggetti_collegati.pdf

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

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

With reference to the MEF scope, the Bank has availed itself of the exemption provided by par. 25 of IAS 24 on the disclosure of transactions and balances of existing transactions with government-related entities. The main transactions carried out with the MEF and with its subsidiaries, in addition to financing and funding transactions, includes the amount of Italian government securities recorded in the portfolios “Financial assets measured at fair value through other comprehensive income” and “Financial assets measured at fair value through profit and loss”, for a nominal amount, respectively, of EUR 9,438.0 mln and EUR 100.0 mln.



Information is provided below regarding transactions that are worth specifically mentioning and which were concluded on the basis of assessments of economic advantage and carried out by the Bank with related parties in 2018.

February 2018

- On 1 February 2018, the Vice Deputy General Manager of the Parent Company authorised in favour of SOGIN S.p.A. the ordinary revision, with extension, of two mixed credit facilities (already mentioned in the part H of the 2017 Financial Statements), for a total amount of EUR 19.9 mln, of which (i) one for EUR 18.9 mln used for the issue of sureties with underlying financial obligations against VAT refunds and for the issue of letters of credit relating to the import of goods and (ii) another for EUR 1.0 mln used for forward currency transactions that may be used only for transactions with a commercial underlying asset. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, as SOGIN S.p.A. is subject to the direct and total control of the MEF, controlling shareholder of the Bank.

March 2018

- On 5 March 2018 around EUR 47.5 mln were drawn from available credit lines in the context of the Bank's operations with regard to existing agreement stipulated between CASSA DEPOSITI E PRESTITI S.p.A. and the Italian Banking Association, subject of the Framework Agreement approved by the Board of Directors on 29 November 2017 (already discussed in Part H of the Financial Statements as at 31 December 2017). The transaction falls within the scope of application of Consob Regulation no. 17221/2010, as CASSA DEPOSITI E PRESTITI S.p.A. is a subsidiary of the MEF, controlling shareholder of the Bank.
- On 28 March 2018 the Chief Lending Officer, with the previous approval of the Committee for Related-party Transactions and in the context of the ABI-SACE-SIMEST "Export Banca" Convention, authorised with respect to ZOZIK LLC: (i) the rescheduling of the repayment plan of the Buyers' Credit of the original EUR 22.4 mln, with a one year extension for the final payment from 30 June 2021 to 30 June 2022, on condition that all the interested parties (including SACE and CDP) approve the same variation, with the guarantee and funding structure remaining unchanged; and (ii) the possibility of granting a further suspension to 30 September 2018 for the definition of the financing rescheduling, on condition that the validity of all guarantees and the correct question of liquidity are confirmed. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, as, even though ZOZIK LLC is not a related party of the Bank, the operation is financed through funds made available by CDP and is assisted by a guarantee by SACE, both subsidiaries of the MEF, which is in turn a controlling shareholder of the Bank.

May 2018

- On 3 May 2018, the Manager for the Loan Disbursement Service authorised the opening of a current account credit facility to CONSIP S.p.A. for EUR 10 mln. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, as CONSIP S.p.A. is subject to total control of the MEF, controlling shareholder of the Bank.
- On 10 May 2018 the Board of Directors, with the prior favourable opinion of the Related-Party Transactions Committee, upon request by the liquidators, granted MARINELLA S.p.A. IN LIQUIDAZIONE and TENUTA DI MARINELLA SOCIETÀ AGRICOLA A R.L. IN LIQUIDAZIONE, a 24-month moratorium, effective from the expiry of the previous moratorium agreed in April 2017 (already discussed in Part H of the 2017 Financial Statements), on the unsecured loans from the Bank, which may be extended by MARINELLA S.p.A. IN LIQUIDAZIONE by up to 36 months should the residual debt to the Bank at the expiry of the 24 months be less than EUR 5 mln. The transaction, which amounts to EUR 22.8 mln, falls within the scope of application of Consob Regulation no. 17221/2010 as MARINELLA S.p.A.



IN LIQUIDAZIONE is subject to joint control by the Bank which holds a 25% direct stake in it and TENUTA DI MARINELLA SOCIETÀ AGRICOLA A R.L. IN LIQUIDAZIONE is wholly owned by MARINELLA S.p.A. IN LIQUIDAZIONE.

- On 25 May 2018 the Manager of the Loan Disbursement Service authorised, with respect to AXA MPS ASSICURAZIONI VITA S.p.A., the confirmation of ordinary credit facilities of EUR 23 mln of which (i) EUR 20 mln as current account overdraft facilities and (ii) EUR 3 mln as credit facility to be used for the issue of financial and commercial guarantees of a duration no longer than 60 months. The transaction falls within the scope of application of Consob Regulation no. 17221/2010 since AXA MPS ASSICURAZIONI VITA S.p.A. is a related party of the Bank, as a result of the joint control exercised by the Bank in accordance with the joint venture relationship in place between the Bank and AXA S.A.

August 2018

- On 2 August 2018, the Board of Directors, upon prior favourable opinion by the Board of Statutory Auditors and the Related-Party Transactions Committee, resolved to reduce the credit lines granted to LEONARDO S.p.A. from EUR 660 mln to EUR 310 mln, as outlined below: (i) mixed credit facility, down from EUR 200 mln to EUR 180 mln; (ii) credit line usable for the issue of sureties, down from EUR 450 mln to EUR 120 mln; (iii) credit line for interest and exchange rate risk hedging transactions, confirming the amount of EUR 10 mln. The reduction in credit lines granted to LEONARDO S.p.A. was resolved in order to recover from exceeding of the regulatory limits with respect to connected Bankit Parties and the internal operating limits. As this is a significant transaction, with the total amount of the resolution exceeding the threshold of 5% of the consolidated regulatory capital, on 17 September 2018 the relative Disclosure was made, pursuant to art. 5 of Consob Regulation no. 17221/2010 and in accordance with Annex 4 of said Regulation. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, as LEONARDO S.p.A. is subject to control by the MEF, controlling shareholder of the Bank.
- On 8 August 2018, the Specialised Corporate Disbursement Service resolved, with respect to SAIPEM S.p.A., cancellation of the credit lines relative to a multi-borrower pool loan settled in advance and no longer existent, granted for EUR 43.3 mln and EUR 48 mln, with maturity 10 December 2020. The transaction falls within the scope of related parties, pursuant to Consob Regulation no. 17221/2010, as SAIPEM S.p.A. is indirectly controlled, via ENI S.p.A. and CDP EQUITY S.p.A., by the MEF, controlling shareholder of the Bank.
- On 9 August 2018, the Credit and Credit Policies Committee authorised, with respect to VALVITALIA S.p.A., confirmation of the credit lines granted for a total amount of EUR 38.5 mln, as part of the ordinary review of the position. The transaction falls within the scope of related parties, pursuant to Consob Regulation no. 17221/2010, as VALVITALIA S.p.A. is controlled by VALVITALIA FINANZIARIA S.p.A., which is subject to indirect control by CASSA DEPOSITI E PRESTITI S.p.A., in turn controlled by the MEF, controlling shareholder of the Bank.

September 2018

- On 6 September 2018, the Board of Directors authorised the early termination of the consumer loan securitisation transactions, through the entire repurchase by the Bank of the portfolio of securitised loans of SIENA CONSUMER S.r.l. and SIENA CONSUMER 2015 S.r.l., up to the maximum amount of residual debt of the outstanding portfolio. The transactions were respectively completed on 30 October 2018 with regard to SIENA CONSUMER S.r.l. for EUR 90.3 mln and 20 November 2018 with regard to SIENA CONSUMER 2015 S.r.l. for EUR



135.9 mln. Both transactions fall within the scope of application of Consob Regulation no. 17221/2010, as SIENA CONSUMER S.r.l. and SIENA CONSUMER 2015 S.r.l. are subject to de facto control by the Bank.

October 2018

- On 19 October 2018, the Performing Loans Department, with regard to the guarantee contract relative to the Buyers' Credit granted in favour of ZOZIK LLC for EUR 22.4 mln, as per above resolution of 28 March 2018, authorised formalisation of an Addendum to the SACE guarantee contract and suspension of the terms for enforcement of the guarantee itself until the new maximum deadline of 31 January 2019, provided that CASSA DEPOSITI E PRESTITI S.p.A. accepts suspension of the amortisation instalments as envisaged and due by the Bank. Although ZOZIK LLC is not a related party of the Bank, the transaction falls within the scope of application of Consob Regulation no. 17221/2010, as the operation is financed through funds made available by CASSA DEPOSITI E PRESTITI S.p.A. and guaranteed by SACE, both subsidiaries of the MEF, which is in turn a controlling shareholder of the Bank.

November 2018

- On 6 November 2018, the Credit Committee, in accordance with the initiative that began in 2017, resolved in favour of CASSA DEPOSITI E PRESTITI S.p.A., as part of the ABI-CDP agreement "Plafond moratoria Sisma Centro Italia" to establish a credit pool for EUR 60 mln, used as the maximum amount for individual loans to customers, valid up to 30 June 2019. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, as CASSA DEPOSITI E PRESTITI S.p.A. is a direct subsidiary of the MEF, controlling shareholder of the Bank.
- On 9 November 2018, the Board of Directors approved: (i) early completion of the securitisation transaction through repurchase by the Bank from SIENA PMI 2015 S.r.l. of the securitised portfolio held by the vehicle up to the maximum residual debt amount of the outstanding portfolio, completed on 12 December 2018 for EUR 862.9 mln, as well as (ii) realisation, for the loans transferred, of a new securitisation transaction, aimed at placement on the market and/or subscription by the Bank. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, as SIENA PMI 2015 S.r.l. is subject to de facto control by the Bank.
- On 27 November 2018, the Territorial Markets Disbursement Service authorised, in favour of CONSIP S.p.A. an ordinary current account credit facility for EUR 10 mln. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, as CONSIP S.p.A. is subject to total control by the MEF, which is in turn controlling shareholder of the Bank.
- On 29 November 2018, the Board of Directors, upon favourable opinion by the Related-Party Transactions Committee, resolved the adoption of a SACE 2018 Framework Agreement, increasing the amount from EUR 300 mln to EUR 500 mln, compared to the prior SACE 2017 Framework Agreement, expired on 6 November 2018 (commented in Part H of the Financial Statements as at 31 December 2017). The transaction aimed to complete the loans and credit facilities assisted by SACE S.p.A. guarantees up to the maximum amount of EUR 500 mln, with validity to 28 November 2019. This Framework Agreement is to be considered valid for all insurance policies and guarantees received by the Bank, as well as for MPS *CAPITAL SERVICES BANCA PER LE IMPRESE* S.p.A. and MPS *LEASING & FACTORING* S.p.A. As this is a significant transaction, with the total amount exceeding the threshold of 5% of the consolidated regulatory capital, on 6 December 2018 the relative Disclosure was made, pursuant to art. 5 of Consob Regulation no. 17221/2010 and in accordance with Annex 4 of said Regulation, as well as pursuant to paragraph 4.6 of the Group Directive in effect. The transaction



falls within those governed by Consob Regulation no. 17221/2010, as SACE S.p.A. is an indirect subsidiary of the MEF, in turn controlling shareholder of the Bank.

- On 29 November 2018, the Board of Directors, given the need to fulfil the commitment assumed with DG COMP in regard to closure of the London Branch, resolved with respect to PERIMETRO GESTIONE PROPRIETÀ IMMOBILIARI S.c.p.A.: (i) cancellation of the pledge for EUR 1 bn, established pursuant to English law ("Deed of Charge") in favour of the Bank, on the deposit held by the same PERIMETRO S.c.p.A. at the aforementioned London Branch, as well as (ii) establishment in favour of the Bank of a pledge for the same amount, pursuant to Italian law, following transfer of the deposit account to the Bank's Italian branch. The transaction falls within the scope of related parties, pursuant to Consob Regulation no. 17221/2010, as PERIMETRO S.c.p.A. is wholly controlled, directly and indirectly, by the Bank.
- On 29 November 2018, the Specialised Corporate Disbursement Service resolved, with respect to GME - GESTORE DEI MERCATI ENERGETICI S.p.A., cancellation of the credit line of EUR 10 mln. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, as GME - GESTORE DEI MERCATI ENERGETICI S.p.A. is indirectly controlled by the MEF, which is in turn controlling shareholder of the Bank.
- On 29 November 2018, the Specialised Corporate Disbursement Service resolved, with respect to GESTORE DEI SERVIZI ENERGETICI GSE S.p.A., cancellation of the ordinary credit line of EUR 40 mln and of the mixed credit line of EUR 3 mln for the issuance of sureties. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, as GESTORE DEI SERVIZI ENERGETICI GSE S.p.A. is subject to total control by the MEF, which is in turn controlling shareholder of the Bank.
- Lastly, on 29 November 2018, the Specialised Corporate Disbursement Service resolved, with respect to ACQUIRENTE UNICO S.p.A., cancellation of the ordinary credit line of EUR 5 mln and of the ordinary credit line of EUR 30 mln for the issuance of sureties. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, as ACQUIRENTE UNICO S.p.A. is controlled by GESTORE DEI SERVIZI ENERGETICI GSE S.p.A., which is in turn subject to total control by the MEF, which is controlling shareholder of the Bank.

December 2018

- On 12 December 2018, the Specialised Corporate Disbursement Service resolved, with respect to TERNA RETE ELETTRICA NAZIONALE S.p.A., cancellation of the ordinary credit line of EUR 50 mln. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, as TERNA RETE ELETTRICA NAZIONALE S.p.A. is indirectly controlled by CASSA DEPOSITI E PRESTITI S.p.A., which is in turn a direct subsidiary of the MEF, controlling shareholder of the Bank.
- Following the resolution of 19 October 2018 commented above, on 14 December 2018, the Performing Loans Department authorised, with respect to ZOZIK LLC, and with favourable opinion by the Related-Party Transactions Committee, restructuring of the amortisation plan on the loan of EUR 21.8 mln, through repayment of 10 increasing instalments of principal, with a two-year extension of the expiry of the last instalment, provided that all guarantors and CASSA DEPOSITI E PRESTITI S.p.A. approve the same changes, keeping the guarantee structure unchanged, as well as the transaction funding and profit margin. Although ZOZIK LLC is not a related party of the Bank, the transaction falls within the scope of application of Consob Regulation no. 17221/2010, as the operation is financed through funds made available by CASSA DEPOSITI E PRESTITI S.p.A. and guaranteed by SACE, both subsidiaries of the MEF, which is in turn a controlling shareholder of the Bank.



- On 18 December 2018, the Board of Directors, with the prior favourable opinion of the Related-Party Transactions Committee, approved with respect to CASSA DEPOSITI E PRESTITI S.p.A.: (i) the CDP 2018 Framework Agreement, involving the Bank's acquisition of financial resources, with funding made available by CDP as part of the agreements stipulated between the CDP and ABI, in which the Bank participated - to be allocated to customers under the economic support initiatives envisaged by said CDP/ABI agreements - up to a maximum cumulative amount of EUR 1 bn, valid from 18 December 2018 until 17 December 2019. Where envisaged by the Agreements, the Framework Agreement is valid at Parent Company level, even for MPS CAPITAL SERVICES BANCA PER LE IMPRESE S.p.A. and MPS LEASING & FACTORING S.p.A. As this is a significant transaction, with the total amount of the Framework Agreement exceeding the threshold of 5% of the consolidated regulatory capital, on 21 December 2018 the relative Disclosure was made, pursuant to art. 5 of Consob Regulation no. 17221/2010 and in accordance with Annex 4 of said Regulation, as well as pursuant to paragraph 4.6 of the Group Directive in effect. The transaction falls among those governed by Consob Regulation no. 17221/2010, as CASSA DEPOSITI E PRESTITI S.p.A. is a direct subsidiary of the MEF, controlling shareholder of the Bank.
- Also on 18 December 2018, the Specialised Corporate Disbursement Service resolved, with respect to RAI - RADIOTELEVISIONE ITALIANA S.p.A., cancellation of the mixed credit line of EUR 22 mln. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, as RAI - RADIOTELEVISIONE ITALIANA is directly controlled by the MEF, which is in turn controlling shareholder of the Bank.

Pursuant to art. 14, paragraph 2 of Consob Regulation no. 17221/2010 and to paragraph 3.3 of the Group Directive adopted by the Bank, it should be noted that in 2018 the Bank's Board of Directors approved the following transactions with subsidiaries.

September 2018

- On 6 September 2018, the Board of Directors, as part of the so-called "Chianti Classico" restructuring agreement aimed at dismantling the "Casaforte" securitisation and at the merger by incorporation of PERIMETRO GESTIONE PROPRIETÀ IMMOBILIARI S.c.p.A. into BMPS, based on the commitments made ("Commitment") with respect to DG Comp, resolved, upon favourable opinion of the Related-Party Transactions Committee: (i) the purchase from MPS CAPITAL SERVICES BANCA PER LE IMPRESE S.p.A. of class A and class B ABS issued by CASAFORTE and held by MPS CAPITAL SERVICES BANCA PER LE IMPRESE S.p.A., as well as (ii) the purchase of class A ABS, which MPS CAPITAL SERVICES BANCA PER LE IMPRESE S.p.A. should have subsequently repurchased from customers in exercising its role of market maker. In 2018, repurchase transactions were carried out for a total of EUR 993.8 mln and fall under the scope of application of Consob Regulation no. 17221/2010, as MPS CAPITAL SERVICES BANCA PER LE IMPRESE S.p.A. is a subsidiary of the Bank. As this is a significant transaction, with the total amount exceeding the threshold of 5% of the consolidated regulatory capital, on 28 September 2018 the relative Disclosure was made, pursuant to art. 5 of Consob Regulation no. 17221/2010 and in accordance with Annex 4 of said Regulation.

**October 2018**

- On 18 October 2018, the Board of Directors resolved to confirm granting of power of attorney to the Chief Executive Officer, with the power to sub-delegate, negotiate, define and sign, pursuant to art. 58 of the Consolidated Law on Banking no. 385/1993, contracts for the assignment of the second of three waves of migration of customers of the Bank to wholly-owned subsidiary WISE DIALOG BANK S.p.A., as well as any ulterior waves involved in the transaction. This is the so-called “Progetto Rondine”, regarding the migration of retail customers of the Bank, comprising approximately 500,000 customers with total assets of around EUR 2,008 mln as at 30 June 2017. On 19 October, the public transfer deed for the assignment of current account and mortgage relationships was completed, to which 2 subsequent revisions of the assignment perimeter were made; the final total amount was calculated at EUR 34.8 mln, corresponding to the average value in the range determined by an appraisal conducted by an independent party.

November 2018

- On 9 November 2018, the Board of Directors resolved to confirm the increase in ordinary credit lines from EUR 147 mln to EUR 272 mln for the 100%-owned subsidiary WISE DIALOG BANK S.p.A.



The following tables summarise the relationships and economic effects of transactions carried out in the period with subsidiaries and joint ventures, associates and key management personnel and other related parties as at 31 December 2018.

The “MEF Scope” column highlights the balances¹²[1] of the balance sheet and income statement items as at 31 December 2018 relating to the transactions carried out with the MEF and the companies controlled by the MEF, namely companies controlled directly or indirectly by the MEF and their associates.

2.a Related-party transactions: balance sheet items

	Value as at 31 12 2018							% on balance sheet
	Non-consolidated Subsidiaries	joint venture	Associated companies	Executives with strategic responsibility	other related parties	government-related entities	Total	
Financial assets held for trading	331,439	-	29	-	-	102,447	433,915	54.20%
Financial assets measured at fair value mandatory	1,158,239	-	66,013	-	-	39,509	1,263,761	72.15%
Loans to banks measured at amortised cost	19,783,538	-	-	-	-	-	19,783,538	68.61%
Loans to customers measured at amortised cost	1,879,909	65,888	350,359	2,838	1,314	4,628,633	6,928,941	9.52%
Other assets	101,082	-	7	-	-	-	101,089	5.85%
Total assets	23,254,207	65,888	416,408	2,838	1,314	14,299,537	38,040,192	-
Financial liabilities measured at amortised cost	8,749,749	3,041	289,296	2,721	42,546	3,109,133	12,196,486	11.11%
Financial liabilities held for trading	348,666	-	-	-	-	33	348,699	55.97%
Financial liabilities designated at fair value	111,671	-	-	-	-	-	111,671	30.17%
Other liabilities	534,699	1,706	1,723	-	-	-	538,128	16.20%
Total liabilities	9,744,785	4,747	291,019	2,721	42,546	3,109,166	13,194,984	
Guaranties issued and Commitments	4,058,012	38,519	153,493	151	119	1,587,238	5,837,532	n.a.

¹² The criteria to fill out the two tables are different from those of the European Securities and Markets Authority (ESMA) used for the table “Exposure to sovereign debt risk”.

**2.b Related-party transactions: income statement items**

	Value as at 31 12 2018						Total	% balance sheet
	Non-consolidated Subsidiaries	joint venture	Associated companies	Executives with strategic responsibility	other related parties	government-related entities		
Interest income and similar revenues	198,375	1,332	5,495	35	25,330	233,526	464,093	21.22%
Interest costs and similar charges	133,646	-	(205)	(2)	(41)	(32,807)	(166,701)	25.08%
Fee and commission income	29,140	625	197,190	9	288	178,173	405,425	24.40%
Fee and commission expense	3,473	(15)	(672)	(1)	(5)	(96,133)	(100,299)	53.39%
Net profit (loss) from financial assets and liabilities	(45,152)	-	(3,930)	-	(27,766)	-	(76,848)	68.22%
Net adjustments/impairments	(2,617)	37	8,984	-	(240)	(6,729)	(565)	0.10%
Dividend	120	-	89,120	-	-	1,106	90,346	91.00%
Operating costs	(298,320)	-	(34,333)	(8,543)	(4,872)	(25,922)	(371,990)	14.05%

For the list of subsidiaries and companies subject to significant control as at 31 December 2018, see the tables of the Notes to the financial statements - Part B - Information on the balance sheet - Section 7. The securitisation transactions are described in Part E of the Notes to the financial statements.

Intragroup transactions mainly regarded:

- financial support by the Bank to other companies, in the form of deposits as well as repurchase transactions;
- structured finance transactions through subsidiary MPS Capital Services;
- outsourcing services relative to the auxiliary activities provided by the Bank (administrative services and property administration) and by the Consorzio Operativo di Gruppo (IT services).

With regard to the balances shown in Table 2.b “Related-party transactions: income statement items” shown above, please note the following:

- fee and commission income from associates almost entirely regards the contract with Axa Vita and Axa Danni;
- the net profit (loss) from other assets and liabilities measured at fair value through profit and loss, the capital loss from fair value changes in the equity instruments of Perimetro S.C.p.A. for EUR 102.7 mln, the gain on Casaforte securities for EUR 58.0 mln, as well as the loss on the sale of the Generali subordinated security for EUR 27.8 mln. In addition, interest income accrued on the General subordinated security for EUR 23.2 mln;
- net impairment (losses)/reversals for credit risk include the adjustment of Sansedoni for EUR 3.8 mln and the reversal on Sorigenia Group for EUR 11.7 mln; The related risk provision amounts to EUR 117.6 mln, interest income accrued on Sorigenia Group amounts to EUR 4.5 mln;
- provisions on non-performing positions as at 31 December 2018 total EUR 175.8 mln;
- dividends on investments in associates regard AXA, G.Imm.Astor, Minibond, Fondo Socrate and Fondo Etrusco.

As shown in Part C of these Notes to the financial statements, reversals were recognised during the year on MPS Belgio, for EUR 34.6 mln, and MPS Banque, for EUR 34.0 mln. Furthermore, the following subsidiaries were written down: MPS Capital Services (EUR -169.0 mln), MPS Leasing & Factoring (EUR -265.1 mln), and MPS LCC (EUR -10.0 mln).

With regard to the MEF scope, the following is noted:

- financial assets predominantly comprise government bonds, which generated interest income for EUR 233.5 mln;
- fee and commission expense against the guarantee granted by the government on securities amount to EUR 95.9 mln, while fee and commission income refer to the contract with Anima (associate for the MEF scope);
- net impairment (losses)/reversals for credit risk include the write-downs on Trevi Finanziaria Industriale and Bonafous Spa, as well as write-downs on government bonds for EUR 2.8 mln. Moreover, note the reversal on the exposure with Quadrifoglio Modena;
- dividends collected totalling EUR 1.1 mln were distributed by Istituto del Credito Sportivo and Toscana Energia.



Part I – Share-Based Payment Agreements



Qualitative Information

Description of share-based payment agreements

To pursue the objective of encouraging alignments of the interests of management with those of shareholders, Supervisory Provisions on pay and incentive policies and practices establish that at least 50% of variable remuneration provided to “key employees” should be paid in the form of shares or associated financial instruments over a period of at least 3-5 years. “Variable remuneration” refers to variable performance-linked components as well as incentives paid for the early termination of the employment relationship exceeding the amount due by law (“severance”).

In accordance with the aforementioned regulatory provisions, the Montepaschi Group adopted annual Performance Shares plans up to financial year 2017. In the session of 12 April 2018, the Shareholders’ Meeting of the Bank approved a Treasury Shares plan for 2018, designated exclusively to the payment of any severance for personnel of the Montepaschi Group. The content and operating methods of said plans are contained in the “Remuneration policies” published on the Bank’s internet site <https://www.gruppomps.it/corporate-governance/remunerazione.html>.

Not envisaging the material assignment of shares, but rather the payment of an amount pegged to the share value reported over time, the payment of performance shares for the Plans up to 2017 as well as that of treasury shares pursuant to the 2018 Plan are considered for accounting purposes as cash-settled share-based payments, pursuant to IFRS 2 “Share-based payments”. The corresponding cost is accounted for at the end of the year of service, calculating the best estimate of the amount due in consideration of the different conditions established by the plans, valued with regard to the fair value of the shares assigned from year to year and the Bank’s share value.

The fair value of the Performance Shares and of the treasury shares assigned is determined - pursuant to art. 9, paragraph 4 of the Income Tax Act (TUIR) - on the basis of the arithmetic average of the MPS share prices reported in the thirty days leading up to the assignment date.

Quantitative Information

The Plan approved in 2018 was not used during the course of the year, as occurred for the Plan approved in 2017.

With regard to the 2016 Plan, during the course of 2018, a total of 21,870 shares assigned up-front were settled; of the original 32,806 deferred shares, 5,340 were settled and 1,220 following application of the *malus* conditions; therefore, 26,246 Performance Shares were recognised. Of these, 6,560 were assigned and will be settled during 2019, while the remainder will be assigned annually - subject to the verification of pre-established *malus* conditions - over a five-year period and settled one year after the relative assignments.



Part L – Segment reporting

In line with the provisions of IFRS 8, par. 4, the Bank prepares this segment reporting at Group level in the Notes to the Consolidated Financial Statements, to which reference is made.



CERTIFICATION OF THE FINANCIAL STATEMENTS PURSUANT TO ART. 81-TER OF CONSOB REGULATION NO. 11971 OF 14 MAY 1999, AS SUBSEQUENTLY AMENDED AND SUPPLEMENTED

1. The undersigned, Stefania Bariatti, as Chairman of the Board of Directors, and Nicola Massimo Clarelli, as Financial Reporting Officer, of Banca Monte dei Paschi di Siena S.p.A., having regard to article 154-bis, paragraphs 3 and 4 of Italian Legislative Decree no. 58 of 24 February 1998, do hereby certify the:

- appropriateness with respect to the company's profile, and
- effective application of the administrative and accounting procedures used in the preparation of the financial statements for fiscal year 2018.

2. The verification of the adequacy and actual application of administrative and accounting procedures for the preparation of the financial statements during 2018 was based on methods set out by the MPS Group in line with the COSO model, and for the IT component, COBIT, which constitute the reference framework for the internal control system generally accepted internationally.

3. It is also certified that:

3.1 the financial statements:

- were prepared in accordance with the international accounting standards recognised by the European Union pursuant to European Parliament and Council Regulation No. 1606/2002/EC of 19 July 2002;
- are consistent with the underlying documentary evidence and accounting records;
- are suitable to provide a true and fair representation of the capital, economic and financial situation of the issuer.

3.2 the Report on Operations includes a reliable analysis of the trends and results of operations as well as of the position of the issuer, together with a description of the main risks and uncertainties to which it is exposed.

Siena, 28 February 2019

Signed by
On behalf of the Board of Directors
The Chairman
Stefania Bariatti

Signed by
The Financial Reporting
Officer
Nicola Massimo Clarelli



Independent Auditors' report on the financial statements

Independent auditor's report
in accordance with article 14 of Legislative Decree n. 39, dated
January 27, 2010 and article 10 of EU Regulation n. 537/2014
(Translation from the original Italian text)

To the Shareholders of
Banca Monte dei Paschi di Siena S.p.A.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Banca Monte dei Paschi di Siena S.p.A. (the "Company" or "Bank"), which comprise the balance sheet as at December 31, 2018, the income statement, the statement of comprehensive income, the statement of changes in equity, the cash flows statement for the year then ended and the notes to the financial statements.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at December 31, 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union as well as with the regulations issued for implementing art. 9 of Legislative Decree n. 38, dated February 28, 2005 and art. 43 of Legislative Decree n. 136, dated August 18, 2015.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the Company in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

We draw attention to the matters described by the directors in relation to the implementation of the actions envisaged in the 2017-2021 Restructuring Plan and the updated management projection related to the Group's forecasted income statement and balance sheet, included in the report on operations and in the paragraph "Going concern" of the notes to the financial statements. Our opinion is not modified in respect of these matters.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We identified the following key audit matters:

Key Audit Matter	Audit Response
<p>Impacts related to the first time application of the International Financial Reporting Standard 9 "Financial instruments"</p> <p>On January 1, 2018 the International Financial Reporting Standard 9, endorsed by European Commission on November 22, 2016 with the Regulation no 2016/2067 (the "Standard" or "IFRS 9") became effective, replacing the standard IAS 39 in relation to the classification and measurement of the financial instruments.</p> <p>As required by IAS 8 "Accounting policies, changes in accounting estimates and errors" and in accordance with the first time application approach envisaged by IFRS 9, the Bank accounted for in the opening balances the cumulative effects derived from the transition to the new Standard, for an amount of Euro 965 million.</p> <p>Moreover, the Bank has exercised the option foreseen by the Standard to not restate the comparative data.</p> <p>The IFRS 9 first time application constituted a relevant aspect for the audit both because the impacts on financial figures have been significant for the financial statements as a whole and for the significant implementation related to processes, procedures, controls, methodologies and IT systems made by the Bank.</p> <p>The disclosure on the effects of the first time application is provided by the directors within the paragraph "Disclosure on first-time application of IFRS 9 – Financial instruments" included in the notes to the financial statements.</p>	<p>In relation to these matters, our audit procedures included, among other:</p> <ul style="list-style-type: none"> • understanding and analysis of the main accounting and implementing choices made by the Bank in relation to the classification, valuation and impairment of the financial instruments, also through the analysis of the new accounting and operational policies; • understanding and analysis, also with the support of our specialists in risk management, valuations of financial instruments, disposal of non performing loans and IT systems, of the processes and controls implemented in relation to the IFRS 9 first time application and the execution of compliance procedures on key controls, including those relating to IT; • understanding of the modalities of determination by the Bank of the first time application impacts, including those related to tax effects, and performing substantive procedures aimed at verifying their consistency with the requirements of the Standard; • analysis of the determination of the impacts related to the implementation of the disposal plans of non performing loans envisaged in the 2017-2021 Restructuring Plan; • analysis of the adequacy of the disclosure provided in the notes to the financial statements.

Key Audit Matter	Audit Response
<p>Classification and valuation of loans to customers</p> <p>Loans to customers measured at amortised cost, the amount of which is shown in item 40 b) of the balance sheet, represent, as at 31 December 31, 2018, the 58% of the total assets.</p> <p>The process of classifying loans to customers in the various risk categories and measuring them is relevant for the audit because the value of loans is significant for the financial statements as a whole and because the value of the related impairment losses is determined by the directors through the use of estimates that have a high degree of subjectivity.</p> <p>Among these, the following are particularly relevant: the identification of objective evidence of impairment of the loans, the recoverable amount of the collateral acquired, the determination of expected cash flows and their timing of collection, the costs expected to be incurred for the collection of the loans, the probability of disposal and related cash flows, for those loans for which there is a disposal plan. Furthermore, as regards to the statistical evaluations: the definition of homogeneous loan categories in terms of credit risk, the determination of the probability of default ("PD") and the related estimated loss (Loss Given Default - "LGD"), based on historical data observation for each risk class and on forward looking information, including macroeconomic factors, and the determination of significant risk increase parameters for the classification among the various reference stage.</p> <p>Information on the classification and measurement of loans to customers is provided by the directors within Part A – Accounting policies of the notes to the financial statements.</p>	<p>In relation to these aspects, our audit procedures included, among other:</p> <ul style="list-style-type: none"> • understanding of the policies, processes and controls implemented by the Bank in relation to the classification and measurement of loans to customers and performing compliance procedures on the key controls, including those relating to IT; • performing substantive procedures aimed at verifying the correct classification and measurement of credit positions also considering, for certain non performing loan portfolios for which there is a disposal plan, the related probability of disposal and the cash flow expected from the disposal; • understanding, also with the support of our risk management and information systems specialists, of the methodology used in relation to statistical evaluations and the reasonableness of the assumptions adopted also to consider the forward looking information in the parameter of PD, LGD and Exposure at Default ("EAD) as well as the performing of test of controls and substantive procedures, aimed at the verification of the accurate determination of the PD, LGD and EAD parameters, relevant for the purpose of determining the impairment losses; • performing procedures for the comparative analysis of the portfolio of loans to customers and the related coverage levels, and analysis of the most significant deviations, also considering the effects from IFRS 9 first time application; • analysis of the disposals occurred in the year, also through securitization transactions, and of the related conditions for the derecognition; • analysis of the adequacy of the disclosure provided in the notes to the financial statements.

Key Audit Matter	Audit Response
<p>Recoverability of deferred tax assets</p> <p>As at December 31, 2018, the Bank recorded under item 100 of the balance sheet "Tax assets" Euro 1,881 million of deferred tax assets ("DTA") attributable to tax losses and other deductible temporary differences, the recoverability of which depends on the availability of future taxable income.</p> <p>The valuation of the recoverability these assets (known as "probability test", required by the international accounting standard IAS 12) is a relevant matter for the audit because their value is significant to the financial statements as a whole, and because the valuation is based on a model that provides for the use of assumptions and estimates that have a high degree of subjectivity.</p> <p>Among these, particularly relevant are those related to:</p> <ul style="list-style-type: none"> • estimation of taxable income, which is presumed to occur during the time period considered for the recovery of the DTAs, on the basis of the management projection related to the Bank's forecasted income statement and balance sheet and the additional assumptions in relation to their projection in the future, the growth rates used and the probability of occurrence of the same; • length of the foreseeable time frame for the recovery of the DTAs; • correct interpretation of the applicable tax legislation. <p>The disclosure of the assessments made by directors in relation to the recoverability of deferred tax assets is included in paragraph 10.7 of Part B – Information on the balance sheet of the notes to the financial statements.</p>	<p>In relation to these matters, our audit procedures included, among other:</p> <ul style="list-style-type: none"> • understanding of the Bank's policy, process and controls in relation to the assessment of the recoverability of the DTAs; • analysis, also with the support of our specialists in business valuations, of the management projection related to the Bank's forecasted income statement and balance sheet and of the additional assumption used for the purpose of estimating the results useful for the determination of taxable income; • analysis, also with the support of our tax experts, of the reasonableness of the assumptions and the parameters used for the development of the probability test based on the tax legislation applicable to the different types of temporary deductible differences; • performing substantive procedures on the completeness and accuracy of the data used to determine the future taxable income included in the probability test; • analysis of the adequacy of the disclosure provided in the notes to the financial statements.

Key Audit Matter	Audit Response
<p>Evaluation of legal and litigation risks</p> <p>The legal risks and litigation assessment process, carried out by the Bank with the support of its legal advisors, is a relevant aspect for the audit because of their significant value and because the estimate of the related charges requires the directors to make use of estimates that present a high degree of subjectivity.</p> <p>Information regarding significant civil, criminal and administrative litigations, in which the Bank is involved as well as in relation to other legal risks are provided by the directors in Part E - Information on risks and hedging policies explanatory.</p>	<p>In relation to these matters, our audit procedures included, among other:</p> <ul style="list-style-type: none"> • understanding of the Bank's policies, process and controls in relation to the assessment of legal and litigation risks; • obtaining written confirmation from the Bank's legal advisors, of their assessment of the evolution of existing disputes and the risk of losing the case; • analysis, also with the support of our legal experts, of the reasonableness of the assumptions used to estimate the provisions made as well as the conclusion reported in the opinion and analysis prepared by the experts engaged by the directors; • performing substantive procedures on the completeness and accuracy of the data used to determine the provisions for risks; • analysis of the adequacy of the disclosure provided in the notes to the financial statements.

Responsibilities of directors and Those Charged with Governance for the Financial Statements

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38, dated February 28, 2005 and art. 43 of Legislative Decree n. 136, dated August 18, 2015, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error; have designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- we have concluded on the appropriateness of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;

- we have evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholders of Banca Monte dei Paschi di Siena S.p.A., in the general meeting held on April 21, 2011, engaged us to perform the audits of the financial statements of each year ending from December 31, 2011 to December 31, 2019.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements included in this report is consistent with the content of the additional report to the audit committee (Collegio Sindacale) in their capacity as audit committee, prepared in accordance with article 11 of the EU Regulation n. 537/2014.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated January 27, 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated February 24, 1998

The directors of Banca Monte dei Paschi di Siena S.p.A. are responsible for the preparation of the Report on Operations and of the Report on Corporate Governance and Ownership Structure of Banca Monte dei Paschi di Siena S.p.A. as at December 31, 2018, including their consistency with the related financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated February 24, 1998, with the financial statements of Banca Monte dei Paschi di Siena S.p.A. as at December 31, 2018 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operations and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the financial statements

of Banca Monte dei Paschi di Siena S.p.A. as at December 31, 2018 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated January 27, 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Rome, March 15, 2019

EY S.p.A.

Signed by: Francesco Chiulli, partner

This report has been translated into the English language solely for the convenience of international readers.



Report of the board of statutory auditors

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING CALLED TO APPROVE THE SEPARATE FINANCIAL STATEMENTS OF BANCA MONTE DEI PASCHI DI SIENA SPA CLOSED AS AT 31 DECEMBER 2018, DRAFTED PURSUANT TO ART. 2429, PARA. 3 OF THE ITALIAN CIVIL CODE AND ART. 153, PARA. 1 OF ITALIAN LEGISLATIVE DECREE NO. 58 OF 24 FEBRUARY 1998

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CONCLUSIONS



Dear Shareholders,

Your Bank has worked throughout 2018 in a reference macroeconomic scenario that, in contrast to initial forecasts, demonstrated elements of a certain deterioration.

However, the Company continued to implement the Restructuring Plan approved by the European Commission on 4 July 2017, at the same time confirming its presence on the market, consolidating a satisfactory level of commercial funding, further optimising the structure of operating costs, as well as completing significant operations to reduce the stock of non-performing loans and substantial de-risking actions.

The Group's consolidated profit at 31 December 2018 amounted to EUR 278.6 mln, while consolidated shareholders' equity was EUR 8,992.0 mln, net of profit and equity of non-controlling interests, respectively, of EUR 89.5 thousand and EUR 2.2 mln.

The separate financial statements show a loss for the year of EUR 111.9 mln, mostly due to write-downs on certain equity investments and shareholders' equity of EUR 8,312.1 mln.

* * *

On 9 May 2018, the Alternate Auditor, Ms. Carmela Regina Silvestri, resigned from office. In this matter, in a separate agenda item for the Ordinary Shareholders' Meeting called for 11 April 2019, a replacement is proposed.

* * *

With this Report, the Board of Statutory Auditors provides information, pursuant to the law and in accordance with the instructions set forth in Consob Communication no. 1025564 of 6 April 2001 and subsequent amendments.

1. Activities of the Board of Statutory Auditors and working methodology

The Board of Statutory Auditors has fulfilled its institutional duty, holding a total of 71 meetings, duly convened and constituted. It also participated in all of the 23 meetings of the Board of Directors and internal Board committees, operating according to the relevant regulations.

For the Board of Directors meetings, the Statutory Auditors were able to review the reports containing the mandatory quarterly information, required by law and the By-Laws.

This Board, in parallel with the monitoring performed by the Board of Directors in executing the 2017-2021 Restructuring Plan, continued its analyses aimed at reviewing the principal actions provided for in the plan, in addition to carrying out specific in-depth analyses with Top Management on performance in achieving the established objectives, developing a dynamic of constant and productive dialogue within the respective areas of responsibility.

When expressly indicated by regulations, the required opinions were issued. In addition, specific certifications were provided on issues requested by various supervisory authorities, both domestic and European, as well as various assessments and observations (see chapter 1.2).

The Board of Statutory Auditors periodically received information flows from the control functions that were thoroughly examined during its meetings, in which the heads of those functions usually participated, to ensure a more detailed analysis of the topics addressed therein. In addition, appropriately frequent meetings were held with executives of the Bank's other head units, both to more directly present any areas for improvement that may arise at any given time from the performance of supervisory activities by the Board of Statutory Auditors, as well as to be able to receive confirmation from the executives that the agreed improvement/corrective measures have been implemented, each within their area of responsibility.

Specific in-depth analyses were conducted on the significant issues that affected the Bank and Group during the year, both in relation to specific events that exposed the Company to operational or regulatory risks and to the intervening entry into force of sector regulations with substantial organisational impacts.

In addition, direct audits were carried out on the Italian Network, which is reported in greater detail later in this Report.

The minutes of the Board of Statutory Auditors meetings that account for these activities, when containing specific instructions or recommendations for the various Bank units on the different areas addressed, are sent to the attention of the Chairman of the Board of Directors and the Chief Executive Officer/General Manager. These individuals make these documents available to the Directors and, at the same time, to the relevant units to take the necessary initiatives to resolve the critical issues identified.

For aspects falling strictly under the respective responsibilities, the Chairman of the Risk Committee and the Chairman of the Related-Party Transactions Committee also receive reports.

For purposes of monitoring the financial reporting processes, the Board of Statutory Auditors has regularly met with the Independent Auditors, in order to allow the usual exchange of information, as also envisaged in art. 150 of Italian Legislative Decree 58/98.

In this regard, given the upcoming expiration (2019 financial year) of the statutory audit mandate, assigned at the time by the Bank's Shareholder's Meeting to Ernst & Young Spa, the procedure was launched in 2018, under the supervision of this Board of Statutory Auditors, to select the new Independent Auditors for the years 2020-2028, as required by the relevant regulatory provisions. This procedure is described in more detail in the relevant section of this Report (refer to chap. 5).

As envisaged by art. 151 of Italian Legislative Decree 58/1998 (Consolidated Law on Finance) and Bank of Italy's supervisory instructions, specific meetings were held with the Boards of Statutory Auditors of the main Group companies in order to exchange information and, at the same time, receive reports on any critical issues pertaining to the administration



and control systems and the general performance of the business activities of each subsidiary.

Moreover, particular attention was dedicated by the Board to the overall management of IT risk - including following the specific audit conducted on this matter by the ECB (OSI 3832 - refer to chap. 6.2) - in relation to which, on more than one occasion, the need to achieve increasingly sophisticated levels of oversight was reaffirmed, given that threats to the IT system and vulnerabilities that allow them to be exploited can have a negative impact on the Group in terms of economic losses, negative reputational impacts, and loss of market share.

Lastly, specific emphasis was placed on monitoring the commitments made by the Bank with the supervisory authorities, in relation to which the Board has, on several occasions, reiterated the need to assign them the highest priority, in order to achieve prompt compliance within the agreed timing. When requested, the Chairman also met with these authorities for a productive exchange of information on topics of mutual interest, including on specific issues that are described in this Report.

1.1 Result of audit activities carried out directly by the Board of Statutory Auditors

With the assistance of the Chief Audit Executive Department, 13 audits were conducted at the Bank's head and peripheral units. For the latter, the Board of Statutory Auditors made direct visits to the Network units.

The audits that concerned head units enabled a thorough analysis of specific areas referring to (i) supplier management processes, and (ii) the Bank's compliance with the corporate governance guidelines.

With regard to the first area, the objective pursued was to assess the adequacy of operating processes and the effectiveness of the control system in terms of managing expenditures and suppliers. In particular, the audits focused on activities connected with negotiating expenditures for individual supplies and framework agreements, the formalisation and management of agreements, and supplier management.

The regulatory framework governing this activity appeared to be well defined, corroborated by the precise assignment of roles and responsibilities. However, the necessary operational segregation of the functions involved in the process did not always appear to be ensured. In this context, the competent function took immediate action to introduce the appropriate compensatory controls, awaiting the relative changes to the organisational model, which will, in any case, be made presently.

The second audit was aimed at verifying compliance with EBA guidelines on internal governance (EBA/GL/2017/11), published in September 2017 with effective date of 30 June 2018. As is well understood, these guidelines specify the provisions, processes, and mechanisms that credit institutions and investment firms must implement for effective and prudent management of the entity.

From this activity, it emerged that the overall organisational and regulatory structure of Montepaschi Group guarantees an active governance in which, starting from definition of strategies, importance

is placed on strengthening and integrating the system of internal controls and risk governance. Thus, the entire system is designed to continuously pursue compliance with regulatory and self-regulatory requirements, while ensuring compatibility with the Group's risk profile, monitoring the proper implementation and execution of the commitments associated with the 2017-2021 Restructuring Plan, as well as the sustainability for business objectives that are in line with the interests of the various stakeholders.

Furthermore, in the initial months of 2018, two audits were completed which had been scheduled in the previous activity plan (2017 Audit), relating to the "due diligence" processes regarding money laundering and "definition of credit policies".

In particular, the first had the objective of assessing the design, effectiveness and efficiency of the control system, with particular attention to second-level controls, on the management of the customer due diligence obligations for the Bank's Italian Network in relation to AML.

It was determined that certain operational obligations needed to be strengthened or implemented in order to increase their relative effectiveness. In this context, and in collaboration with the first-level control functions, specific initiatives and procedural actions were identified to reduce the number of customers who had not undergone KYC (Know Your Customer) and/or whose KYC is expired, in order to ensure broader coverage in line with market benchmarks by identifying additional macro-cases of active customers for AML purposes.

The second audit activity was aimed at verifying the Network's management and operational adherence to "credit policy" guidelines defined annually at the Group level, the effectiveness of peripheral control mechanisms, and the functionality of the available procedures. The analyses performed confirmed the adequacy of the information flow made available to the Network; in fact, quantitative and qualitative objectives are sent through specific IT applications that enable the commercial initiatives to be fully managed. However, a more effective monitoring of the aggregate of requalification positions must be structured, in order to anticipate any situations of difficulty, overseeing the loan portfolio quality from the perspective of the trade-off between the risk profile assumed and the return levels sought.

The activities carried out in the Italian Peripheral Network had the objective of assessing the overall degree of effectiveness of regional oversight on the proper management of operations, risks and controls, while promoting, at the various levels of regional units, the "risk culture".

In particular, the Board of Statutory Auditors, building on similar activities carried out in previous years, visited the Network directly, continuing the audit programme focused on ascertaining (i) the level of compliance with the rules governing credit origination process, for purposes of correct assumption of risk and monitoring of the overall quality of loans, (ii) compliance with the rules governing operational risks associated with the document management process, and (iii) the degree of adequacy of the system of first-level internal controls on the two processes mentioned above, in addition to a focus on both investment



services (customer protection in the advisory phase) and on placement management (MiFID II).

These audits began in the first half of 2018 and involved a significant sample of units at the Retail Regional Department (DTR) and Private Regional Department (DTP), located within the 5 Regional Areas into which the Bank's operations are divided.

In the second half of the year, this exercise was then repeated at the same units through specific follow-up activities, which showed a decrease in the trend of anomalies for all phases of the process, an overall result carried out in compliance with the rules of sound and prudent risk management. Mitigation measures, including in relation to training, contributed to this result, which had, in the meantime, been put in place by the Bank's competent functions, appropriately raising awareness, including by this Board, on the culture of risk and compliance with regulations and business policies, reinforcing the procedures undertaken to optimise control and monitoring actions.

With regard to the Foreign Network, the activities conducted by local internal auditors during 2018 were aimed at providing assurance on the overall process of suspension/transfer of the operating units. In fact, in line with the commitments indicated by the ECB, effective 31 December 2018, all assets and liabilities of the New York, London and Hong Kong branches have been closed or transferred to Italy, consequently ceasing all relationships with customers of these branches. The work plan envisages that operating activities will conclude in the initial months of 2019.

With specific reference to the Shanghai branch, which is not part of this closing process, the relative activities continued, in line with provisions of Italian and local regulations.

1.2 - Mandatory opinions, observations, determinations and considerations issued by the Board of Statutory Auditors

The Board of Statutory Auditors was asked to express the following mandatory opinions, observations, determinations and considerations, which governing legislation and supervisory provisions assign to its responsibility:

Mandatory opinions:

- remuneration of the Head of the Internal Audit Function;
- audit plan developed by the Audit Function for 2018;
- remuneration to be paid to the members of the various committees within the Board of Directors;
- remuneration to be paid to the Director who is a member of the 231/01 Supervisory Body;
- revocation and appointment of the new Head of the Risk Control Function (Chief Risk Officer Department);
- plan to use treasury shares for severance payments to Montepaschi Group directors and personnel;

- additional assignments, discussed later in this report, granted to the Independent Auditors, pursuant to Regulation (EU) no. 537/14 and Italian Legislative Decree 39/10, amended by Italian Legislative Decree 135/16;
- compliance with requirements for the continuous use of advanced credit risk management systems (AIRB) and operational risk management systems (AMA);
- new system of operational management limits on “associated parties” as an extension of the Group’s Risk Appetite Statement;
- co-optation of a new Director;
- plan aimed at bringing the Leonardo Spa file (“related party”) back within the regulatory limits established by prudential regulations;
- appointment of the new Head of the Compliance Function;
- review of the current procedures (policies) in the area of managing compliance with related parties, associated parties, and the obligations of banking representatives.

Observations/Determinations:

- controls performed by the Compliance, Risk Management and Internal Audit Functions on the provision of investment services with customers.

Considerations:

- centralisation, with resulting outsourcing, of the Internal Audit Function of Consorzio Operativo Gruppo MPS to the Parent Company's Internal Audit Function;
- controls performed by the Internal Audit Function on the outsourced operational functions.

2. Observations on compliance with the principles of proper administration

2.1 - Significant transactions and events

The Report on Operations discusses the most significant transactions and events that occurred during the year. In particular, this report identifies the most important, grouped by topic.

Restructuring Plan

In order to strengthen its capital and in line with the commitments undertaken with the European Commission as part of the 2017-2021 Restructuring Plan, the Bank has implemented, *inter alia*, the following initiatives: (i) bond issues, (ii) asset disposals, (iii) sale of bad loans, and (iv) agreements on human resource management.

The detail relative to each of these is provided below.

» *Bond issues*

- January 2018



- . the Parent Company successfully completed a “Tier 2” fixed-rate subordinated bond issue, with a 10-year maturity, for a total of EUR 750 mln. The bond, issued at par, includes a coupon payment at a fixed rate of 5.375%, equivalent to a spread of 500.5 basis points above the 5-year swap rate. The bond is reserved for institutional investors and is listed on the Luxembourg Stock Exchange;

» *Asset disposals*

- October 2018

- . the Parent Company reached an agreement with an investee of funds managed by Warburg Pincus for the sale of the Belgian subsidiary, Banca Monte Paschi Belgio. The agreement constitutes another stage in the Montepaschi Group's recovery path. The impact on the MPS CET1 is insignificant and has already been included in the projections of the Restructuring Plan.

- November 2018

- . the Parent Company, based on discussions with various counterparties and in relation to the assessments concerning the Bank's IT platform and its management, has selected the Luxembourg Group WRM (with technology partners such as Oracle and TAS) as the single current party for the purpose of investigating whether the conditions exist that could lead the parties to enter negotiations and possibly formalise a binding offer. The Parent Company has specified that in this regard no strategic decision has been taken.

» *Process to sell bad loans*

- February 2018

- . Cerved Credit Management signed special servicing agreements with Credito Fondiario, by virtue of its role as master servicer, of around EUR 14.5 bn for bad loans originated by the Montepaschi Group and subject to securitisation. These special servicing activities, initially assigned to Cerved Credit Management, will later be managed by Juliet, a company that will be transferred from the Bank to the industrial partnership established by Quaestio Holding and Cerved Group. In this regard, the conditions precedent has been fulfilled for the conclusion of the transaction to purchase the bad loans recovery platform (“Juliet”) of the Parent Company by a company established ad hoc by Cerved and Quaestio.

- May 2018

- . the Parent Company completed the securitisation process for the disposal of a portfolio of EUR 24.1 bn of bad loans (data relating to the end of December 2017) and obtained an investment-grade rating. The Juliet platform will carry out special servicing activities on portfolios of bad loans, and will manage at least 80% of bad loans generated by BMPS for a ten-year period (with an initial value of around EUR 4.5 bn), plus other bad loans deriving from the Bank's securitisation transaction and from other similar transactions promoted by Quaestio (amounting to around EUR 17.6 bn at present).

- June 2018

- Casaforte Securities - Public Tender Offer

- September 2018
 - the Parent Company promoted an all-inclusive voluntary public tender offer, regarding all classes of asset-backed securities issued on 22 December 2010 by Casaforte and outstanding as at 27 September 2018, net of the securities already held by the Bidder and announced that it had filed, on 28 September 2018, with CONSOB, the offer document relating to the all-inclusive voluntary public tender offer, regarding Class A



asset-backed securities and Class B asset-backed securities issued by Casaforte S.r.l.

- November 2018
 - . the Parent Company disclosed the final results at the end of the relative acceptance period for the voluntary public tender offer on Class A asset-backed securities and Class B asset-backed securities issued by Casaforte Srl.

Assessments from ratings agencies

- December 2018
 - . the rating agency Moody's Investors Services brought the long-term rating of the Parent Company's senior unsecured debt to "Caa1" from "B3", confirming the long-term rating on deposits at B1 and the standalone baseline credit assessment (BCA) at Caa1. The long-term outlook on deposits was changed to "negative" from "stable", in line with the negative outlook assigned to senior unsecured debt. Instead, in June and July 2018, DBRS Ratings Limited and Fitch Ratings confirmed the Parent Company's ratings; DBRS: long-term rating B (high), short-term rating R-4, and stable outlook; Fitch: long- and short-term rating at B, with stable outlook.
- December 2018
 - . DBRS Ratings Limited increased its rating on the Parent Company's long-term deposits by one notch, taking it to "BB" (low) from "B" (high).

The Report on Operations also notes the significant events subsequent to the 2018 closing and, in particular:

- January 2019
 - . the Parent Company provided certain financial information prior to their inclusion in the prospectus relating to the Bank's international issue programmes. This relates to the "SREP Decision Draft", received from the supervisory authority that establishes the prudential requirements, based on the prudential review and measurement process, with reference date 31 December 2017. The final version of the decision was received on 8 February 2019.
- January 2019
 - . the Parent Company completed a new issue of 5-year Covered Bonds (bonds guaranteed by Italian residential mortgages), intended for institutional investors amounting to EUR 1 bn, expiring in January 2024 and with an annual coupon of 2%. Taking into account the "below par" re-offer price, set at 99.61%, the yield to maturity was 2.08% per annum.

2.2 - Intragroup transactions, those with related parties, atypical or unusual, and included in the obligations of bank representatives

In consideration of its current public nature, the Bank strictly adheres to governing provisions regarding transactions with related parties/associated parties, obligations of

bank representatives, managers' transactions (formerly internal dealing), personal transactions, and significant shareholdings.

During the year, a comprehensive review was undertaken of the internal procedures relating to related parties and associated parties, including in line with the obligation envisaged in governing regulations to periodically review these procedures, in order to ensure better efficiency in the implementation of oversights and related processes. In particular, the objective pursued was to update the responsibility model for changes in the organisational structures that have occurred in the meantime, specifying the roles and obligations of the functions involved in this process. Finally, the changes that took place in the Bank's shareholding structure were reflected as a result, in particular, of the increase in the equity investment held by the Ministry of the Economy and Finance, which became - as is known - the controlling shareholder of BMPS.

In this context, the entire regulation was coherently represented, summarising in a single document - "*Group Directive on management of prescriptive obligations in relation to related parties and associated parties, as well as obligations of bank representatives*" - the regulatory texts relative to (i) the global policy on transactions with related parties and associated parties, as well as obligations of bank representatives, and (ii) the Group's internal policy on these matters.

On 28 November 2018, this Board expressed its opinion of overall suitability of the aforementioned directive to achieve the objectives established in the current regulatory framework on the matter, identifying the criteria, rules and profiles required by the supervisory authority and ensuring integrity and transparency in decisions through controls consistent with those established by the aforementioned regulation.

* * *

In the opinion of this Board, based on the information received, both the transactions specified above as well as ordinary transactions have been implemented in general compliance with internal procedures and the principles of proper administration, with full awareness of the risks and effects of the decisions taken.

Therefore, it is confirmed that the principles of proper administration appear to have been constantly applied.

3. Supervisory activity

3.1 - Supervisory activities on the adequacy of the internal control system

During the year, this Board of Statutory Auditors, constantly interacting with all units involved in the internal control system, monitored their adequacy for purposes of



ascertaining their effective performance, the correct fulfilment of tasks, and appropriate coordination between them, promoting, if needed, corrective measures against gaps and irregularities identified. As part of the Group's regulatory provisions, as well as the individual business rules, the organisational model, responsibilities and processes attributable to the business control functions have been adequately formalised, including the operational mechanisms for reconciliation with other units.

In this context, note the role of the “Committee for the Coordination of Functions with Control Duties”, which aims to ensure the link between these functions by sharing operational and methodological issues and identifying possible synergies to avoid potential overlaps or duplication of control activities.

* * *

With regard to first-level controls, aimed at ensuring the proper execution of all the transactions carried out within the Bank, the transactions are monitored by the individual operating units, or incorporated in the procedures, or carried out also through specifically dedicated units, or performed as part of back-office activities.

In this regard, the aggregate activities carried out to make this type of control more efficient are important, which are included in the broader project of “business process optimisation”, for which additional details are provided below. This is done to monitor the risks connected with the execution of this type of control, simplifying the relative management processes. For this purpose, the Board of Statutory Auditors performed heightened solicitation activities the aimed at achieving the objectives in question.

* * *

With reference to the second-level business control functions, the following is reported.

The Compliance Control Function is normally carried out autonomously and separate from the Compliance Area, which reports directly to the Chief Executive Officer. It is responsible for overseeing all regulatory areas included in the scope of activities of the Parent Company and the Group's Italian subsidiaries subject to supervisory authorities, including Consorzio Operativo di Gruppo (known as “Centralised Compliance Model”). This ensures the monitoring of regulatory compliance through methodologies and procedures that correspond to indications from supervisory authorities and based on principles and rules established by the Parent Company with regard to the internal control system and the outsourcing of business control functions.

In this regard, the new centralised model for managing non-compliance risk is not yet fully implemented within the main subsidiaries. In fact, limits were identified in the definition of responsibilities and in the action of centralised oversights at the Parent Company, as well as in the planning, execution and traceability of control activities.

In the second part of the year, following the consensual termination of the previous Head of the Compliance Area, the Board of Statutory Auditors issue the required opinion for the appointment of the new Head, which took effect from 1 October 2018. In this regard, note the significant commitment by the latter to increase the effectiveness and efficiency of the Centralised Model, identifying tactical solutions for rapid implementation.

The Risk Control Function, which absolves its duties in accordance with defined supervisory regulations, is performed by the Parent Company's Chief Risk Officer (CRO), who reports to the Chief Executive Officer and Board of Directors.

The function has the task of ensuring the adequacy and effectiveness of the Group's risk management system and verifying capital stability (ICAAP) and the optimal level of liquidity (ILAAP), as well as the correct determination of the Risk Appetite Framework (RAF), in addition to ensuring consistency between the latter and significant transactions.

Furthermore, it defines the strategic guidelines on the risk level of the loan portfolio and ensures that the relevant external institutional reporting is produced.

During March 2018, note that the Head of this department was replaced.

This function interacts with this Board through periodic reporting of the activities carried out regarding the management and control of Group risks. The reports produced are considered appropriate to represent the correct implementation of the Group's strategies.

Furthermore, direct meetings were held with the CRO, during which the Board of Statutory Auditors, in addition to thoroughly examining various issues that were on the agenda at any given time, was able to ascertain the function's level of effectiveness in terms of the process of risk management and reliability of its measurement, essential elements for determining the Group's capital requirements.

In particular, from the perspective of internal controls, organisational processes, and risk management systems, the Risk Control Function contributed to the development of the strategies and oversights necessary to mitigate the weaknesses identified.



The Group's risk level at the end of 2018, in relation to its ability to meet them with the current capital and liquidity, was considered, on the whole, adequate. In fact, although it was necessary to postpone the capital strengthening envisaged for the second half of 2018 through the issue of a second tranche of Tier 2 subordinated Loans, it is acknowledged that the Group managed to implement an important de-risking action in the last quarter, thereby ensuring the programmed capital targets were achieved.

The Anti-Money Laundering Function monitors, according to a risk-based approach, the risks in relation to combating money laundering and the financing of terrorism and continuously verifies that the business processes and procedures are consistent with the objective of preventing and combating violations of relevant regulations.

The Group has opted for a decentralised model that entails the presence of an Anti-Money Laundering Function at the individual Group companies, Italian and foreign, which report functionally to the Parent Company.

In 2018, the function provided adequate visibility of the activities performed, the issues encountered, causal factors and relative solutions identified, through the preparation of periodic reports. Starting from the second half of 2018, a specific monthly report was initiated for the Board of Statutory Auditors to monitor the progress of initiatives aimed at complying with the plan to dispose of cases relating to suspicious transactions and due diligence. Although it has been significantly reduced, there is a high level of stock of customers/relationships for which it is necessary to comply with the supervisory obligations.

As part of the initiatives implemented during the year, note the revision of the control catalogue in terms of methodology and perimeter, designed to construct a single mapping of first- and second-level controls for each regulatory area, with a view to achieving a greater degree of efficiency.

Moreover, in 2018 the Anti-Money Laundering Function was subject to 2 audits by supervisory authorities. Reference is made to the audits conducted (i) by the Financial Information Unit (FIU) concerning the prevention of money laundering and terrorist financing (9 May 2018 - 28 August 2018) at the Head Office and (ii) by the Bank of Italy (5 June 2018 - 29 September 2018) concerning the verification of compliance with money laundering regulations (BMPS and subsidiary Widiba). For more details, please refer to the specific section (ref. chap. 6.2).

The Internal Validation Function oversees the formal set of activities, tools, and procedures aimed at assessing the accuracy of estimates of all relevant risk components and expresses an opinion on the regular functioning, the predictive ability, and performance of internal risk measurement systems. The function is required to continuously verify the consistency of risk measurement systems in relation to business rules and regulations of the supervisory authority.

The model adopted by the Group is that of "centralised internal validation", broken down in line with outsourcing contracts.

The outcome of the overall analyses conducted by the Validation Function confirms, in particular for regulatory risks, that the minimum requirements envisaged for using internal systems to calculate the capital requirement are met, in relation to credit risk measurement systems (AIRB), the internal rating system (SRI), and operational risk measurement systems (AMA).

* * *

Third-level controls are the responsibility of the Internal Audit Function represented by the Chief Audit Executive Department, which conducts its activities independently and objectively, with the purpose of (i) controlling the regular performance of operations and evolution of risks, and (ii) assessing the completeness, adequacy, functionality and reliability of the organisational structure and other components of the internal control system, bringing to the attention of the corporate bodies any possible improvements, with particular reference to the RAF, the risk management process, as well as the measurement and control tools for said process.

It constitutes the main function used by the Board of Statutory Auditors to perform its own duties. Through its Head, this Board remains informed and takes action on anomalous trends, violations of procedures and regulations, and contributes to the functionality of the overall internal control system.

The function provides the Board of Statutory Auditors with the necessary support for executing the aforementioned oversight activities, sending audit reports, selected based on agreed relevance criteria, containing the results of the audits conducted during the year. With regard to the significant issues identified, this Board acted so that the necessary and most timely corrective measures were taken by the Bank's competent functions. When deemed necessary, the situations considered most relevant were brought to the attention of supervisory authorities.

During 2018, the Audit Function conducted 48 process audits on the Parent Company, of which 11 were obligatory, deriving from regulatory requirements, and 125 on Network units, in line with the Audit Plan approved by the Bank's Board of Directors on 9 February 2018.

The 2018 financial year represented the first of a new three-year audit cycle for which, over the period 2018-2020, the goal has been set of ensuring an adequate level of coverage of the audit universe according to a risk-based approach.

Hence, the Board acknowledged that the assessment, developed by the Audit Function, on the overall internal control system for 2018 is based on elements of an exclusively qualitative nature, formulated using judgements that take into account the results of individual audits conducted on the central processes and on the Network and therefore, only at the conclusion of the current three-year audit cycle will the Audit function provide an accurate assessment, including in terms of overall summary, of the internal control system,



which will take into consideration the coverage level achieved on the reference audit universe.

The assessment concerning 2018 was therefore assigned, again by the Audit Function, based on results of the activities conducted and the distribution of the grades resulting from audits performed. As a result, the Bank's internal control system was assigned a grade of R2 yellow, based on a grading scale distributed over four levels of increasing importance (R1 green, R2 yellow, R3 orange and R4 red) adopted by the Chief Audit Executive Department for evaluating its audit activities.

* * *

As part of the overall oversight activities on the adequacy of the internal control system, particular importance was assigned by the Board of Statutory Auditors to activities aimed at streamlining and rationalising business processes and the related risks.

This is based on the consideration that adequate management of processes represents a strategic lever for the functioning of a business organisation so that it can perform its activities in the best manner possible, ensuring they correspond to business objectives and identifying continuous improvement actions. Thus, a specific assessment activity was launched in the last part of the year, at the initiative of this Board, to ensure an adequate coverage level for the main risks to which the Bank is potentially exposed with respect to the business processes that characterise it, the rules that internally regulate these processes, and the role of control functions, mainly first- and second-level, simultaneously achieving a more accurate formalisation of operational activities and the internal regulation of controls.

The results of this project carried out so far, though as yet unfinished, have highlighted the need to assess the state of obsolescence and the level of rationalisation and updating of internal regulations, as numerous regulatory documents that are rather old were found, while, at the same time, the need to optimise the classification of processes and the level of integration between processes, risks and controls and the applications currently in use.

The Board was also significantly engaged in monitoring the corrective measures resulting from the critical issues identified regarding the Bank's reporting activity for the sale of investment diamonds by external companies, with particular regard to the progress of the restoration process, with the purchase of the stones from those customers who intended to exit the investment and following the aforementioned specific "action plan" defined by the Bank to strengthen oversights on decision-making, processes and controls in relation to the approval, marketing and monitoring of new products and any "connected activities" performed by the Bank.

On the subject of legal risks, generated by the considerable civil and criminal litigation in which the Group is involved, the Board has dedicated various working sessions in order to be able to monitor its dynamics over time, the proper measurement process for financial reporting, and adequate oversight.

The Board of Statutory Auditors notes the extensive disclosure provided in the Notes to the financial statements, which discusses the significant issues involving Montepaschi Group that are not considered to be completely groundless in the context of its business activities.

The Board wishes to highlight that the Group has exercised the option granted by IAS 37 to not provide disclosure on the funds allocated in financial statements in the event that such information could seriously prejudice the Bank's position in disputes and potential settlement agreements.

Finally, in January 2019, a specific on-site audit was initiated by the ECB regarding the legal risks of the Bank, the Group and outsourcing service providers. This audit is still ongoing.



* * *

On these assumptions and with particular reference to the specific operational contexts analysed and the resulting corrective measures planned and implemented, the Board believes that the internal control system, as a whole, ensures sufficient oversight on risks and their management, as envisaged by sector regulations.

3.2 - Supervisory activities on the adequacy of the organisational structure

Through its Head Office, the Bank performs functions of direction, coordination and control for itself and for Group companies, as part of the more general guidelines set out by the Board of Directors and in the interest of the Group's stability.

The organisational changes that occurred in 2018 are characterised by the implementation of initiatives for the reorganisation of the perimeters of responsibility, outlined by the new organisational model of the Regional Areas approved by the Board of Directors during the fourth quarter of 2017 and by certain subsequent additional revision and rationalisation initiatives aimed at facilitating the implementation of the Bank's Restructuring Plan agreed with the competent Authorities.

An overview of the most significant actions carried out in 2018 is provided below, broken down by area.

With reference to the **Chief Commercial Officer (CCO) Department**, the organisational model continued to be revised, with the objective of directing the structures and processes towards commercial objectives with a specialisation by market type. The number of Regional Areas was reduced from 6 to 5 and the responsibility both for governance of these Areas and operational management of the pricing lever was assigned to the newly established Network Department, reporting to the CCO.

Moreover, activities aimed at renewing the Network's distribution network continued, including after the year-end, with a constant focus on commercial activities and the efficiency of the operating structure. Activities included the revision (i) of the model for the regional departments and specialist centres (SMEs and Institutions), (ii) of the distribution network for Network branches, and (iii) of the Large Corporate Area.

With regard to the **Chief Operating Officer (COO) Department**, the Board notes the strengthening of operational architecture through the establishment of the Operations Department, which has incorporated the activities and resources resulting from the centralisation of the Middle Office Products Function and the Auxiliary and Logistic Services Function. In addition, the Projects Governance Function, which previously reported to the Chief Executive Officer, now reports directly to the COO, strengthening it with specifically dedicated structures, with Services such as Cost and Project Governance and Service Quality Governance. Furthermore, with the aim of accelerating digital innovation, the Demand Management Function was transferred to Consorzio Operativo di Gruppo.

The **Group General Counsel (GGC) Department** revised the internal structure of the Legal and Corporate Area by integrating the legal functions of credit collection with the “legal counsel” functions.

For the **Chief Financial Officer (CFO) Department**, the reorganisation guidelines entailed defining a single governance of responsibilities within the areas of Management Planning and Control, in order to maximise synergies and to ensure explicit directives and assess the integration of the specialist areas that are monitored. During March 2018, note that the Head of this department was replaced.



With regard to the **Chief Lending Officer (CLO) Department**, the structure of the Credit Collection Area (Workout Area) was revised due to the sale of the NPL portfolio to the company Juliet Spa, through the establishment of units and processes aimed at monitoring outsourced activities.

Finally, in the **Compliance** area, in addition to the replacement of the Head effective 1 October 2018 - in relation to which the Board of Statutory Auditors issued the required opinion - the compliance functions of Group companies (MPS Capital Services, MPS Leasing & Factoring, Widiba and Consorzio Operativo Gruppo MPS) and the Foreign Network were centralised. Limits were identified in the definition of responsibilities and in the action of centralised oversights at the Parent Company, as well as in the planning, execution and traceability of control activities.

The Board has acknowledged the process of approval and implementation of the described organisational initiatives, issuing, where expressly provided, its opinions or observations.

* * *

Despite the need, given the complexity of the organisational initiatives carried out, for a longer trial period than was possible to observe, the Board of Statutory Auditors, based on the observations above, the documentation reviewed, as well as information received in performing its control activities, assesses the organisational structure as substantially adequate.

3.3 - Supervisory activities on the administrative accounting system

The Board of Statutory Auditors met on a regular basis with the Financial Reporting Officer, where audit activities are centralised, discussing the main issues. The Financial Reporting Officer did not report significant gaps in the operational and control processes that could affect the assessment of adequacy and effective application of administrative and accounting procedures, for the purpose of the proper representation of the Bank's capital, economic and financial situation as shown in the separate and consolidated financial statements, closed as at 31 December 2018.

The main topics analysed during 2018, as they were considered important for purposes of accounting controls carried out by the Financial Reporting Officer, were the following: (i) adequacy of the provision for risks and charges as at 31 December 2018 in relation to the legal risks associated with litigation regarding the financial disclosures in the 2008-2015 period; (ii) deferred tax assets (DTAs); (iii) the adoption of the new IFRS 9 international accounting standard; and (iv) the overall process for the sale of non-performing loans (Valentine, Morgana, Merlino, and Alpha 2 transactions).

Similarly, frequent meetings were held with the Independent Auditors for the purpose of exchanging information on the adequacy of the administrative accounting system present in the Company. During this activity, no facts emerged that could be considered irregularities. There was also opportunity to share with the Independent Auditors the

procedures adopted in preparing the 2018 Separate and Consolidated Financial Statements.

The aggregate activities performed, the control methods defined, and the corrective action plan implemented thus far, as no impediments were found, enabled the Board of Directors and the Financial Reporting Officer to issue the certifications provided for by art. 81-ter of Consob Regulation no. 11971 of 14 May 1999 and subsequent amendments and art. 154-bis of the Consolidated Law on Finance, with reference to the 2018 Separate and Consolidated Financial Statements.

Therefore, the Board acknowledges that the international accounting standards issued by the International Accounting Standards Board (IASB) and related interpretations of the IFRS Interpretations Committee (IFRIC), approved by the European Union with mandatory application in 2018 have been applied, and the general assumptions envisaged by the Systematic Framework for the preparation and presentation of the financial statements prepared by the IASB have been observed. No exceptions were made to the application of IAS/IFRS accounting standards.

The provisions contained in Circular no. 262 issued by the Bank of Italy, amended by the fifth update of 22 December 2017, were also applied.

The disclosure to the public, according to the provisions set forth in the prudential supervisory regulations (known as “Pillar 3”), is provided through the Bank's website within the terms set for the publication of the annual and interim reports.

It is also specified that the Directors have not exercised the exception pursuant to art. 5, para. 1, of Italian Legislative Decree no. 38/05.

Regarding document no. 4 of 3 March 2010, issued jointly by the Bank of Italy, Consob and IVASS and subsequent updates, this Board acknowledges that the financial statements have been prepared under the going concern assumption, considering reasonable the expectation that the Bank will continue with its operations in the foreseeable future.

For this purpose, the following are particularly relevant:

- the progress of the initiatives of the 2017-2021 Restructuring Plan;
- the regulatory requirements, in terms of minimum levels of regulatory capital and recommendations, contained in the ECB SREP Decision of 8 February 2019;
- the update of multi-year internal forecasts of balance sheet and income statement values taking into account (i) the trend in the changed macroeconomic scenario, (ii) the financial results recorded during the year, and (iii) the regulatory requirements indicated by the ECB in the SREP;
- the analyses conducted by Directors in order to verify that minimum levels of regulatory capital included in the 2019 SREP Decision were maintained, including in light of ECB recommendations on “calendar provisioning” (referring to the outstanding stock of NPE as at 31 March 2018) and the introduction of the Addendum to ECB Guidelines on NPE (referring to the new NPE cash flows starting from 1 April 2018).



* * *

Therefore, after reviewing the evidence, there are grounds for considering that the Bank's administrative accounting system is able to ensure the proper representation of operational events.

3.4 - Supervisory activities on the statutory accounting audit and the financial reporting process

The Board of Statutory Auditors supervised the statutory audit of the separate and consolidated financial statements, in relation to which the activities carried out by the Independent Auditors, and notes, in particular, the entry into force, on 1 January 2018, of the IFRS 9 international accounting standard, which replaced IAS 39 for the classification and measurement of financial instruments.

On 15 March 2019, we received from Ernst & Young Spa, appointed by the Shareholders' Meeting of 21 April 2011 for the financial years from 31 December 2011 to 31 December 2019, the Reports issued pursuant to art. 14 of Italian Legislative Decree 39/10 and art. 10 of Regulation (EU) no. 537/14.

After examining these documents, the Board acknowledged that:

- in the opinion of the Independent Auditors, the financial statements provide a true and fair representation of the financial situation, economic result, and cash flows for the Bank and Group as at 31 December 2018, in accordance with the International Financial Reporting Standards adopted by the European Union as well as the provisions issued in implementation of art. 9 of Italian Legislative Decree 38/05 and art. 43 of Italian Legislative Decree 136/15;
- in reference to the disclosure, without modifying its judgement, the Independent Auditors focus attention on the Directors' description regarding the progress of actions envisaged in the 2017-2021 Restructuring Plan and the updating of forecasts formulated by management in relation to the prospective balance sheet and income statement values for the Group, included in the Report on Operations and in the paragraph "Going Concern" of the Notes to the financial statements;
- it is certified that the Report on Operations and certain specific information contained in the Report on Corporate Governance and Ownership Structure are consistent with the separate and consolidated financial statements and have been prepared in compliance with the law.

In particular, Ernst & Young Spa pointed out the following key aspects of the audit (Key Audit Matters), which were discussed by this Board of Statutory Auditors in the aforementioned meetings held with the Independent Auditors:

- Impacts related to the first application of IFRS 9 - Financial Instruments;
- Classification and measurement of loans to customers;
- Recoverability of deferred tax assets (DTA);

- Measurement of legal and litigation risks.

The Independent Auditors also sent the “Additional Report” (dated 15 March 2019) to this Board, provided for by art. 11 of the aforementioned Regulation (EU) no. 537/14. In accordance with said article and art. 19, para. 1, letter a) of Italian Legislative Decree 39/10, the Board of Statutory Auditors is required to send this document, accompanied by its own findings, to the Directors, together with the outcome of the audit carried out by Ernst & Young Spa.

The report notes that, during the audit of the Company's separate financial statements and the Group's consolidated financial statements for the year ended 31 December 2018, no significant gaps were identified in the internal control system for financial reporting or in the accounting system, nor were significant issues identified regarding cases of non-compliance, actual or presumed, with laws and regulations or statutory provisions.

At the time this report was submitted, the Board of Statutory Auditors did not find any critical elements regarding the autonomy of the Independent Auditors or any causes for incompatibility. It also received confirmation from the Independent Auditors, expressly contained in the Additional and Audit Reports, that Ernst & Young Spa did not provide services prohibited under art. 5, para. 1 of the aforementioned Regulation.

With reference to the aforementioned Consob Communication no. 1025564 of 6 April 2001 and subsequent amendments, the Board notes that in 2018 the Bank granted additional mandates for “certification services” to the Independent Auditors, in addition to the accounting audit, for a total of EUR 708,157.00 (net of VAT and ancillary expenses), as reported in the Notes to the financial statements, to which reference should be made for anything not expressly reported.

Once again in 2018, the Bank paid EUR 1,037,000.00 to entities belonging to the Independent Auditors' network (in particular, Ernst & Young Financial Business Advisors Spa), for management consulting and other services.

The mandates were assigned to the Independent Auditors in compliance with the limits established by the “Group Policy on conferral and revocation of the mandate to the Independent Auditors”, to which the Bank adheres and pursuant to the provisions of the EU Regulation no. 537/14.

During the year, the Independent Auditors was not required to issue mandatory opinions.

Ernst & Young Spa has audited the approval by the Directors of the Non-Financial Statement that, pursuant to art. 3, para. 1 of Italian Legislative Decree 254/16, is the subject of a separate declaration of conformity by the Independent Auditors.

The Board of Statutory Auditors then performed the functions of the Internal Control and Audit Committee envisaged for public interest entities by the Consolidated Law on Statutory



Audit, overseeing the financial reporting process, following the regular execution of the work plan prepared by the Independent Auditors, and checking its adequacy with respect to the Bank's size and organisational and business complexity.

The Board also interacted with the Financial Reporting Officer, who provided assurance, including through the specific Report on the issue of financial statement declarations, regarding the consistency of the information reported therein and the results of the accounting applications used by the Bank. A similar meeting was held for the information in press releases and presentations to analysts.

The material, specifically regulated also in the Bank's internal regulations, was subject to audit by this Board, to determine the reliability of the financial information communicated by the Company.

3.5 - Supervisory activities on non-financial information (Italian Legislative Decree 254/16)

Having acknowledged Italian Legislative Decree 254/16 implementing Directive 2014/95/EU concerning non-financial information and Consob Resolution no. 20267 of 18 January 2018 (regulation implementing the aforementioned decree), the Board of Statutory Auditors monitored, as part of its duties, compliance with the provisions contained therein on the preparation of the Non-Financial Statement (hereinafter also "NFS") relating to 2018.

In fact, the aforementioned legislation requires listed companies, banks and large insurance companies to prepare and publish, for each financial year, an NFS containing a description of the sustainability policies managed by the Montepaschi Group and reporting the relative data.

Monitoring the drafting of the NFS was assigned to the Bank's External and Institutional Relations Department, to which, during 2018, the Board of Directors entrusted a specific project aimed at structuring an internal procedure to define roles, responsibilities, activities, controls, and management and coordination policies, related to the process of drafting the NFS.

This procedure led to the creation of a "Sustainability Working Group" which includes delegated individuals from all departments of the Parent Company and subsidiaries, with the aim of sharing the reporting process and developing sustainability policies.

Furthermore, in order to have further support in carrying out the required supervisory activity, the Board requested the Compliance Function to perform specific controls aimed at verifying the level of compliance with the provisions of the NFS. It emerged that the Consolidated Non-Financial Statement as at 31 December 2018 complies with the regulatory requirements for its preparation. Overall, the audits carried out in this regard by the aforementioned function have made it possible to express a judgement of prevalent

compliance, nevertheless recommending that a specific structured process be developed that regulates the preparation and approval of the NFS.

* * *

Given the above, the Board of Statutory Auditors acknowledges that it has certified, in performing the functions attributed to it by the law, that the Consolidated Non-Financial Statement was drafted in compliance with the provisions of the arts. 3 and 4 of Italian Legislative Decree 254/16 and, finally, in Consob communication no. 1 of 28 February 2019. This document was approved by the Board of Directors in the meeting held on 28 February 2019.

The Auditors also acknowledge that, as permitted by the reference regulations, Montepaschi Group has opted to formulate the NFS in a separate file to which reference is made, distinct from the Report on Operations.

4. Remuneration policies

The Board of Statutory Auditors reviewed the 2019 Remuneration Report, approved by the Board of Directors on 7 March 2019, drafted in compliance with the disclosure obligations pursuant to art. 123-ter of the Consolidated Law on Finance and those deriving from banking sector regulations. In particular, this report, in addition to having been appropriately updated for the amended legislative and regulatory framework (following the introduction of the 25th update of Bank of Italy Circular 285 of 23 October 2018), was also revised in its structure with the objective of achieving greater presentation effectiveness and more detail - also based on the requirements on remuneration set by the ECB under the SREP Decision - therefore ensuring greater transparency.

In fact, the purpose of this document is to provide the Shareholders' Meeting with a precise report on the implementation of Remuneration Policies adopted for 2018 and, at the same time, proposes policies for 2019.

More generally, the Group's Remuneration Policies are aimed at improving business performance, in full coherence with risk management policies, by creating value over time. In particular, with reference to 2018, these policies, approved in the Shareholders' Meeting of 12 April 2018, were applied so as to ensure compliance with the specific provisions for banks and banking groups that benefit from State Aid.

Furthermore, in line with the commitments related to the precautionary recapitalisation plan (2017-2021), variable incentive systems were not activated. The Bank made use of limited-cost incentives (contests), thus activating levers of a small amount. One-time payments were also extremely restricted and, in the interest of the Bank to protect itself in the event of the resignation of key resources from the Private network, the contractual instrument of a "non-competition agreement" continued to be used.

This Board of Statutory Auditors also monitored remuneration aspects that concerned the Bank through the participation of its Chairman, supported by at least one Statutory Auditor, at 15 meetings of the Remuneration Committee.



With reference to the proposal to the Shareholders' Meeting for 2019, the Board emphasises the fact that the new Remuneration Policies are of particular strategic importance, as they have been defined with the aim of safeguarding the Group's ability to create value and rebalancing the economic-capital profile of the Bank, while at the same time giving due consideration to the internal and external constraints on its operations.

The perimeter of "key personnel" identified for 2019 was larger than 2018 (295 compared to 260), confirming an increasingly rigorous identification process at both Group and individual subsidiary level. In particular, certain organisational changes in the Group structure led to a more extensive allocation of internal capital, resulting in strong limitations on the use of remuneration levers, both fixed and variable.

Moreover, with a simultaneous proposal, a plan submitted to the Shareholders' Meeting proposes to use treasury shares to fulfil possible future commitments connected with the payment of incentives for early termination of the employment relationship (known as "severance") intended for Directors of the Bank and its subsidiaries and employees included in the perimeter of the "key personnel".

Lastly, the Statutory Auditors acknowledge that the Compliance Function has examined the 2019 Remuneration Policies Plan, determining a level of "prevalent compliance" with external regulations (EU Regulations, Consolidated Law on Banking, Consolidated Law on Finance, Bank of Italy Regulations, and Consob), as well as with the Code of Ethics and Corporate Governance Code of listed companies, without prejudice to the adoption and the relative implementation of actions planned in relation to the SREP Decision. In particular, the supervisory authority has requested assurance that the policies cover and regulate all remuneration systems and the related compensation components, formalising the related processes and controls as well as the criteria applied, so as to limit discretion and increase transparency.

The aggregate activities carried out by the Compliance Function were presented in the specific "Report on the Compliance of Remuneration and Incentive Policies" submitted to the Board of Directors in its meeting of 7 March 2019.

The Internal Audit Function also conducted its own assessments on the relevant issues, for which the final results, presented to the Board of Statutory Auditors in a special meeting, allow the Board to express a favourable opinion and confirmed the consistency of the practices adopted with respect to the Remuneration and Incentive Policies approved by the Shareholders' Meeting for 2018.

5. Procedure to assign the mandate for the statutory audit of the accounts for the 9-year period 2020-2028

With the approval of the 2019 financial statements, the statutory audit will expire, as previously stated, which was assigned to Ernst & Young Spa with a shareholders' resolution dated 29 April 2011.

The relevant regulations on the statutory audit of accounts (European Regulation no. 537/14 and Italian Legislative Decree no. 39/10, supplemented by Italian Legislative Decree no.

135/16), in addition to establishing that the audit assignment cannot be re-conferred to the outgoing company, unless at least four years have elapsed from the termination of the current assignment, provides that the new mandate be assigned through a specific selection procedure, to be carried out with the criteria and procedures set forth in art. 16 of the European Regulation.

In order to allow an adequate transfer between the outgoing audit firm and the newly appointed audit firm as well as to ensure compliance with the deadlines established to safeguard the independence of the audit firm (cooling-in period), the Board of Statutory Auditors, acting as the Internal Control and Audit Committee pursuant to art. 19 of the aforementioned Decree no. 39/10, in agreement with the competent business functions, considered it appropriate to initiate, one year in advance, the selection procedure aimed at assigning the statutory audit mandate for the period 2020-2028.

In this regard, in order to ensure control over the proper functioning of the assignment process, a special internal commission was set up consisting of the Financial Reporting Officer, the Head of the Purchasing Function to handle contractual and technical aspects, and the Head of the Internal Audit Function to provide the support necessary to verify the selection process for the Independent Auditors.

On the overall selection procedure, the Board of Statutory Auditors monitored all of the inherent steps (defining the selection criteria, request for proposals, assessments and final results) and carefully examined the working papers, kept on file to be able to document and trace the entire process at a later time.

Furthermore, the Board and the competent business structures agreed on the identification of audit firms who were requested to submit proposals according to transparent and non-discriminatory criteria, as required by regulations, opening the participation to the firms with appropriate skills and experience in the sector and adequate structures to perform the audit for Montepaschi Group.

At the end of the entire process, the Board prepared the envisaged "Recommendation", which it sent to the Board of Directors for inclusion in the agenda for the Shareholders' Meeting of 11 April 2019, called in accordance with governing regulations. The proposal, formulated in a separate document submitted in accordance with regulations, provides for two possible alternatives for the assignment of the mandate and indicates the duly justified preference for one of the two, resulting from the final score assigned at the end of the selection procedure, which was subject to specific monitoring, as previously mentioned, by the Bank's Internal Audit Function.

6. Other information

6.1 - Relations with subsidiaries

The Board's supervisory activity has been extended, including at consolidated level, to the subsidiaries with regard to the assessment of the adequacy of intragroup information flows, in relation to legal obligations and the Group's operational needs.



The Board of Statutory Auditors assessed the adequacy of the instructions provided to subsidiaries (art. 114, para. 2 of the Consolidated Law on Finance), so that the latter can provide the information necessary to fulfil the disclosure obligations required by law.

In addition, in order to achieve a better understanding of business activities and, in particular, the procedures followed for purposes of overall risk governance, the Board has initiated the acquisition and exchange of information with the corresponding control bodies of the subsidiaries.

As established by art. 151, para. 2 of the Consolidated Law on Finance and by Bank of Italy supervisory provisions, during the year special meetings were held with the Boards of Statutory Auditors of the main subsidiaries, focusing the attention, in particular, on the general performance of business activities, the functioning of the internal control system, and any irregularities found in carrying out the respective supervisory activities, as well as sharing the need to proceed with the selection, one year in advance, of the single Independent Auditors at Group level for the nine-year period 2020-2028.

In these circumstances, the need to maintain an adequate level of coordination between the control bodies was also emphasised, in order to have a common goal of achieving, including at Group level, the most effective risk management, while rationalising the corrective measures for this purpose. In this regard, positive feedback has been received.

6.2 - Audits by supervisory authorities

As part of the prudential supervisory program adopted by the ECB, the audit activities conducted by supervisory authorities at the Bank during the year are reported below.

In the period 26 March 2018 - 26 June 2018, the ECB conducted an on-site audit (OSI 3832) concerning IT risk for Montepaschi Group. In November 2018, the relative audit report was sent, but, as of the date of this report, the ECB follow-up letter had not yet been received, in which the findings and the request for corrective measures will be formalised.

During 2018, activities continued to implement corrective measures relating to findings from audits conducted by the ECB in previous years. In particular, the initiatives to implement the 31 recommendations following the credit risk inspection (OSI 3435) have been completed, with the sole exception of some corrective measures related to the revision of IT system architectures dedicated to credit, which are now scheduled to conclude in 2019. The corrective measures for the findings arising from the credit risk, counterparty and control system audit (OSI 1238) are also being finalised through the dedicated intervention programme (ARGO 3).

During the year, the ECB continued with audit activities on the process to review internal models (TRIM - Targeted Review of Internal Models), aimed at assessing the adequacy of the first-pillar models authorised for calculating regulatory capital with the IRB method. In this regard, the Board notes the on-site audit conducted by the ECB in the period November

2017 - April 2018 focused on the “credit risk” models, concerning the checks on PD and LGD parameters of the retail portfolio. On 10 July 2018, the ECB sent the assessment report containing the data for 19 findings, for which the Bank had already sent, on 4 May 2018, a proposed action plan. The Bank is waiting to receive the final decision by the ECB.

In a letter dated 15 January 2018, the ECB sent its own assessments to the Bank regarding the TRIM General Topics self-assessment phase, in which 7 deviations from requirements were found. Subsequently, the Bank sent a response, indicating the corrective measures identified and the related execution times.

On 14 June 2018 the ECB formalised the final decision regarding the audit of internal rating models conducted in 2015, known as IMI 40, Internal Model Investigation. In relation to the 21 findings identified, a specific plan of corrective measures was defined, approved on 2 August 2018 by the Bank's Board of Directors, which provides for resolution by 30 June 2019.

The audits and other activities carried out by the national supervisory authorities are reported below.

With reference to the audit initiated by the Bank of Italy on 26 September 2016 and concluded on 5 December 2016, concerning the assessment of compliance with the provisions on “transparency of contractual conditions”, the supervisory authority sent a letter on 7 August 2018 in which, in addition to requesting the Bank to implement a series of initiatives and adaptations, it asked to be updated on the implementation status of the corrective measures planned in the Transparency Plan.

On 19 October 2018, the reply was sent, accompanied by the assessments of the Compliance and Audit Functions, which provided the requested updates and activities carried out to ensure constant monitoring of the process of managing prescriptive obligations regarding banking transparency. The Board notes, among other things, the formalisation of a specific process of “management of critical issues and corrective measures”, which provides for tasks, responsibilities and timing related to pre-identified functions, as part of internal transparency regulations.

From 9 May 2018 to 28 August 2018, an audit was carried out by the Italian Financial Intelligence Unit (FIU) aimed at investigating certain situations inherent in transactions carried out by individual parties in the period between 2008 and 2018, as well as potential anomalies caused by customers and employees of the Bank in some branches.



From 6 June 2018 to 28 September 2018, a specific audit was conducted by Bank of Italy regarding the verification of compliance with regulations on combating money laundering and the adequacy of organisational structures to produce accurate reports for Global Average Effective Rates (GAER), as well as preventing risks associated with violations of regulations on usury. In addition, in-depth analyses were carried out on the development of events linked to reporting to third-party companies of individuals interested in purchasing investment diamonds.

The results of the aforementioned audit were communicated to the Bank on 28 February 2019, with the delivery of the relative audit report, which shows the persistence of critical issues in the various phases of requirements regarding “anti-money laundering” and “usury”, while acknowledging the heightened impetus recently given by corporate bodies regarding their resolution. With regard to the findings formulated, the Bank must present its considerations to the supervisory authority together with the resolution procedures it intends to take. As at the date of preparation of this report, the related activities are currently underway.

6.3 - Complaints and petitions

As at the date of preparation of this report, the Board of Statutory Auditors has received various communications and/or complaints, one of which is classified as “*Petition pursuant to arts. 2408 and 2409 of the Italian Civil Code*”, presented, by the MPS Good Governance Association and Messrs. Norberto Sestigiani, Romolo Semplici and Sergio Burrini, in a letter dated 19 February 2019, sent by certified electronic mail.

This complaint is based on a premise broken down into several distinct “problems” (BMPS balance sheet as at 31 December 2018; total fines paid by BMPS; performance of BMPS stock on the stock exchange) and concludes with some verification requests on the aforementioned matters preceded by the statement that the current and previous Directors did not “*handle the situation with the necessary determination, seeking to buy time, and thus aggravating the situation with asset depletion and serious damage to all shareholders as well as the civil parties constituted in the two criminal proceedings pending in Milan [omissis]*”.

The Board then proceeded to verify the shareholder status of each party, the analysis of which allowed it to exclude the recourse to the assumptions referred to in art. 2408, para. 2 of the Italian Civil Code and, therefore, it is not a complaint presented by a majority of qualified shareholders.

With regard to the contents of the complaint, following a precise and detailed preliminary investigation carried out on all points raised by the shareholders, the Board believes it can exclude the validity of the complaint, as, at present and based on information collected, the complaints contained therein are without foundation.

Other communications and/or complaints received, sometimes sent only for information purposes, did not pertain to matters or circumstances worthy of particular mention.

However, the Board has always acted to verify the validity of the reports from stakeholders and to promote, if necessary, the resolution of the factors that generated the requests,

especially when they refer to internal organisational aspects or behaviour by the Bank not considered fully adequate.

6.4 - Corporate governance and the Corporate Governance Code

The Board of Statutory Auditors reviewed the contents of the “Annual Report On Corporate Governance and Ownership Structure” for the year, verifying its compliance with art. 123-*bis* of the Consolidated Law on Finance, with the standard recently communicated by Borsa Italiana, as well as ascertaining the adequacy and completeness of the information contained therein.

The supervisory provisions, together with the provisions contained in the Corporate Governance Code, establish that the Board of Directors perform a periodic self-assessment, with regard to its qualitative and quantitative composition, the size, degree of diversity and professional experience, the required balancing of non-executive and independent members, the adequacy of the appointment processes and selection criteria, continuing professional education, as well as with reference to the internal committees of the Board of Directors. The Board of Statutory Auditors is also required to carry out this self-assessment annually, pursuant to supervisory provisions.

The Corporate Governance Code also requires that the Board of Statutory Auditors verifies the correct application of criteria and procedures for ascertaining the requirements adopted by the Board of Directors to assess the independence of its members each year. Similarly, the Board of Statutory Auditors also confirmed that its members met same independence requirements as Directors, adopting adequate oversights concerning the prevention of any potential conflict of interest. This was reported to the relevant supervisory authorities.

For all cases indicated above, the presence of the characteristics required by the aforementioned regulations was verified.

As envisaged by the aforementioned Corporate Governance Code, the Appointments Committee, Remuneration Committee, Risk Committee and Related-Party Transactions Committee operate within the Board of Directors and have proposal and advisory functions. These committees have adopted their own regulations, duly approved with specific resolutions by the Board of Directors.

The Chairman of the Board of Statutory Auditors, supported by at least one Statutory Auditor, has always attended the respective meetings.

In 2018, the activities of the Supervisory Body continued, pursuant to Italian Legislative Decree no. 231/01, composed of three members, of which two are external professionals, and a non-executive director, to whom the Board of Directors has resolved to assign duties to oversee this matter.



The exchange of information with the Board was satisfactory.

Conclusions

Based on the comments provided above, we can confirm that, in carrying out the business purpose for 2018, no irregularities that merit specific reporting to the shareholders or significant omissions were found.

As such, the Board of Statutory Auditors, having considered the content of the reports prepared by the Independent Auditors, having acknowledged the statements issued jointly by the Board of Directors and by the Financial Reporting Officer, and having no proposals to make pursuant to art. 153, para. 2 of the Consolidated Law on Finance, invites the Shareholders' Meeting to approve the 2018 draft financial statements and the Report on Operations, as well as the Directors' proposal to carry forward the total amount of EUR 1,090 bn, including the negative effects charged to the shareholders' equity for EUR 978.4 mln, connected with the first-time adoption in 2018 of the accounting standards IFRS 9 "Financial instruments" and IFRS 15 "Revenue from Contracts with Customers".

THE BOARD OF STATUTORY AUDITORS

Signed by
Elena Cenderelli
Chairwoman

Signed by
Raffaella Fantini
Standing Auditor

Signed by
Paolo Salvadori
Standing Auditor

Siena, 15 March 2019

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Disclosure of independent auditors' fees

With the aim of making reporting on the Parent Company's relations with its own Auditors more transparent, Consob, with its resolutions No. 15915 of 3 May 2007 and No. 15960 of 30 May 2007, implemented the delegation of authority contained in art. 160 of the Consolidated Law on Finance (Incompatibility), introducing Part III, Title VI, of the Issuers' Regulation, Part I-bis (Incompatibility) which contains articles from 149-bis to 149-duodecies.

With this amendment, CONSOB chose to include this disclosure in the documents accompanying the financial statements with a mandatory requirement to disclose payments received for auditing and other services supplied by the Auditors or by entities forming part of their network.

The table below shows all payments made to the Auditors and to others forming part of its network, broken down by type of service provided.

Fees paid to the Independent Auditors and to the entities belonging to its network (pursuant to art. 149 duodecies of CONSOB resolution no. 15915 of 3 May 2007)

Type of services	Service provider	Total
Auditing	EY Spa	1,393,533
Other attest services	EY Spa	708,157
Other services	Ernst & Young Financial Business Advisory S.p.a.	1,037,000
Total		3,138,690

Amounts are exclusive of V.A.T. and ancillary expenses.

PENSION FUNDS – Defined benefit pension funds without plan assets

Supplementary Pension Fund for personnel of former Tax Collection Agencies

Accounting statement as at 31 12 2018	(in units of Eur)
Opening balance as at 01 01 2018	22,134,619
Increases	144,602
- provisions for the year	144,602
- Other	-
Decreases	3,218,554
- Benefit paid	1,739,291
- Other	1,479,263
Closing balance as at 31 12 2018	19,060,667

Supplementary Pension Fund for personnel of former Banca Operaia di Bologna

Accounting statement as at 31 12 2016	(in units of Eur)
Opening balance as at 01 01 2015	5,850,282
Increases	117,020
- provisions for the year	56,155
- Other	60,865
Decreases	378,361
- Benefit paid	378,361
- Other	-
Closing balance as at 31 12 2016	5,588,941

Supplementary Pension Fund for personnel of former Banca di Credito Popolare e Cooperativo di Reggio Emilia

Accounting statement as at 31 12 2016	(in units of Eur)
Opening balance as at 01 01 2015	714,569
Increases	7,440
- provisions for the year	7,440
- Other	-
Decreases	81,284
- Benefit paid	38,544
- Other	42,740
Closing balance as at 31 12 2016	640,725

**Supplementary Pension Fund for personnel of former Banca Popolare Veneta**

Accounting statement as at 31 12 2016	(in units of Eur)
Opening balance as at 01 01 2015	1,036,576
Increases	56,656
- provisions for the year	2,904
- Other	53,752
Decreases	173,686
- Benefit paid	173,686
- Other	-
Closing balance as at 31 12 2016	919,546

Supplementary Pension Fund for personnel of former General Managers

Accounting statement as at 31 12 2016	(in units of Eur)
Opening balance as at 01 01 2015	3,421,128
Increases	15,075
- provisions for the year	15,075
- Other	-
Decreases	455,181
- Benefit paid	287,547
- Other	167,634
Closing balance as at 31 12 2016	2,981,022

Supplementary Pension Fund for personnel of former Credito Lombardo.

Accounting statement as at 31 12 2016	(in units of Eur)
Opening balance as at 01 01 2015	2,970,519
Increases	15,057
- provisions for the year	15,057
- Other	-
Decreases	296,145
- Benefit paid	259,220
- Other	36,925
Closing balance as at 31 12 2016	2,689,431

PENSION FUNDS – defined benefit and defined contribution pension funds with plan assets

Supplementary Pension Fund for personnel of former BNA – Defined benefit section

BALANCE SHEET

Assets		31 12 2018	31 12 2017	Changes
10	Direct investments	23,249,459	24,598,474	(1,349,015)
	a) Deposits	453,856	389,156	64,700
	b) Receivables from repo transactions	-	-	-
	c) Securities issued by Governments and other international institutions	-	-	-
	d) Listed debt securities	22,633,989	24,045,600	(1,411,611)
	e) Listed equity securities	-	-	-
	f) Unlisted debt securities	-	-	-
	g) Unlisted equity securities	-	-	-
	h) Units of UCITS	-	-	-
	i) Options purchased	-	-	-
	l) Accrued income and prepayments	161,614	163,718	(2,104)
	m) Profit guarantees released to pension fund	-	-	-
	n) Other assets from financial activities	-	-	-
	o) Accrued income not yet received	-	-	-
20	Managed investments	-	-	-
30	Profit guarantees on individual accounts	-	-	-
40	Assets from administrative activities	-	-	-
50	Tax receivables	18,863	-	18,863
	TOTAL ASSETS	23,268,322	24,598,474	(1,330,152)
Liabilities		31 12 2018	31 12 2017	Variazioni
10	Liabilities from social security	-	-	-
20	Liabilities from financial activities	-	-	-
30	Profit guarantees on individual accounts	-	-	-
40	Liabilities from administrative activities	-	-	-
50	Tax payables	-	16,662	(16,662)
	b) tax payables for current period	-	16,662	(16,662)
	a) tax credit for prior period	-	-	-
	TOTAL LIABILITIES	-	16,662	(16,662)
100	Net assets available for payment of benefits	23,268,322	24,581,812	(1,313,490)
	Net assets available for payment of benefits in previous year	24,581,812	25,662,220	(1,080,408)
	Changes in net assets available payment of benefits	(1,313,490)	(1,080,408)	(233,082)



INCOME STATEMENT

	31 12 2018	31 12 2017	Changes
10 Balance of social security management	(1,181,452)	(1,197,040)	(15,588)
a) Contributions for benefits	-	-	-
b) Advances	-	-	-
c) Transfers and redemptions	-	-	-
d) Transfers to annuities	-	-	-
e) Payments in capital	-	-	-
f) Premiums for additional benefits	-	-	-
g) Payments in annuities	(1,181,452)	(1,197,040)	(15,588)
h) Other payments	-	-	-
20 Profit (loss) from direct financial activities	(150,901)	133,294	284,195
a) Interest and profit on bonds and government securities	539,221	746,602	207,381
b) Interest on cash equivalents	(690,122)	(613,308)	76,814
c) Profits and losses from financial transactions	-	-	-
d) Interest (expense) from repo transactions	-	-	-
e) Pension fund profit guarantee difference	-	-	-
f) Contingent assets	-	-	-
g) Forfeitures charged to the participants	-	-	-
h) Kickbacks from UCITS	-	-	-
i) Commission expense	-	-	-
30 Profit (loss) from indirect financial activities	-	-	-
40 Operating expenses	-	-	-
a) Management companies	-	-	-
b) Custodian bank	-	-	-
c) Insurance policy	-	-	-
d) "State supervision" contribution	-	-	-
50 Financial and insurance income (loss) (20+30+40)	(150,901)	133,294	284,195
60 Balance from administrative activities	-	-	-
a) General and administrative expenses	-	-	-
70 Changes in net assets available for payment of benefits before substitute tax (10+50+60)	(1,332,353)	(1,063,746)	268,607
80 Substitute tax	18,863	(16,662)	(35,525)
Changes in net assets available for payment of benefits (70+80)	(1,313,490)	(1,080,407)	233,083

Supplementary Pension Fund for personnel of former Banca Toscana - Defined benefit section

BALANCE SHEET

Assets		31 12 2018	31 12 2017	Changes
10	Direct investments	90,575,648	97,476,737	6,901,089
	a) Deposits	87,077,605	83,474,200	(3,603,405)
	b) Receivables from repo transactions	-	-	-
	c) Securities issued by Governments and other international institutions	-	-	-
	d) Listed debt securities	3,434,698	13,728,196	10,293,498
	e) Listed equity securities	-	-	-
	f) Unlisted debt securities	-	-	-
	g) Unlisted equity securities	-	-	-
	h) Units of UCITS	-	-	-
	i) Options purchased	-	-	-
	l) Accrued income and prepayments	63,345	274,340	210,995
	m) Profit guarantees released to pension fund	-	-	-
	n) Other assets from financial activities	-	-	-
	o) Accrued income not yet received	-	-	-
20	Managed investments	-	-	-
30	Profit guarantees on individual accounts	-	-	-
40	Assets from administrative activities	-	-	-
50	Tax receivables	-	-	-
	TOTAL ASSETS	90,575,648	97,476,737	6,901,089
Liabilities		31 12 2017	31 12 2017	Changes
10	Liabilities from social security	-	-	-
20	Liabilities from financial activities	-	-	-
30	Profit guarantees on individual accounts	-	-	-
40	Liabilities from administrative activities	-	-	-
50	Tax payables	-	-	-
	TOTAL LIABILITIES	-	-	-
100	Net assets available for payment of benefits	90,575,648	97,476,737	6,901,089
	Net assets available for payment of benefits in previous year	97,476,737	106,409,341	8,932,604
	Changes in net assets available payment of benefits	(6,901,089)	(8,932,604)	(2,031,515)

**INCOME STATEMENT**

	31 12 2018	31 12 2017	Changes
10 Balance of social security management	(7,912,196)	(8,549,425)	(637,229)
a) Contributions for benefits	-	-	-
b) Advances	-	-	-
c) Transfers and redemptions	-	-	-
d) Transfers to annuities	-	-	-
e) Payments in capital	-	-	-
f) Premiums for additional benefits	-	-	-
g) Payments in annuities	(7,912,196)	(8,549,425)	(637,229)
h) Other payments	-	-	-
20 Profit (loss) from direct financial activities	1,011,106	(383,179)	(1,394,285)
a) Interest and profit on bonds and government securities	334,555	550,188	215,633
b) Interest on cash equivalents	676,551	(933,367)	(1,609,918)
c) Profits and losses from financial transactions	-	-	-
d) Interest (expense) from repo transactions	-	-	-
e) Pension fund profit guarantee difference	-	-	-
f) Contingent assets	-	-	-
g) Forfeitures charged to the participants	-	-	-
h) Kickbacks from UCITS	-	-	-
i) Commission expense	-	-	-
30 Profit (loss) from indirect financial activities	-	-	-
40 Operating expenses	-	-	-
a) Management companies	-	-	-
b) Custodian bank	-	-	-
c) Insurance policy	-	-	-
d) "State supervision" contribution	-	-	-
50 Financial and insurance income (loss) (20+30+40)	1,011,106	(383,179)	(1,394,285)
60 Balance from administrative activities	-	-	-
a) General and administrative expenses	-	-	-
70 Changes in net assets available for payment of benefits before substitute tax (10+50+60)	(6,901,089)	(8,932,604)	(2,031,515)
80 Substitute tax	-	-	-
Changes in net assets available for payment of benefits (70+80)	(6,901,089)	(8,932,604)	(2,031,515)